WEEK OF APRIL 20, 1981

business insurance®

the national newsweekly of loss prevention, risk financing & benefit management/$1 a copy; $30 a year

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update:

St. Paul Fire & Marine denies connection with reinsurers

ST. PAUL, Minn.—St. Paul Fire & Marine Insurance Co. is denying connection with Commodore General Insurance Co. Ltd. and several reinsurance intermediaries that had listed the insurer as reinsuring a $40 million bond.

Using a disclaimer ad in industry publications, St. Paul says Commodore and in-

Continued on next page

It's art & science

Like the mime who tells his story through precise, artful movements, the risk manager combines the precision of science with the art of communicating to find the best way to protect his company from losses.

At the annual RIMS conference, the risk manager studies his art close up and learns new twists to his science. He learned at this year's conference April 5-10 in San Francisco that the risk managers in the 1980s must learn to think like financial managers, that time is running out to buy nonsudden pollution insurance and about risk management in Puerto Rico.

For a full report on the property/casualty sessions at this year's conference see Spotlight Report beginning on page 11.

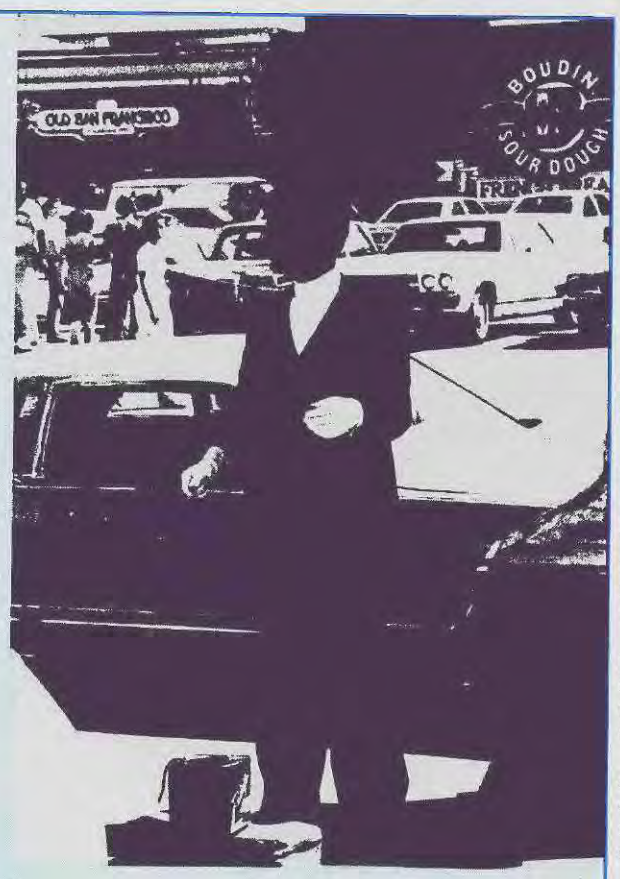


Photo: Kathryn J. McIntyre

Mimes and other street performers tell their stories along San Francisco's Fisherman's Wharf.

Back-dating: Issue splits risk managers

By KATHRYN J. McINTYRE

Risk managers are almost evenly divided over the honor of back-dating liability insurance policies, but most would purchase the product if needed, a *Business Insurance* survey reveals.

Back-dating liability insurance policies to cover known losses strips them of insurance qualities, smacks of cover-up, sets a bad precedent and could threaten the financial stability of the insurance industry, said almost half of the 56 risk managers responding to a *Business Insurance* Risk Management Board survey.

Slightly more than half the board approved of the practice, comparing it to the conventional transactions of insurers selling their loss reserves to other insurers and retrospectively rated insurance policies.

Some, however, qualified their approval, saying the product is not insurance but a conceivably necessary financial arrangement to remove auditors' qualifications of annual statements.

Four respondents straddled the fence.

Only eight respondents, however, flatly said they would never buy back-dated insurance and 29 admitted they would if they needed it. The others declined to answer (nine) or hedged with a "maybe."

Insuring the past

	Back-dated	Retroactive
Approve	48%	84%
Disapprove	45%	16%
Would buy	52%	68%
Would not buy	18%	11%

Percents do not total 100% because some respondents were undecided.

Retroactive insurance policies, designed to increase insurance coverage for unreported losses from previous years, are welcomed by a majority of board members.

Forty-seven of the 56 risk managers responding to the survey see a need for a retroactive insurance product to beef up the limits from years when insurers wouldn't sell all a buyer wanted to buy, to increase coverage for newly acquired companies that didn't buy enough insurance in the past or to increase limits purchased in the past that

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Brokers subsidize Canadian insurer

OTTAWA, Ont.—Canadian brokers and insurers here are helping the financially failing Strathcona Insurance Co. pay about $35 million (Canadian) in back property claims owed to sawmills and woodworking firms, the insurer's new management says.

Strathcona fell into financial trouble earlier this year when it could not recover losses under a series of reinsurance contracts signed in 1978, explained the government-appointed president Graham Goodchild.

"The financial problems were basically caused by a variety of administrative problems with the company and within the reinsurers," he said. "Right now, we say we are trying to recover $3.5 million (Canadian) in reinsurance. Some of the reinsurers have gone broke, but we feel that we should be able to recover from some of them in time."

Strathcona expects to pay all back claims, which were frozen when the federal superintendent of insurance ordered the firm under government control.

Canadian insurers are not covered by guarantee funds as are U.S. firms, which led to the industry effort to protect policyholders. The subsidy fund, led by brokers Reed Stenhouse Cos. Inc. and Marsh & McLennan Inc., now totals $4.5 million (Canadian) in contributions.

"Our other reinsurance treaties are intact and we expect to be able to pay all claims, despite the $3.5 million," Mr. Goodchild said.

"What essentially was happening was a lot of confusion," he added. "The firm's business was primarily 92% property and 7% or 8% casualty. There were two lists of security being used by the firm and its reinsurance intermediary. It was never really clear which list referred to which contract, confusing both Strathcona and the reinsurers."

The Northumberland Insurance Co. is supervising Strathcona business at the request of regulators. Strathcona is no longer selling coverage. ■

Shuttle returns home safe and insured

MOJAVE DESERT, Calif.—Families, friends and underwriters led the cheers for the space shuttle astronauts who piloted the Columbia to a flawless landing here.

In the glory of the moment, outer space exploration is looking like a pretty good risk to insurers offering to cover both pilots and future users of what will be the long-haul truck of outer space.

Astronauts John W. Young and Robert L. Crippen were each insured for $800,000 under an accident policy purchased by the National Space Club Scientific & Educational Foundation and brokered by Corroon & Black/Inspace, a joint venture of Corroon & Black and Lloyd's of London broker J.H. Minet.

Eight U.S. insurers—Travelers Insurance Cos., Aetna Life & Casualty Insurance Co., Chubb Group of Insurance Cos., Fireman's Fund, Home Insurance Co., INA, Continental Insurance Co. and Employers Insurance Co. of Wausau—each provided $100,000 of coverage.

NSCSEF, a nonprofit organization that promotes scientific research and education, paid "a modest premium" for the policy, according to James Barrett, chairman of Corroon & Black/Inspace. But each insurer made a "significant contribution" to the foundation.



Photo: Wide World

Astronaut Bob Crippen waves to the crowd at a welcome home ceremony last week.

"We look upon the space shuttle as a tremendous opportunity for American industry," pointed out Mr. Barrett, "and one of the foremost achievements of the decade. The coverage was quite simply a public service in recognition of the astronauts' journey."

When the shuttle is ready for its first commercial

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NEWSPAPER

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Elevator blast stumps authorities Page 2

Blues commanding only health benefits Page 3

Institute fighting fire with engineering courses Page 3

update:

St. Paul denies reinsurance

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termediaries Alan Bear, C. Wayne Litchfield, M.R. Dass and Alvin Harrell "erroneously identified" St. Paul as the reinsurer of a bond that was never sold, but offered to a commercial firm.

"An increasing number of similar problems involving unauthorized commitment on reinsurance, bonds and insurance contracts are coming to light throughout the insurance industry. For this reason, the St. Paul has elected to print the disclaimer," said a spokesman for the insurer.

Insurer wants to join exchange

CHICAGO—An Allstate Insurance Co. subsidiary, Northbrook Excess and Surplus Insurance Co., has applied for membership as an underwriting syndicate on the Illinois Insurance Exchange.

NESCO is the fifth major insurance company to apply to the exchange, joining Sentry, Reliance, Hartford and Travelers.

Libel award wounds newspaper

ALTON, Ill.—The record $9.2 million libel judgment against the Alton Telegraph has forced the newspaper to file a Chapter 11 bankruptcy petition to remain in business.

The newspaper is appealing the July 1980 award, but it has been unable to stay enforcement of the judgment during the appeal process, said David Sanders of the law firm Jenner & Block in Chicago, the attorney for the Telegraph.

The Telegraph has a maximum of $2.2 million in libel insurance coverage depending on which of the paper's libel policies applies (*BI*, July 21, 1980).

The present libel insurer, Zurich-American, provides $2 million in coverage but claims that the insurer at the time of the libelous act is responsible.

Commercial Union Insurance Co., the past insurer, provided $1 million in libel coverage.

Sale of HMO investigated

CHICAGO—Prudential's attempts to buy the NorthCare health maintenance organization here are being probed by a group that wants more information on the pending sale.

The Consumers Health Group, a health education program whose members founded NorthCare some six years ago, says the HMO's membership needs to know more about PruCare, a subsidiary of Prudential Insurance Co. of America, before a final vote on the sale can be taken.

Northcare's directors voted 14-3 on April 1 to recommend that NorthCare's 30,000 members accept an offer by the Prudential Health Care Plan (PruCare) to take over assets of the North-Suburban HMO.

A spokesperson for CHG said the group is concerned that the need to generate profits could interfere with the quality of the health care and that local control would be lost.

Court to rule on Iran assets

NEW YORK—A U.S. Court of Appeals has ordered a lower court to determine whether the nullification of lawsuits against Iran by former President Carter as part of the hostage accord was constitutional.

The appeals court turned over nearly 100 suits to the lower court and asked for speedy review.

At issue is whether the president violated the constitution when he suspended all suits by U.S. claimants against Iranian assets.

Suitor's hearing is denied

SAN FRANCISCO—A slighted suitor here who wanted his employer to compensate him for its part in an unsuccessful office romance has been denied a hearing by the State Supreme Court.

It wasn't the first time 37-year-old Michael Muessig, a clerk in the California Department of Transportation's office, has been refused. A younger clerk typist in the office had declined his advances and offers of courtship.

A fellow co-worker of Mr. Muessig's, who also served as a company counselor, apparently urged him on in the one-sided romance. Mr. Muessig said the experience left him unable to work (*BI*, March 30).

His claim was denied by the state workers compensation judge, the workers compensation appeals board and the state's 1st District Court of Appeals.

His claim was that since his employer had played cupid, so to speak, in getting the two together, they should pay for his mental disability.

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Blast at 'safest' elevator puzzles port authorities



Photo: Wide World

Rescue workers tend to employees injured in an explosion at a grain elevator owned by the Port of Corpus Christi.

By STEVE SHERWOOD

CORPUS CHRISTI, Texas—An employee on his way to make a routine inspection at a grain elevator April 7 arrived too late. Minutes before, the elevator here exploded, killing six people and injuring 30.

"He was about a mile from the elevator when it blew up," an industry source said.

"Ten minutes earlier and he would have been inside the headhouse, the main part of the elevator where the grain is brought in, he told me. That is where the explosion is thought to have originated," the source added.

The elevator, owned by the Port of Corpus Christi (Nueces County Navigation District 1) employed 70 people. An accumulation of volatile grain dust is blamed for the explosion, but port authority spokesmen say the exact cause is not known.

"It was supposed to be the safest elevator around," the industry source said. "Just last year they installed an improved dust-collection system to prevent this sort of thing from happening."

All those who died were long-term employees, a port authority official said. They include the elevator's assistant superintendent, a senior maintenance hand, a mechanic, a bin floor worker and a Burns International Security Services Inc. guard.

"The explosion severely damaged the plant," the spokesman said, adding, "We are still unable to

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N.J. may begin crackdown on doctors for high fees

TRENTON, N.J.—Excessive fees charged by doctors and health professionals could be detrimental to their careers if a proposal set forth by the state Board of Medical Examiners gains approval.

The proposal calls for the establishment of regional review committees to check complaints about excessive fees and empowers the state board to fine, censor, suspend or revoke the violator's license.

The plan, open to public comment until the medical board's May 13 meeting, would cover medical doctors, osteopaths, chiropractors, podiatrists, physical therapists and laboratory directors licensed by the board. It may ultimately help contain health costs, although at least one insurer does not view the problem as widespread.

"This has to do with excessive, unconscionable fees," said Charles Janousek, executive secretary of the board. "If you looked at the bill (labeled excessive), it would make you sick," he said, noting that sometimes $3,000 may be charged for care worth $500.

Review committees, he explained, would consist of five physicians, one of whom would be a state medical board member or designee, and two lay persons. Committees would cover regional areas, but an actual number has not been suggested.

Committee members, acting as volunteers, would examine billing complaints, taking into account:

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errors & omissions

- International Insurance Financial Service is not affiliated with Insurance Management Group, although the address for contacting the new service publishing information on international insurance and reinsurance markets is the same as reported April 13. The telephone number, however, is 203-324-5683, not that of Insurance Management Group, as previously listed.
- In the April 6 "Coming and Goings: Buyers" column, the name of the risk manager for Fond du Lac, Wis., was incorrectly spelled. His name is John Blassick.
- A chart in the April 13 issue rating umbrella insurance policies was incomplete. The full listing will be published April 27.

Workers try stock-plan purchase

LOS ANGELES—Continental Airlines employees, trying to ward off acquisition by Texas International Airlines, are attempting to buy Continental through an Employee Stock Ownership Plan.

A recent poll of employees showed almost unanimous support for the plan to take over the airline by purchasing 15.4 million shares of newly issued common stock, according to Chuck Cheeld, a Continental pilot and one of the leaders of the Continental Employees Association.

The effort represents a new twist in use of an ESOP to purchase control of a corporation. The plan could be challenged by Texas International.

"They could look at this as a self-serving tool of an entrenched management to keep their jobs, but that is not the case. This effort was started by the employees themselves," Mr. Cheeld said.

The plan is unique because the proposed employee takeover is designed to keep the airline from being acquired by another company instead of preventing bankruptcy, he said.

Mr. Cheeld said the ESOP would be one of the "largest and most liberal" plans in force because it would allow immediate vesting and full rights to benefits at termination. The employees' group also would have seats on the board of directors.

The group is trying to borrow $185 million to buy the stock. The loan would be repaid by having the 10,000 airline employees forego raises for several years, he said.

Failure to acquire the company would leave it wide open for acquisition by Texas International, a Houston-based air carrier. The acquisition probably would lead to the layoffs of thousands of Continental employees to reduce standing debts.

Some 3,000 U.S. companies now use ESOPs to allow employees to purchase small amounts of their employer's stock.

Blues command only health plans

Leading underwriters of benefit plans

Type of benefit	1	2	3
Basic Health	BC/BS	Self-funding	Aetna
Major Medical	BC/BS	Aetna	Prudential
Hospitalization	BC/BS	Capitol BC/BS	Aetna
Medical-Surgical	BC/BS	Capitol BC/BS	Aetna
Supplemental Major Medical	BC/BS	Mutual Benefit	Self-funded
Life	Aetna	Prudential	Equitable
Disability	Self-funded	Aetna	Prudential
LTD	Union Mutual	Self-funded	Mutual Benefit
AD&D	Aetna	Prudential	Equitable
Dental	BC/BS	Self-funded	Aetna
Vision	Self-funded	Hawaiian Life Insurance	BC/BS
Prescription	BC/BS	Self-funded	Kaiser Fdtn.
Travel Accident	INA	American Home	Continental Casualty
Stop-loss	Lafayette Life	Republic Nat'l.	SAFECO

Blue Cross & Blue Shield has a tight grip on health plans nationally, but commercial insurers and self-funded employers are grabbing up some of the newer, less traditional benefits.

Businesses with more than 100 employees spent $24 billion in 1978 on 37,000 benefit contracts to fund more than 75,000 group employee benefit plans.

That information was culled from reports employers made to the Department of Labor under the Employee Retirement Income Security Act (*BI*, March 9, 1981).

Although BC/BS holds a steady lead in providing coverage to employers in seven of 14 benefit categories, commercial insurers pull out in front in furnishing long-term disability, travel/accident and stop-loss coverage to employers.

And, computer printouts supplied to *Business Insurance* by researchers at Group Insurance Reports, produced by Money Market Directories Inc. in Charlottesville, Va., report more and more employers are opting to self-fund their employees' disability and vision benefits.

According to the forms analyzed where underwriters or self-funding were revealed about benefit plans:

- Among 7,240 disibility benefit plans provided workers, 1,445 were self-funded, 965 were insured with Aetna Life Insurance Co. and 444 were insured with Prudential Insurance Co. of America.
- Most of the 886 vision care plans for employees were self-funded: 291.

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Only a disaster will force rate hikes, reinsurers say

By STACY SHAPIRO

EDINBURGH—Only a major disaster will convince most reinsurers to raise rates affecting the entire insurance industry, agreed reinsurers attending the Reinsurance Officers Assn.'s fifth internatonal reinsurance conference here.

But the disaster doesn't have to be a giant earthquake before the financial balance is upset and some reinsurers start closing doors to primary insurers, they said.

A financial disaster in or out of the reinsurance business could be the trigger.

"Such conditions (to harden the market) are not necessarily caused by an external shock such as a physical catastrophe, but can be just as well triggered by an internal shock—a sudden awareness of something with financial consequences so serious that the market contracts quickly," said V. Lee Barnes, executive vp of the Continental Corp. in New York.

In a period of deficit underwriting, the insurance and reinsurance industry could suffer if high interest rates suddenly and unexpectedly dropped, causing a reduction of investment income and capital surplus, says one reinsurer.

"The rule of thumb today is that an underwriting ratio of 105% is bearable," said E.E. Nelson, director of K.F. Alder (Underwriting Agency) Ltd., and a member of the Lloyd's committee.

"If the level of interest rates should fall unexpectedly during this period, the industry will be left stranded, with underwriting and expense losses which are not covered by investment income,"

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Stamp Reagan bill: 'Medical only'



Photo: Wide World

President Ronald Reagan returned to the White House and government-paid television.

WASHINGTON—While the space shuttle stalled on its launch pad two weeks ago, President Ronald Reagan watched it on a hospital television he paid for himself.

But all other hospital and medical bills, expected to total thousands of dollars, will be paid by the government under the Federal Employees Compensation Act. The law covers medical and hospital expenses incurred by federal employees while performing their jobs.

Luxuries such as television rentals, however, must be paid by the employee, even if it is the president.

Though President Reagan would have been eligible for workers compensation and disability benefits, he continued to draw a full salary and pursue his chief executive responsibilities, according to a White House spokesperson.

Press secretary James Brady and Timothy J. McCarthy, a Secret Service agent also injured in the assassination attempt, are also eligible for workers compensation benefits under the federal law.

The fourth victim, Thomas K. Delahanty, a District of Columbia policeman, is covered by a federal program that insures local law enforcement officers who are injured in connection with an apparent violation of federal law.

Though President Reagan was released in time to watch the final shuttle countdown on White House television, the final medical bill for the 13-day hospitalization will be high.

The chief executive's hospital suite cost $234 a day, without TV. ■



Photo: Worcester Polytechnic Institute

Worcester Polytechnic Institute fire protection students learn about testing equipment for corporate fire safety programs.

Institute fights fires with fire engineering

By JOHN MAES

WORCESTER, Mass.—The Worcester Polytechnic Institute hopes the school's new graduate program in fire protection engineering will one day reap a large harvest.

The United States may need a bumper crop of fire protection professionals to extinguish the nation's fire problem, growing yearly in its toll of human life and property damage, institute officials say.

"We've got a lot of work to do," said David A. Lucht, director of the center for fire safety studies at WPI, a technical and engineering school with 2,360 students in Central Massachusetts.

The school recently opened a master's degree program in fire protection engineering to fill a "tremendous void," Mr. Lucht said.

Only two other schools, Illinois Institute of Technology and the University of Maryland, have undergraduate programs in fire protection engineering, which turn out about 50 engineers per year. But that won't be nearly enough to meet the demand for the predicted 5,000 such engineers the nation will need over the next five years.

Mr. Lucht said WPI hopes to produce additional fire safety specialists from the ranks of students who already have undergraduate degrees in a related field.

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Captives' reserves attract reinsurers

By RHONDA L. RUNDLE

LOS ANGELES—Corporations seeking to shut down a captive insurance company, unload some of its liabilities or merely turn a fast tax deduction are finding a receptive welcome in the reinsurance market.

A number of reinsurers are aggressively offering to buy loss reserves from captives owned by a single parent.

They will take over the liabilities for a charge well below the actuarial value of the loss reserves, expecting to recoup the difference (plus profit) through reinvestment of premium earned on the transaction.

"We're not inventing the wheel, just finding a new use for an existing one," says James F. Billet, president of Bermuda-based Trenwick Ltd.

Through portfolio transfers, reinsurers commonly buy the loss reserves and unearned premiums of traditional third-party insurance companies.

The captive business, however, is a relatively new venture for reinsurers.

"If I had a captive, I would try to do that," declares Joseph A. Destein, president of Risk Sciences Group Inc., a Mill Valley, Calif., consulting company. "If the risk manager knows his loss development numbers, he may be able to beat the system."

This could be an opportune time to clean the captive's slate, says Mr. Destein, because reinsurers are highly competitive in the current soft market. If the captive's loss reserves are estimated at $5 million and a reinsurer will accept them for $3 million—it might be a smart move, he explains.

Mr. Destein likens such a step to the standard Lloyd's of London practice of closing out its books every three years. At the end of 1981, for example, Lloyd's collects premium and paid losses for 1979 and transfers outstanding loss reserves into the 1982 underwriting year.

"We did the first one within the last year," reports Paul Ingrey, senior vp, Prudential Reinsurance Co. in Newark, N.J. Since then, Prudential Reinsurance has completed one other transfer and has three quotes outstanding, he says.

"We've probably seen 10 to 12 proposals, but we haven't quoted on all of them because we couldn't

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Arizona considers competitive pricing

around the states

PHOENIX—A blue-ribbon commission of workers compensation experts will meet here April 22 to consider changes in the current rating law to permit competitive pricing for insurance.

The 23-member commission is chaired by Arizona Director of Insurance J. Michael Low and consists of members of the state's legislature, representatives of the insurance industry, major employers and the general public.

Arizona is attempting to be first in line among the states currently studying open competition for workers compensation risks.

Under legislation introduced in February by the state's insurance department, Arizona regulators will be approving rate changes based on a formula that denies insurers a guaranteed 2.5% underwriting profit and evaluates future investment income in establishing how much profit the insurer is making.

Minnesota, Oregon, Arkansas, Illinois and Wisconsin are also preparing open competitive rating bills for workers compensation, but Arizona's experience may pave the way.

The guest panelists for the April 22 panel discussion at the Phoenix State Compensation Fund Auditorium include Philip R. O'Connor, Illinois director of insurance and chairman of the competition subcommittee of the National Assn. of Insurance Commissioners; Lawrence C. Baker Jr., president, Argonaut Insurance Co.; James J. Meenaghan, executive vp, Fireman's Fund Insurance Cos., and Paul A. Verhage, vp of operations and support services at the Sentry Insurance Co.

Product liability

ANNAPOLIS, Md.—The state House of Delegates has rejected a product liability bill (H.B. 1317) that would have given retailers a positive defense if they did not have reasonable opportunity to inspect the products they sold.

The "sealed container" bill, which was killed on a 75-42 vote, was one of several product liability bills that died as the Maryland Legislature adjourned.

The other bills, which would have given several new defenses to manufacturers, failed to make it out of committee.

Toxic wastes

SACRAMENTO, Calif.—Gov. Jerry Brown has announced support for state legislation that would fund compensation of toxic-exposure victims and clean up abandoned dumpsites and spills.

The bill would require the establishment of a "superfund" to pay for cleanup of spillage.

The bill is part of a larger legislative proposal designed to control toxic waste dumping through a 79-cents-a-barrel tax on crude oil received at California refineries or other petroleum products brought into the state.

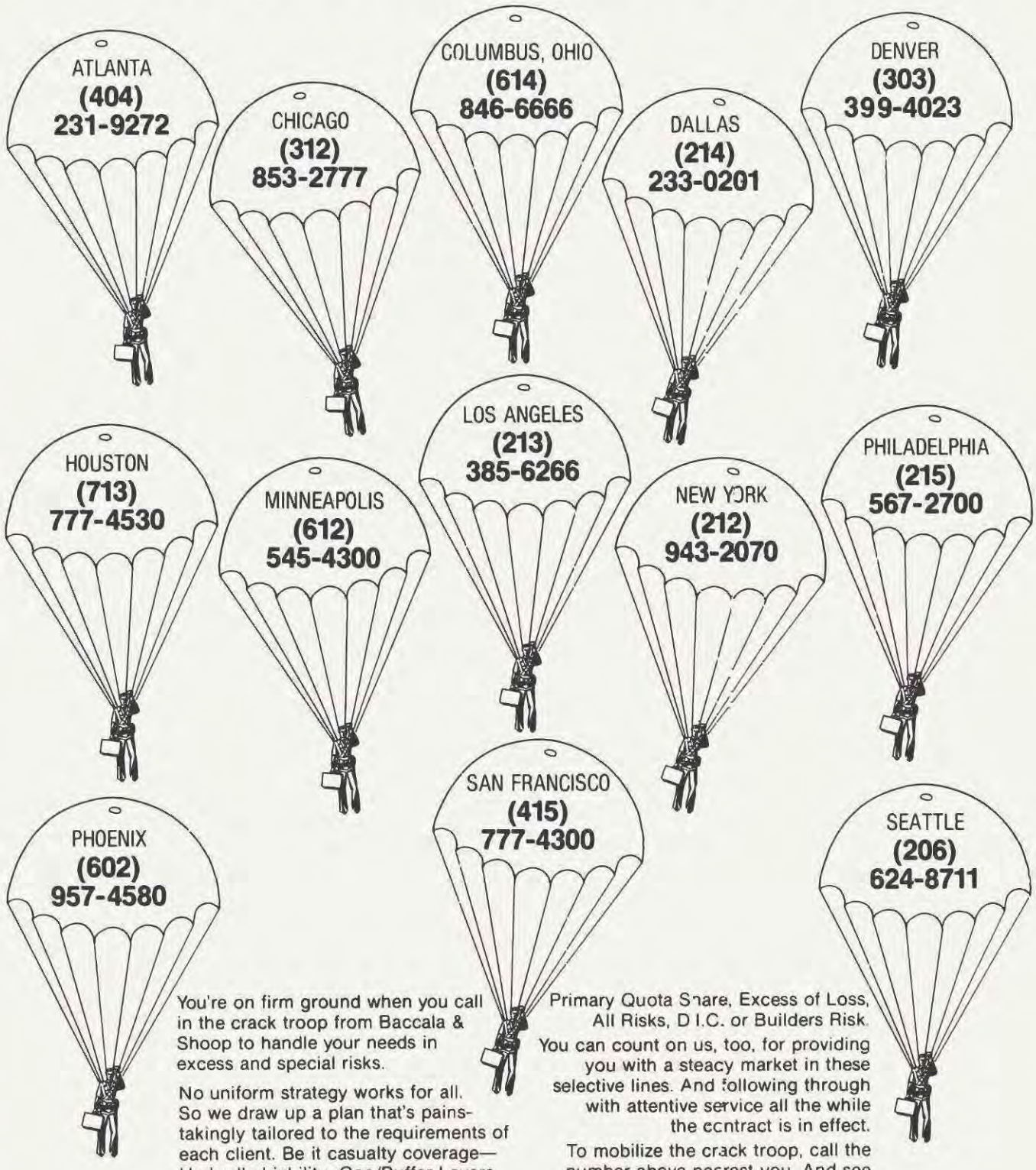
Earthquake report

SAN FRANCISCO—The California Department of Insurance has issued a report showing maximum insured losses would be $1.2 billion for Los Angeles and Orange counties and $844 million for the San Francisco, Oakland and San Jose area for earthquake insurers in a single incident.

A major quake could cause more than $86 billion in losses in Southern California and another $80 billion in Northern California, the department said.

The figures were compiled from information supplied by 202 of the 231 insurers offering earthquake coverage in the state. ■

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in underwriting management.

benefit beat

Pensions go up 6%

Connecticut General Insurance Corp. retirees are receiving a 6% cost-of-living increase in pensions effective April 1.

Some 2,500 employees who retired before April 1, 1980, will be eligible for the benefits increase.

The adjustment is the first since April 1 of last year and the seventh since 1967, the company said.

HMO closing

Physicians Health Services Plan Inc. of Reading, Pa., has been ordered into liquidation by the Commonwealth Court of Pennsylvania.

The Pennsylvania Insurance Department last August suspended operations of the plan, which was found to have insufficient funds, said Insurance Commissioner Michael Browne.

Drug service

Walgreen Drug Stores, expanding into the health maintenance organization field, is providing capitalization for seven prepaid health plans and drug service for 18 others, the drug store chain said.

Under the drug service arrangements, Walgreen provides prescriptions services to a plan's members, the company said.

Retiree benefits

CLIFTON, N.J.—Retired members of the food division of Local 1262 of the United Food and Commercial Workers International Union are now eligible for benefits once limited to active members.

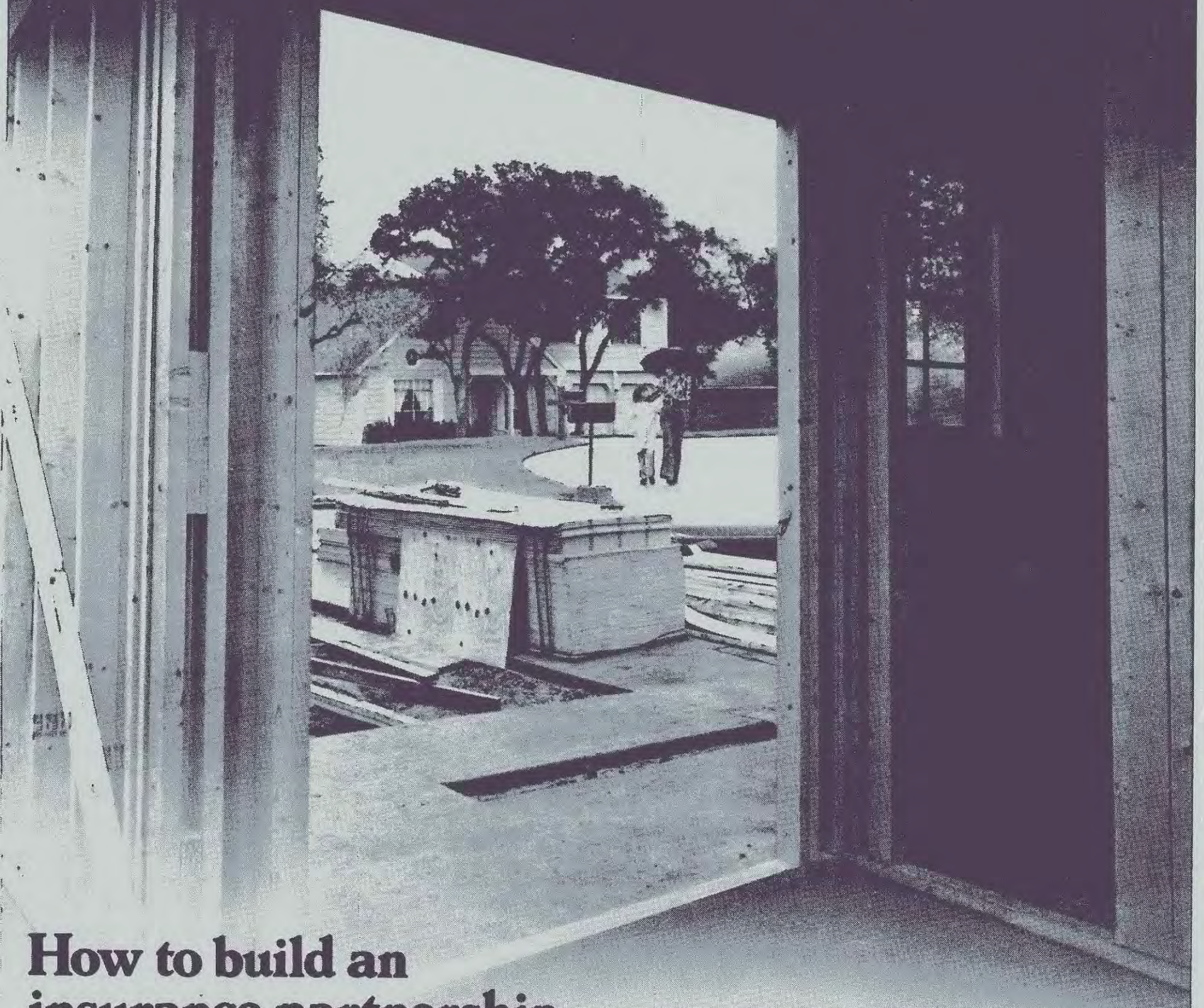
Under terms of a new agreement reached last week, some 3,000 retirees who belong to the 20,000-member food division will receive dental, prescription and optical coverage over the next year, a union spokesman said.

Before the settlement, retirees received only supplementary coverage for Medicare.

Some union members, who serve New York metropolitan area supermarkets such as Pathmark, Foodtown and Shop Rite, went on strike April 9. The walkout, however, lasted only one day before a tentative agreement was reached. ●

Benefit beat keeps insurance and employee benefit managers up to date on what other companies are doing and informed of current development in the employee benefit field. We'd like to know if you've made any changes. Write Business Insurance, 740 N. Rush, Chicago, Ill. 60611 or call 312-649-5340.

WAUSAU WORKS.℠



How to build an insurance partnership. From the ground up.

"We build *neighborhoods*, not just homes," says Nash Phillips, partner of Nash Phillips/Copus, Austin, Texas.

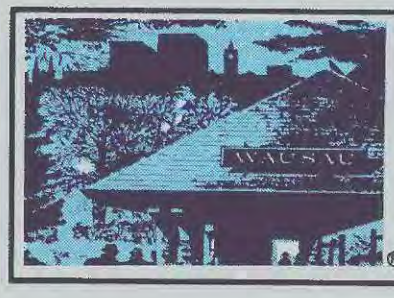
This philosophy has brought tremendous growth to Nash Phillips/Copus, but not without growing pains. One particularly painful experience was a workers compensation loss ratio in 1977 of 250%. It meant going into the Texas assigned risk pool.

That turned out to be a blessing in disguise. Nash Phillips/Copus was assigned to Wausau, and a partnership was begun. At Wausau, we quickly recognized a genuine willingness to work with us — from the policyholder's top management on down.

Nash Phillips says: "Wausau set up safety sessions for our people and visited our job sites. As a result, job sites became cleaner and safer, and our quality control improved. We also had problems with claim handling procedures," Mr. Phillips continued, "and with getting certificates of insurance from subcontractors. Wausau helped straighten out the problems."

The partnership brought a dramatic turn-around. Nash Phillips/Copus earned its way out of the risk pool and, by the end of the policy year, their loss ratio dropped to just 19.9%! *They also earned a 60% premium refund for the year!*

With plans to keep growing, Mr. Phillips says, "It's very important we have an ongoing partnership. We have to reinforce what Wausau recommends." An "ongoing partnership". That's what makes business insurance work for a living.



WAUSAU INSURANCE COMPANIES®
Wausau, Wisconsin 54401

OSHA shelves noise rule until June 1

By JERRY GEISEL

WASHINGTON—The Occupational Safety and Health Administration has shelved until June 1 its controversial rule on protection of employees exposed to high noise levels.

The rule, which was to be phased in beginning April 15, says employers must provide earmuffs or earplugs for workers exposed to noise levels exceeding 85 decibels daily (*BI*, Jan. 26).

If the noise level exceeds 90 decibels, workers must wear protective devices. Employers also must offer periodic hearing tests if workers are exposed to more than 85 decibels in eight hours.

The delay on the rule is necessary to permit analysis of comments on the standard, OSHA chief Thorne Auchter said. The agency has received about 30 requests to delay enforcement of the rule.

washington

GAO survey

The General Accounting Office is surveying insurers, brokers and buyers to determine if U.S. insurance companies have a fair chance in competing in the world insurance market.

The GAO, the congressional watchdog agency, will be seeking answers to these questions:

• In the United States, are foreign insurance firms treated similarly to domestic insurers? Are foreign insurance companies substantially increasing their share of the U.S. insurance market?

• Do foreign governments, through various barriers, prevent U.S. insurers from competing on an equal basis with local insurers?

• Have federal and state efforts to increase the U.S. share of foreign markets been adequate? What more can be done?

For more information on the survey, contact Richard J. Price, U.S. General Accounting Office, International Division, Room 4148, 441 G St. N.W., Washington, D.C. 20548; 202-275-5889.

Quake warnings

A new national seismograph network should be set up to beef up earthquake warnings, says a new report from the National Academy of Sciences.

The report says an updated national network, with 36 stations, is long overdue. It recommends a budget of $15 million to be spent over the next four years for the purchase, installation and operation of a system.

Copies of "U.S. Earthquake Observatories: Recommendations For a New National Network," are available from the National Academy of Sciences, Office of Information, 2101 Constitution Ave. N.W., Washington, D.C. 20418; 202-389-6511. The cost is $7 per copy.

Risk retention

The Risk Retention Act (H.R. 2120) was strongly endorsed by several business trade groups, but an agents group suggested a key change when the House Subcommittee on Commerce, Transportation and Tourism held its first hearing this year on the bill.

The National Assn. of Wholesaler-Distributors endorsed the pooling proposal as an alternative for buyers when the insurance market tightens.

"When that downturn comes, we must have the risk retention alternative in place to ensure the continuing availability of product liability coverage for thousands of wholesaler-distributors and other businessmen throughout the nation," said David Sloane, director of congressional relations for the NAW.

The Independent Insurance Agents of America, however, favored an amendment that would require a risk retention group chartered in Bermuda or the Cayman Islands to meet the insurance requirements of at least one state before it could operate in the United States.

Under the current bill, risk retention groups operating offshore would not be required to meet any minimum requirements. "That would be wholly irresponsible," said Peter Wolff of the Associated Agencies Inc. in Chicago who spoke on behalf of the IIAA. "It would be unsuitable for the U.S. Congress to offer this in the name of public policy."

The Risk Retention Act would allow firms to pool their product liability risks.

Social Security

The House Ways and Means Social Security subcommittee has agreed to shift to Oct. 3 the date of the annual cost-of-living increase in Social Security benefits. The increase is scheduled to take effect July 3.

The shift in dates would save the federal government about $700 million in fiscal 1982, the subcommittee estimates.

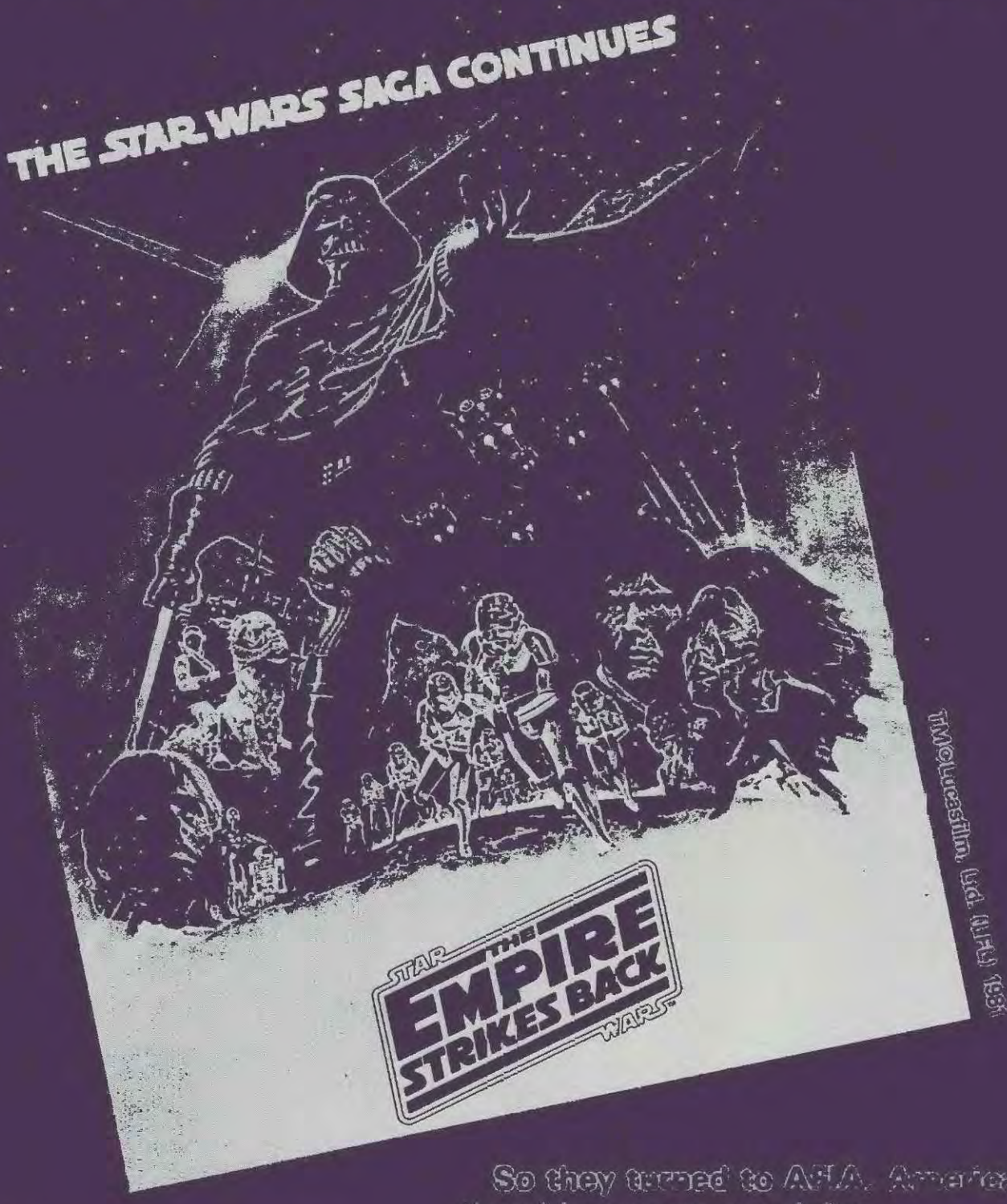
In addition, the subcommittee agreed to allow the three social security trusts—old age, health and disability—to borrow from one another if one fund runs low on cash.

Experts have warned that the old-age trust fund could run out of money next year. By being able to borrow from the financially stronger health and disability trust funds, the old-age fund will stay afloat, giving Congress time to work out a long-term solution to Social Security financing problems.



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editorial opinions

Let HMOs compete

Federally qualified health maintenance organizations should be allowed to experience-rate employer groups.

When HMOs burst on the scene in the 1970s, aided by federal loans, the issue of community rates was moot. The HMOs, offering prepaid health care services including preventative health care, had to charge higher monthly membership fees than indemnity insurers charged in premiums for less coverage. HMO management believed prepaid care with an emphasis on keeping people healthy and out of the hospital would eventually cut health care costs, but HMOs couldn't set rates on a belief.

Now some HMOs, which have kept their members healthy and have reduced hospital stays among members by treating them on an outpatient basis, are charging competitive prices with indemnity plans.

They should be allowed to be truly competitive. HMOs should not be ridden by community rating constraints that will keep them from lowering membership fees for employer groups with good claims experience. It's hard to sell an employee on an HMO when it will cost more than the indemnity plan.

The Reagan administration wants to cut federal loans to HMOs, a proposal we have endorsed in the belief that it's time to cut the purse strings to HMOs.

But if we're to cut the purse strings, we have to cut some of the regulatory ropes that hold the business back.

We advocate that the Reagan administration propose that Congress repeal the community rating constraint when it replaces the expiring HMO Act of 1973 this year.

Play it safe

THE SUN IS SHINING, baseball teams are playing and spring is in the air.

But something still smells bad.

Each week another new tale of faulty reinsurance contracts for massive amounts of coverage comes to our attention and each story has the same moral: "caveat emptor." But the story should end "strike three, you're out."

Last month, the latest string of scandals began with suits filed against a series of brokers and intermediaries by Switzerland General Insurance Co. of New York. Risks from several large firms, including Warner Communications and Mobil Oil, were involved. Their risk managers were unaware of the problem.

Early this month, in the same web as Warner and Mobil, the baseball club owners also turned up with a potentially shaky insurance package designed to protect them from losses from a player strike. Although Allianz Underwriters Inc., the insurer involved, affirms its policies, the club owners did not know until recently that Allianz agreed to issue a policy only with 100% reinsurance.

This week, we report that a Canadian insurer, Strathcona Insurance Co., also faced reinsurance problems for the commercial risks it covered. The Canadian federal superintendent of insurance now overseeing the remaining operations is trying to recover on some of the shaky contracts.

In each of the recent cases, buyers seemed unaware or uncaring that their insurers might not be resting on firm reinsurance support. That's as bad as a baseball player not checking his fielder's glove for a hole or his bat for a big crack.

Understanding and analyzing the security on your risks is an essential part of fielding a winning insurance program. Three strikes should be enough to send the smart risk manager back to check his policies and supporting documents.

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letters

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Policy keeps him awake

To the editor: Re: " 'Megabroker' service sells European risk executive" (*BI*, March 23).

Admittedly, the risk manager must learn to rely on and depend on the megabroker as a proper "teammate." The American, Canadian, French, Belgian and Dutch brokers operate much the same.

The United Kingdom deserves special mention, as they have led the world as international brokers, but the statement "The risk manager sleeps well in the knowledge that the retroactive insurance will be available if his calculations on indemnity limits and sums insured are proved wrong by a catastrophe loss" is terribly naive.

I feel sure that the comment will not devastate the objectives of structured risk analysis, not discounting intuition or imagination, nor will it alter our applicaton of judgments. My problem: I can't sleep, thinking that perhaps my boss read the comment.

Daniel W. Houston
Manager
Risk Management & Insurance
NCR Corp.
Dayton, Ohio

Captive manager missed

To the editor: You missed us in your listing of captive managers (BI, April 6).

Insurance Managers Ltd.
Dorchester House, Church St., Hamilton 5, Bermuda; 808-295-0265
Year founded: 1969.
Parent company: Reed Stenhouse Cos. Ltd., P.O. Box 250, Toronto Dominion Centre, Toronto, Ontario, Canada M5K 1J6.
No. of staff: 28.
No. of captives managed: 46.
Other services: Computerized claims processing currently being developed; claims reserve analysis; reinsurance facilities, including access to third party business; actuarial; financial analysis; claims management; engineering/loss control; underwriting consultation.
Subsidiaries: Branches in Guernsey & Cayman Islands.
1980 Gross revenues: Not reported.
Principal officers: David A. Brown, Robert E. Barcley.

John Riley
Corporate vp
Reed Stenhouse Cos. Ltd.

Test flunks young HMOs

To the editor: You wrote an excellent article in the March 16 issue of *Business Insurance* on HMOs.

As an actuary and health care consultant, I am vitally concerned about the financial health of HMOs. Many HMOs are reaching a maturation stage and will find it difficult to succeed financially on their own. The expected reduction in federal financial support and involvement is sure to aggravate this trend.

Unfortunately, many HMOs do not have a track record to prove they are financially viable since it usually takes five years for a new HMO to recover its initial operating losses. Thus, Dr. Goran's ratio of assets to liabilities, as you quoted, will not be 1-to-1 until the HMO has been in business for five years, which would rule out a majority of HMOs now in business.

Stephen D. Brink, F.S.A.
Consulting actuary
Milliman & Robertson Inc.
Brookfield, Wis.

Pakistan buys reinsurance

To the editor: To correct the information contained in your March 16 story concerning the Pakistan International Airlines Boeing 720 hijacked on March 2:

The hull, war risks and liability insurance are all arranged through the National Insurance Corp. and the Pakistan Insurance Corp. in Karachi.

We act as their principal reinsurance broker in London and other markets of the world.

Any portions of this account placed outside Pakistan are a reinsurance of the Pakistan Insurance Corp.

A.H. Bolton
Chief executive
C.T. Bowring & Co. (Insurance) Ltd.
London, England

Pay up when damage done

To the editor: Anyone who has heard anything about the Carol Burnett libel suit (*BI*, April 6) must conclude that Miss Burnett was blatantly libeled.

The National Enquirer knowingly published a wrongful statement and proved this by publishing a retraction after the damage had been done. The fact that *The National Enquirer* is rarely sued for libel is a commentary on the state of libel law in this country, as interpreted by the courts. It is not a commentary on the validity or accuracy of the material *The National Enquirer* publishes.

The message from insurance execs seems to be that paying off on an insurance policy is a bad thing—never mind the underlying right and wrong of the issue.

An examination of their comments leads to the outrageous conclusion that they believe that the First Amendment protects libelous statements, and that protection of libelous statements is a good thing and we are all better off for it. Neither statement is true.

Richard A. Light
Rochester, Mich.

Job well done

To the editor: Was it the excellent article on Duane Allen, the complete coverage of offshore captives or the thorough stories on other risk and insurance management topics that made the April 6 edition of *Business Insurance* so good? Whatever it was, you and your staff should be commended for a job well done.

Bernard M. Brown
Vp
Risk Planning Group Inc.
Darien, Conn.



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When RIMS Conference participants stopped at the INA booth in the exhibit hall, they found their risk management skills put to the test on an electronic game board.

Photo: Jerry Geisel

RIMS REPORT #2: Property/casualty

Risk managers: Think 'bottom line'

By RHONDA L. RUNDLE

SAN FRANCISCO—Risk managers in the 1980s must start to think like financial managers who translate risk treatment decisions into bottom-line impact on their organizations.

They must learn to talk in terms of loss-funding impact on critical financial ratios such as earnings per share, return on equity and even the corporation's stock price.

Risk-funding alternatives in the future will be geared for flexible response to changes in the corporation's long- and short-term capital needs.

Sophisticated computer programs built on probabilistic models are the tools risk managers will command to integrate risk treatment into the complex grid of corporate financial strategy.

Computer information and satellite communications—these are the buzz words that will mark the 1986 RIMS Conference program, top executives from the five largest insurance brokerage companies agreed during a panel session at the RIMS Conference April 5-10 here.

Panelists included John A. Bogardus Jr., president and chief executive officer, Alexander & Alexander Services Inc.; William E. Burch, president, Fred S. James & Co Inc.; Robert Clements, president and chief executive officer, Marsh & McLennan Inc.; Robert V. Hatcher Jr., president and chief operating officer, Johnson & Higgins, and Albert J. Tahmoush, chairman, president and chief executive officer, Frank B. Hall & Co. Inc.

The two-hour broker session was billed as a point-counterpoint commentary, but responses to questions furnished in advance to panelists brought about more agreement than argument among the big brokers.

Thomas V. Hallett, vp and director of risk management of Frank B. Hall, moderated the session. An estimated 2,000 people, the largest crowd at the conference, jammed a ballroom in the downtown Hilton Hotel to hear the broker debate.

An audience question that asked whether it is ever appropriate for a broker to go over the risk manager's head sparked the only tense moment of the morning (see story on page 16).

The potential for computers to take much of the guesswork out of risk analysis and loss forecasting dominated the discussion. Risk managers were strongly urged to master these new tools to stay on top of their profession.

"Segregating treatment of hazard risk and speculative risk appears increasingly antiquated, artificial and archaic," said Mr. Bogardus, who stressed the close ties of risk and financial management.

To broaden their outlook, he advised risk managers to acquire a thorough understanding of corporate finance and computer capabilities. At the 1986 RIMS Conference, more sessions on these topics will be needed, he predicted.

Higher retention levels will become acceptable with better, more precise loss forecasting, Mr. Bogardus said. Along with increasing levels of self-insurance, he predicted a continued decline in the pure captive insurance company.

In the benefits area, the 1986 agenda will address new methods in design of self-funded welfare plans, Mr. Bogardus said. The emphasis will be on better claims control to contain health care costs.

Marsh & McLennan's Clements predicted that by late 1984 Congress would enact legislation to permit tax deductions for self-funded loss reserves. He also warned that risk managers will be seeking ways to "extricate captives from unanticipated losses from the 1970s."

Retroactive liability insurance for both reported and unreported claims will become more common, he said. Worldwide operations of U.S. multinational corporations are creating bigger, more complex risks—especially political risks, he added.

"You must arrange with management to learn how computer techniques will be used in your company," Mr. Burch of Fred S. James told the risk managers. By 1986, he envi-

Continued on next page

Time running out for pollution coverage

By LORRIE GAWLA

SAN FRANCISCO—Notice to risk managers who still need to purchase nonsudden pollution liability insurance: It may be too late.

According to Environmental Protection Agency rules issued in January, hazardous waste TSDFs (treatment/storage/disposal facilities) with annual sales of more than $10 million must have $6 million in insurance by next January to cover damages from long-term gradual pollution by hazardous wastes.

But meeting that mandate will be impossible, said an insurer and broker speaking at the RIMS Conference.

Market capacity is too small now to meet the EPA demands, they stressed. The insurance industry needs more time, they said. And even if the necessary limits were available, eight months might not be enough time to place a risk if a risk manager has not taken any action yet, they warned.

"We foresee a very serious problem," said Richard P. Kropp, assistant vp for Shand, Morahan & Co. of Evanston, Ill., one of four markets for the nonsudden pollution insurance.

"It will be a horror show in December when 10,000 risks are lined up looking for coverage," he said. "The people (insurers) in now just could not handle all the business."

He estimates that 5,000 to 40,000 risks need coverage, and large corporations will need more than the mandated limits of $3 million per occurrence and $6 million annual aggregate.

"We are hoping more underwriters will get into this market, but most carriers have no interest," he said. "There's great danger in it from the underwriters' standpoint."

"Something has to give," said William A. Mahoney, vp at Marsh and McLennan and another panelist. "It took the EPA five years to devise these regulations and now they want them met in a year. That's not enough time."

Even if capacity were adequate, risk managers who have not begun the process of placing their nonsudden pollution risks are pushing the January 1982 deadline, the panelists said.

The site assessment and evaluation tests required before an insurer will accept a risk are very time-consuming, especially for a company with more than one site, and the number of engineering firms that do this testing is limited.

"It can take six months to consummate a sale," Mr. Kropp said.

His warning was echoed by Jesse Pagonis, manager of insurance for Engelhard Minerals & Chemical Corp.

Continued on page 45

Computers will be big challenge: Burch



John Bogardus, Alexander & Alexander | William Burch, Fred S. James | Robert Clements, Marsh & McLennan | Robert Hatcher, Johnson & Higgins | Albert Tahmoush, Frank B. Hall

Continued from previous page

visions many automated insurance departments that relate exposures to losses through computer software programs.

Risk managers must take advantage of computer capability to maximize their companies' investment returns from automation, Mr. Burch said. He anticipates more self-funding of combined workers compensation and health care benefits that will improve medical expense cost-containment efforts.

"The use and abuse of computers will present risk managers with their greatest challenge," he stressed. The creation of complex new computer-fraud perils will require high-limit, broad-form business interruption coverages, he said.

The development of professionalism in risk management has had more impact than any other phenomenon except inflation on the industry over the past five years, said Mr. Hatcher of Johnson & Higgins. Fierce competition for professional staff will continue throughout all segments of the business, he added.

The next five years will be marked by an emphasis on internationalism and worldwide brokerage activities, Mr. Hatcher believes. Space exploration and energy development also will affect business lives soon, he said.

Mr. Hatcher did not discount the role the fledgling New York Insurace Exchange will play in the insurance marketplace of the 1980s. And he is watching legislation in the British Parliament and its effect on Lloyd's of London.

"The last five years have been marked by three distinct trends in our business," outlined Mr. Tahmoush of Frank B. Hall & Co: the shift from industrialization to consumerism, the emergence of risk management as a true profession and the introduction of new forms of funding techniques.

These techniques are "no longer optional equipment but standard procedures," Mr. Tahmoush said. Risk managers expect these alternatives to be laid out for them at renewal time or whenever a new contract is negotiated.

Economics is at the top of the list of developments that will affect the future of risk management, Mr. Tahmoush said. "We can't ignore what's going on in Washington—especially efforts to reduce inflation and interest rates."

"We may be entering the age of mass production in risk management," he noted. He said that risk management services can be delivered more economically to buyers on this basis, but hinted that he is uncertain whether such products fill the need they are designed for.

"Do you want this?" he asked rhetorically. "We want to discuss it with you."

"We're doing some things that insurers used to do and they're doing some of things we used to do," he said, conceding that this overlap may create redundancies.

Direct risk-manager contact with underwriters can be useful, Mr. Bogardus and Mr. Burch agreed. The risk manager gives the underwriter a flavor of the corporation's loss-control philosophy as well as details about the risks.

During the negotiation stage, however, it is better that the risk manager not be present, Mr. Bogardus said. The underwriter and broker cannot raise comparisons with other client risks in the presence of a third party, he explained. If an underwriter has reservations about the risk manager or company, he or she may adopt a conservative approach rather than

Continued on page 16

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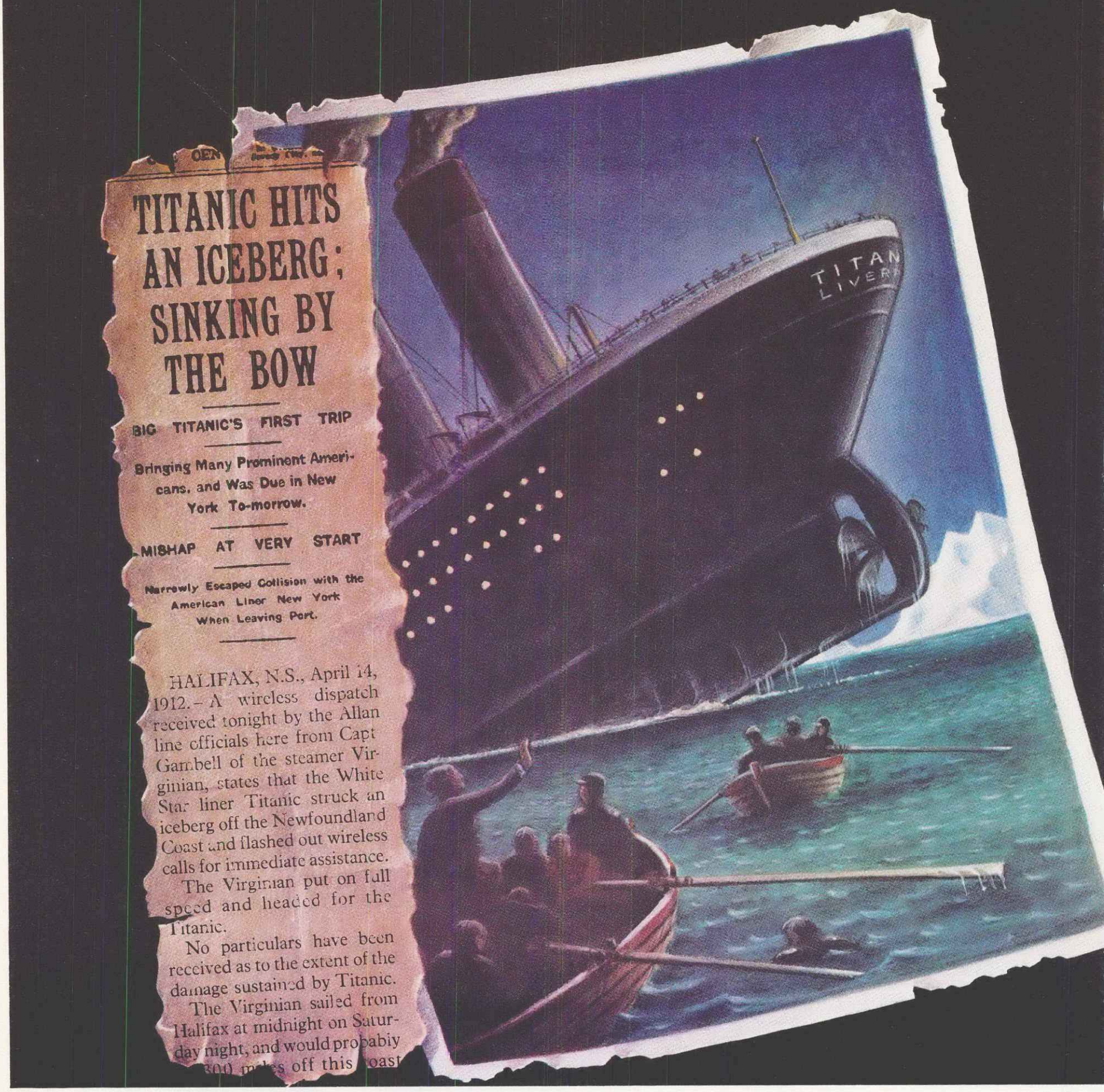
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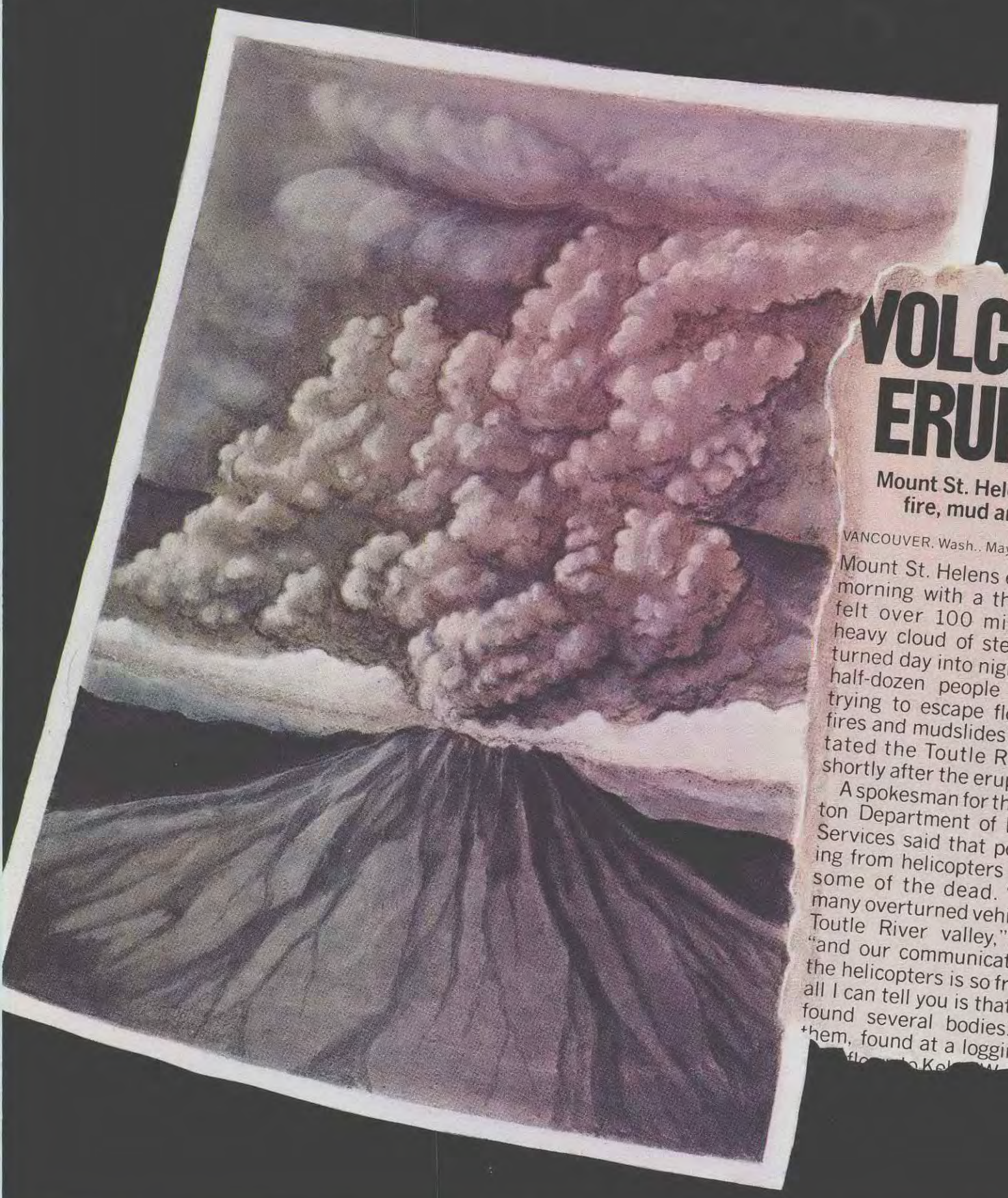
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Going straight to the top: Should a broker do it?

SAN FRANCISCO—Is it ever appropriate for a broker to go over the risk manager's head and make a direct pitch or complaint to the risk manager's boss?

That ticklish question was addressed to a panel of top execs from the five largest insurance brokerage firms at the RIMS Conference.

The issue puts a broker between a rock and a hard place, said Albert J. Tahmoush, chairman, president and chief executive officer of Frank B. Hall & Co.

"We owe our responsibility to you. But there can be an instance where whatever action you're taking runs contrary to the best interests of your company. Even at the risk of losing the case and offending you, we will speak out," he said.

"It should not be done without the knowledge or cooperation of the risk manager unless it's a matter of honesty or alcoholism," said William E. Burch, president of Fred S. James & Co. Inc.

Likewise, "a risk manager should contact senior management at James if he believes he is not being treated in an ethical manner," he said.

"Ideally, we hope for a 100% open three-way relationship between the broker, the risk manager and his superior," said John A. Bogardus Jr., president and chief executive officer of Alexander & Alexander Services Inc.

Mr. Bogardus gave two examples of occasions when A&A did go over the risk manager's head: once when the risk manager would not consider high limits the broker thought essential and once when the risk manager was not communicating an alternative funding technique A&A thought the company needed to know about.

'Make broker part of team'

Continued from page 12

question the broker with the risk manager on hand.

Competitive bidding is a worthwhile practice, but there are exceptions, Mr.Hatcher noted.

"I wouldn't advise it on D&O, E&O, malpractice, volatile products liability or kidnap and ransom risks," he said. "Don't hamstring the broker. Send him or her into the market for the best possible deal."

Equity ownership in overseas insurance operations is desirable but not necessary for brokers to provide good service to their U.S. multinational clients, two brokers concurred.

"Some equity ownership is more a plus than a minus—we strive to have an equity position based on what local laws permit," observed Hall's Mr. Tahmoush.

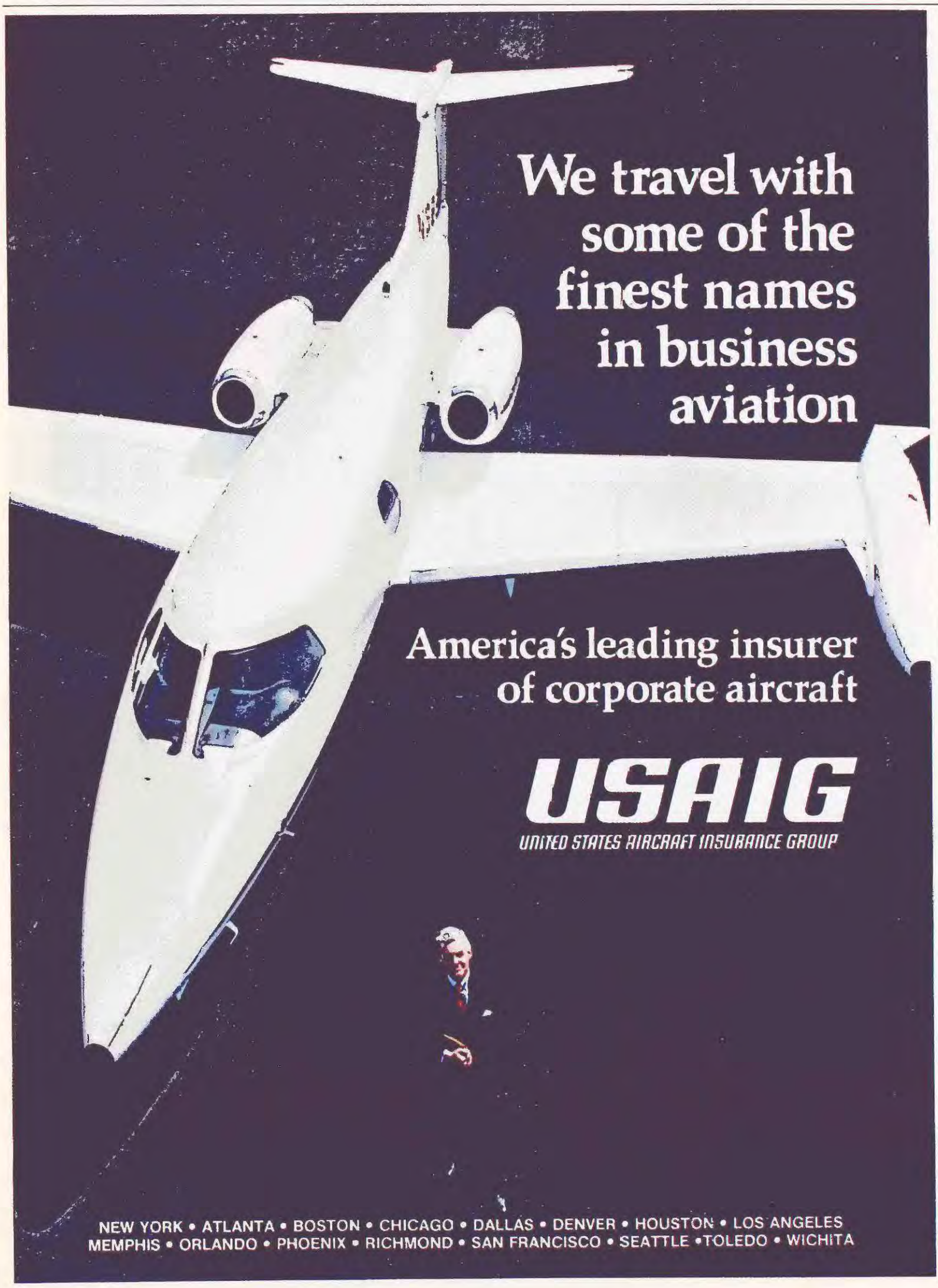
"You need some equity ownership to put together a vast international network," Mr. Bogardus said. It's a question of degree, he explained. "You can deliver optimal service without equity ownership but not as easily."

To avoid communications problems between brokers and risk managers, the broker should be a true partner in setting risk management goals, Mr. Burch explained.

"How can the risk manager hold the broker to goals if he is not a valued member of the risk management task force?"

M&M's Mr. Clements did not think communications is a major problem. "You may have complaints about us, but we don't have complaints about you," he quipped.

Perhaps the overriding contribution the risk manager can make to good communications with his broker is candor about dissatisfaction, Mr. Clements said. "A good broker doesn't get offended," he said. ■



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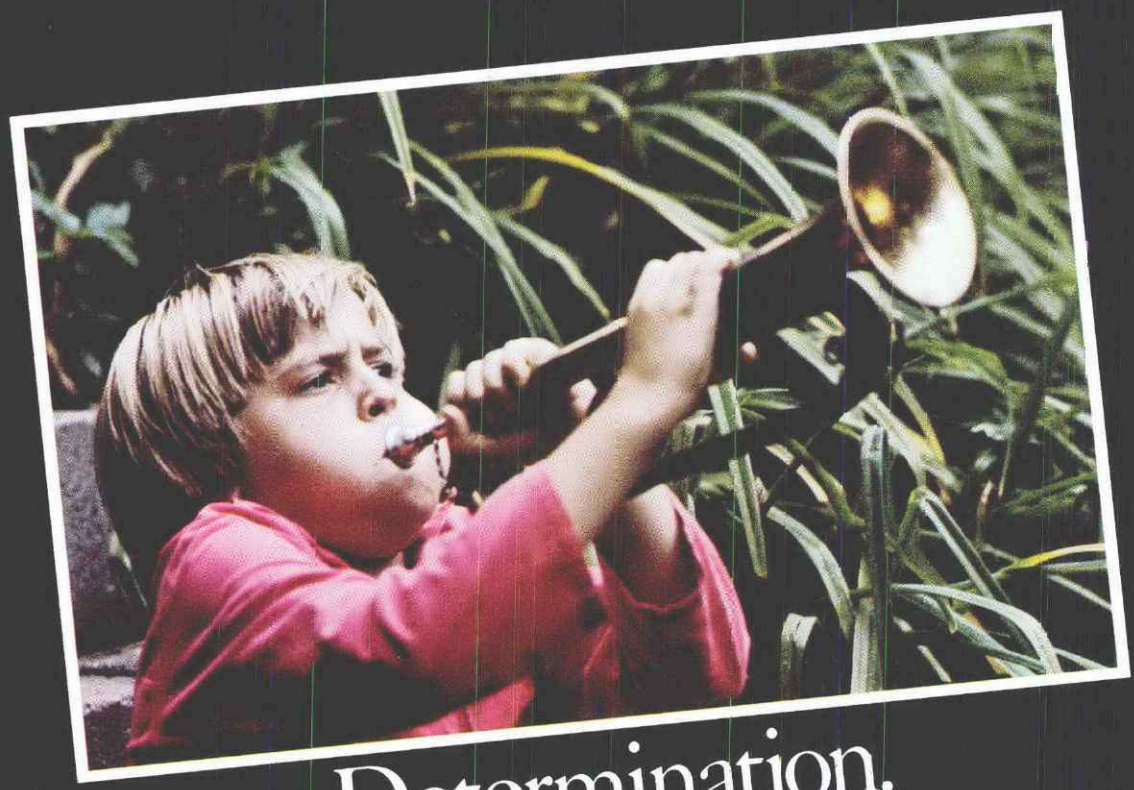
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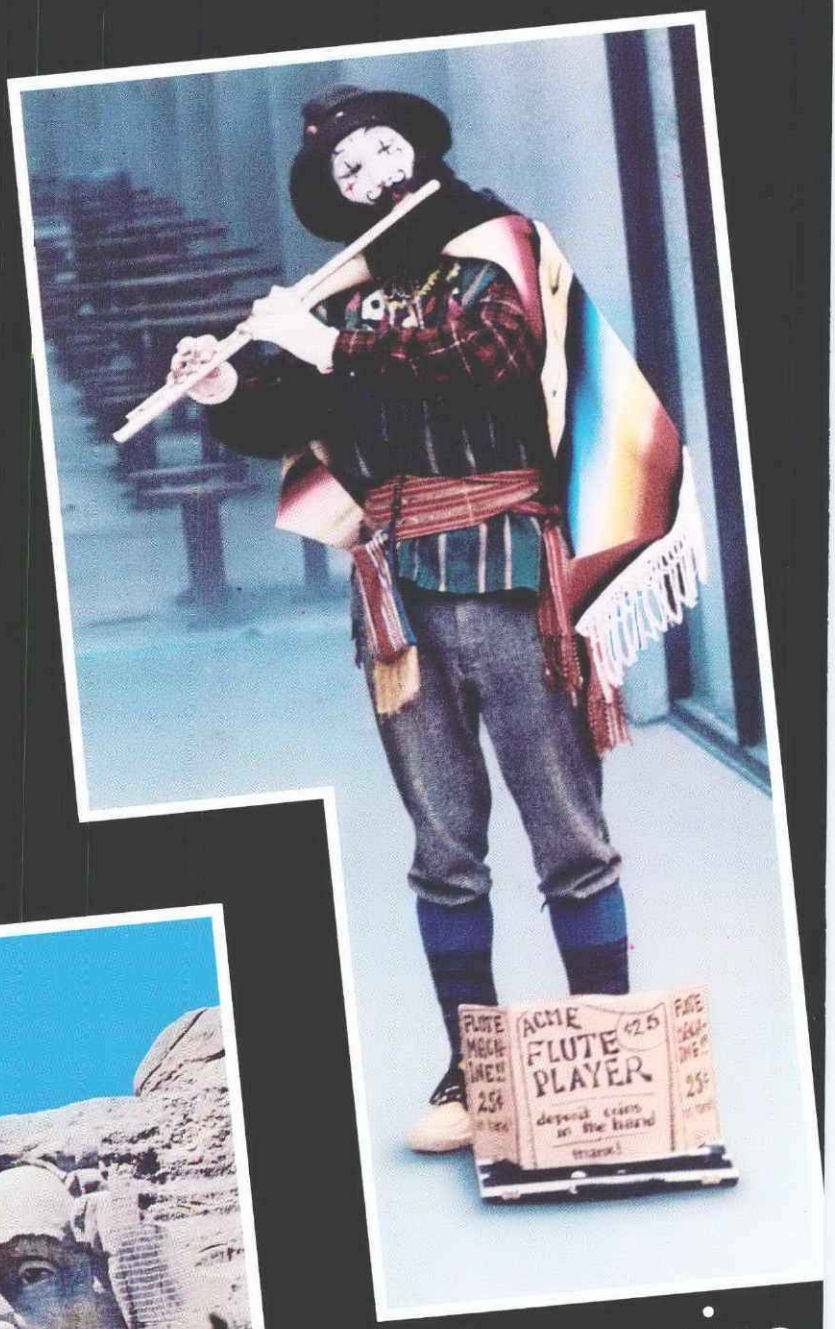
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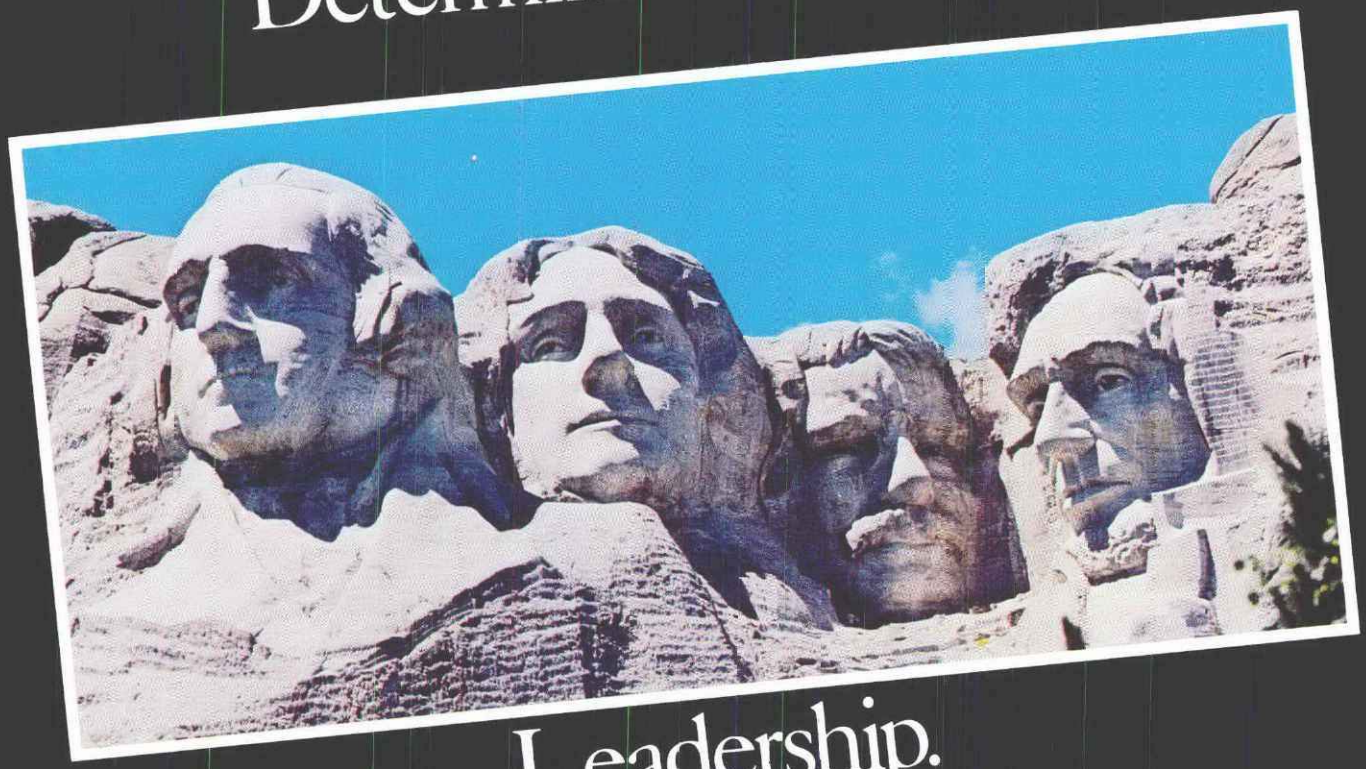
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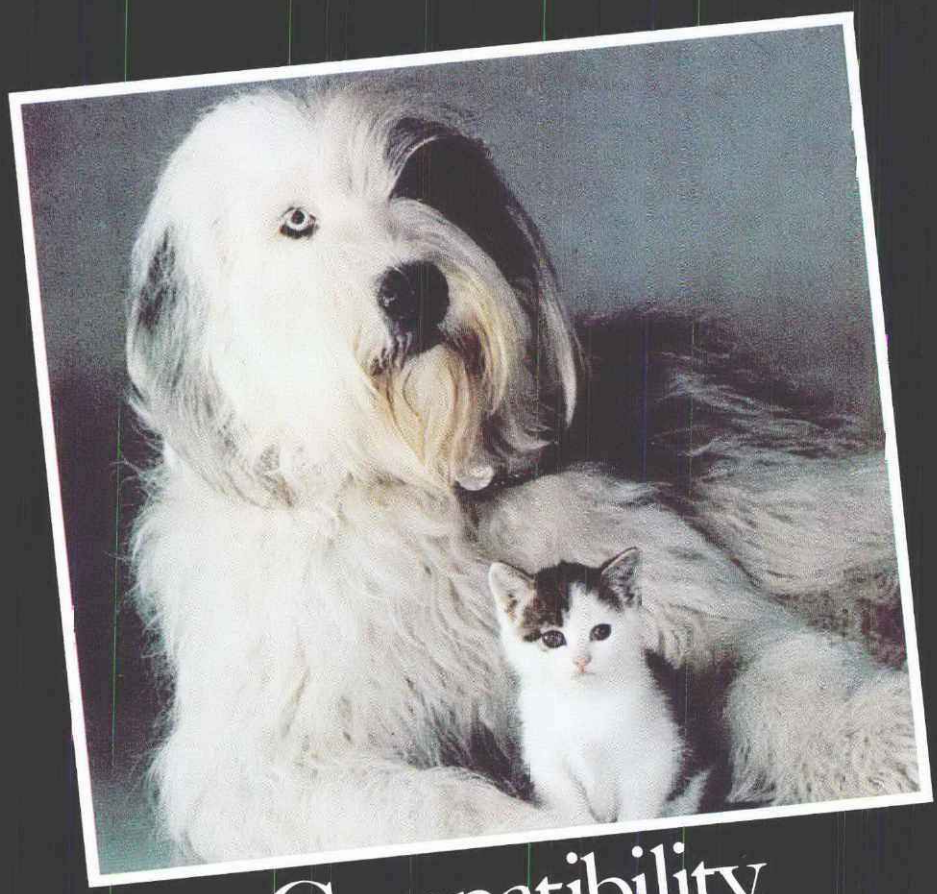
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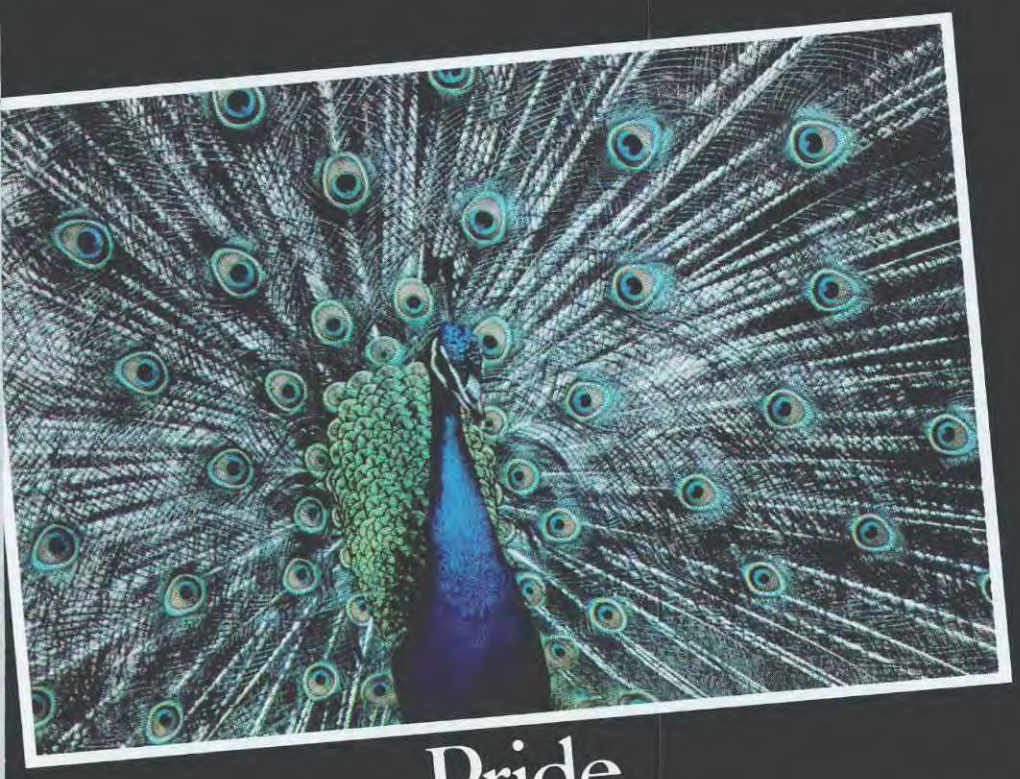
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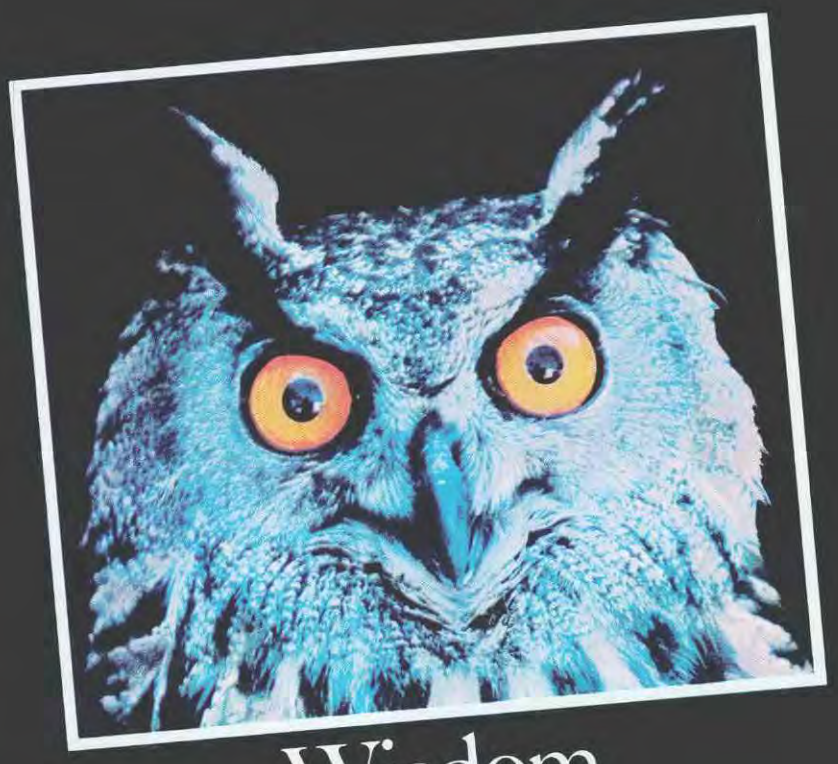
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Ports could dock E & O coverage in group policy

By STEVE SHERWOOD

SAN FRANCISCO—The nation's seaports could dock cheaper errors and omissions insurance for their officials under a group program, a port official says.

Chicago-based Fred S. James & Co., which already brokers public officials liability coverage for some Gulf of Mexico ports, wants to put together a group program.

"The American Assn. of Port Authorities directors have agreed to let us work on a group errors & omissions policy for officials to be made available to all member port authorities," said Oury L. Selig, deputy executive director of the Port of Galveston and chairman of AAPA's risk management subcommittee, during the RIMS Conference.

"Errors and omissions coverage is important because most port commissioners serve without pay," he said. "With all the suits being filed, it is the obligation of the port authority to protect them (the commissioners)."

Most large ports can take care of their own risk management, including public officials liability, but smaller ports may lack the expertise, Mr. Selig says.

"Group coverage would make public officials coverage available to smaller ports at a reasonable cost," he said.

Several regional associations of port authorities, including the Washington Public Port Assn. and a group of Gulf ports, have E&O policies for their officials, Mr. Selig says.

"This is such an easy type of program to develop and implement. When you're trying to do it on a regional basis, you are limited. On a natonal basis, the larger premium amount gives you more buying power."

There are 89 members of the AAPA, he says. To form a reasonably sized group, 35 or 40 port authorities would need to band together.

"Some may already have E&O policies in place that better suit their needs, but a lot of the smaller ports won't," Mr. Selig says. "The idea is to produce more premium dollars to get the best deal possible. Money talks."

The policy would protect port commissioners, department heads and other officials from liability for damages from alleged wrongful acts.

Tom Harmon of Fred S. James says the coverage would provide protection in suits claiming mismanagement of the port or exceeding authority. In suits alleging discrimination, defense costs could be reimbursed.

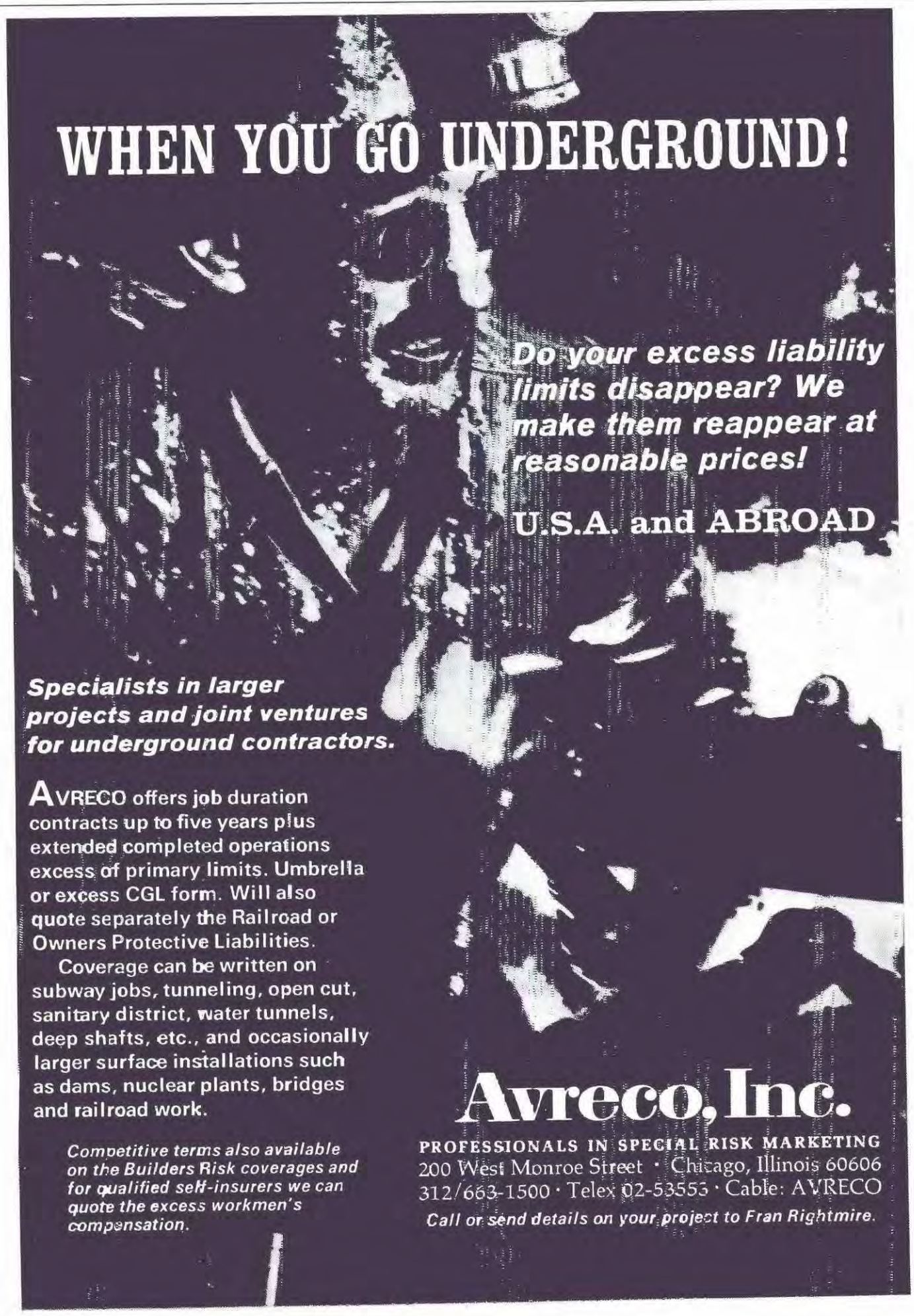
"One of the things excluded from the policy is antitrust violations, but it does provide for the defense costs in an antitrust violation suit," Mr. Selig says.

The Galveston Port Authority purchased E&O insurance after the port's insurance committee recommended the authority drop its excess workers compensation coverage.

"Basically, we became uninsured for compensation," he says. "The decision was made based on the premiums being too high. When it was done, we left ourselves wide open to lawsuit."

The staff rushed out to buy a public officials liability policy to cover the authority's seven trustees, he says. Purchased through James, the policy provides $5 million in coverage for an annual premium of $13,000.

The public officials liability policy proposed by James will be presented to the AAPA at its convention in October, 1981. ■



Banks can limit lending risks: AIG exec

By CAROL G. BLITZER

SAN FRANCISCO—More American investment abroad will bring political risks home to bankers financing the ventures, says an insurance company president.

Banks lending money for investments abroad should require the borrower purchase political risk insurance, Joseph DeAlessandro, president of National Union Fire Insurance Co. of Pittsburgh, Pa., advised a banking seminar at RIMS.

Other insurance products bank risk managers should be familiar with involve limited partnership warranty, precious gems as collateral, "funny money," residual value and equipment leasing and electronic fund transfers.

With the government encouraging investment abroad to balance the country's foreign trade deficit, companies are going to be borrowing a lot of money from banks for international development, he said.

The lenders should be sure the borrowers have political risk insurance to cover these investments. Without the insurance, they face "gaping holes" in the insurance protection on the projects, Mr. DeAlessandro explains.

Political risk insurance commonly includes coverage against expropriation, nationalization, confiscation, cancellation of import or export licenses and contract frustration or repudiation—the political risks inherent in investing in operations in foreign countries.

Separate insurance policies are available to cover losses due to war or terrorist actions.

One also can buy political credit risk insurance to protect a loan from being called if an investment is confiscated.

Political risk insurance is available through the Overseas Private Investment Corp., a federal program, and two major private markets, Lloyd's and American International Group, said Mr. DeAlessandro of AIG.

Although OPIC's capacity to underwrite insurance is unlimited, it only underwrites insurance for risks in developing countries, Mr. DeAlessandro said.

He said AIG offers the largest capacity of any single underwriter: $37 million per risk. A company tapping Lloyd's and other emerging markets could put together $100 million or more, he added.

The policies offered by the commercial insurance market are similar, with a few nuances evident in contract repudiation areas, Mr. DeAlessandro said. AIG considers itself more flexible in covering cancellation of import-export licenses, he said, by tailoring the policy to the particular risks.

The risk of cancellation of import-export licenses was proven real recently when the U.S. canceled export licenses to the U.S.S.R. as part of the boycott of the Winter Olympics to protest Russian military aggression.

Insurance on limited partnerships investing in tax shelters can be helpful to banks, too, Mr. DeAlessandro said. The partnership, upon providing adequate security to an insurer, can buy an insurance policy guaranteeing 50% of the note from the bank. The bank can then lend to others the guaranteed portion of the loan.

Partnership warranty is just one new type of insurance policy involving banks.

Investors will want to use precious gems to help finance new projects, presenting a new exposure for the banks, he noted.

If, for example, a group of investors wants to guarantee a loan with emeralds, an insurance policy can be purchased to guarantee a nonreduction in the value of the gems. Typically, the guarantee would be for no less than 50% of the current appraised value of the gems and extend for two to three years.

The insurance policy removes the risk that the gems will be worth less at the end of the loan period, a big risk if the borrower doesn't repay the loan.

"Funny money" is Mr. DeAlessandro's term for large sums of money being offered, usually by foreign investors through brokers, to American companies and institutions at set interest rates of as low as 9%.

But the lenders want a guarantee that the interest due will be paid. Some banks have been asked to provide this guarantee, but insurers can, too, he noted.

Residual value insurance will be sought on all types of equipment, from aircraft to printing presses and trench diggers, Mr. DeAlessandro predicted.

The insurance, made infamous by the computer leasing industry, guarantees the insured equipment will be worth a certain amount at the end of a particular period. The insurance limits the bank's risk of lending money against collateral that could fall in value.

AIG also is looking at the more conventional risks of the banking industry.

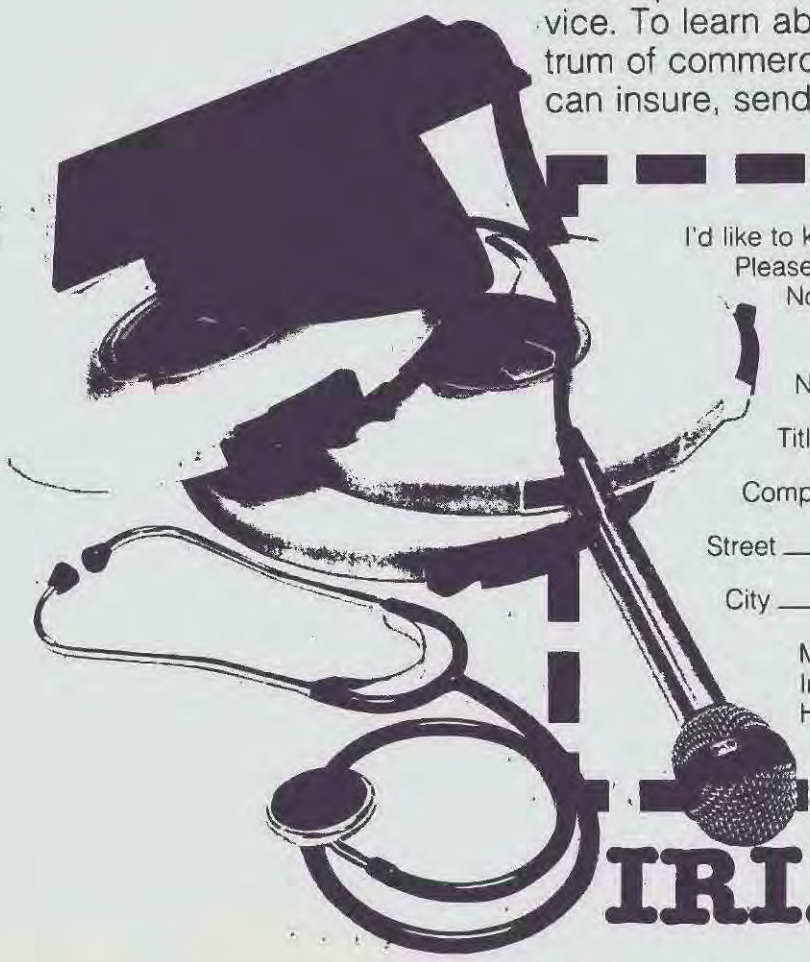
It has produced a new policy for electronic fund transfer services and is sending it to the executive committee of the American Banking Assn. for review. ■

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Photo: Steve Sherwood

Edna Vazquez de Bonnet of Puerto Rico.

Puerto Rico learns risk management

By STEVE SHERWOOD

SAN JUAN, Puerto Rico—Terrorist bombs, which destroyed nine jet fighters at Muniz Air National Guard Base here in early January, blew up only yards from key fuel tanks owned by the Puerto Rican government.

The tanks, crucial to the operation of adjacent Isle Verde International Airport, apparently were ignored by terrorists and not damaged.

But the significance of terrorists striking so close to vital facilities was not ignored by Edna Vazquez de Bonnet, risk management consultant to Puerto Rico's departments of transportation and housing. During an interview at the RIMS Conference in San Francisco, she used the bombing incident as an example of risks facing her country's transportation systems.

"These places are vulnerable and would cause a lot of impact on the Puerto Rican economy if disrupted," Ms. Vazquez de Bonnet said. "That makes them attractive to terrorists."

The bombing drives home an urgent need for risk management to protect Puerto Rico's assets, she says. "According to the U.S. Federal Emergency Management Agency, this era of the 1980s will be very difficult," she explained. "It is expecting more terrorism."

As risk manager for the Puerto Rico Port Authority (under the Department of Transportation) part of her job is to identify high-exposure areas in the nation's airports and seaports and develop programs to cover them.

"I am in the process of finalizing exposure reports on airport and port risks now," she says. "Specialists will determine the maximum probable loss for each risk, then we will plan the best way to protect it in terms of the authority's financial capability."

Identifying such risks as the Isle Verde fuel tanks hopefully will lead to action on the part of the port authority, Ms. Vazquez de Bonnet says.

"We now have a most dynamic executive director," she said. "He is a top engineer and is giving a real push to the risk management program."

But not all higher-ups in Puerto Rico are so enlightened, and a large portion of Ms. Vazquez de Bonnet's time is dedicated to th ongoing task of teaching fellow ci izens about risk management.

"This is quite difficult," she sai "The idea of risk management i well established in the U.S., bu here it is still in Pampers."

Too many still believe risk man agement involves only the pur chase of insurance, she said.

"We have to try to change ol attitudes to try to sell the concept,' Ms. Vazquez de Bonnet said. "I re call eight years ago having a per son tell me risk management would never come to Puerto Rico but it is here."

Educating the public about ris management is a job for which M Vazquez de Bonnet is qualified. graduate of the University Puerto Rico and the first woman t earn a master's of business admi istration from InterAmerican Uni versity, she organized the island first risk management program years ago for the city of San Juan.

"It is the biggest city in Puer Rico, with half a million people, she explained. "There are hospi tals, museums, schools, publi transportation systems—a diversit of risks."

This job led to risk managemen consulting for the departments o housing and transportation. Th department of housing has 37 projects on the island, one of whic houses 23,000 residents.

"Scattered around Puerto Ri are government-owned cond minums for the elderly, row hous for single families and high-ris for middle-income residents," sh said. "The total assets of the hou ing department amount to $5 billion."

She must determine the replac ment value of each structure– there are more than 300 building in one project—and then find way to protect it from hurricanes earthquakes, floods, public liability suits and other potential sources o loss.

"We have invasions of publ lands by poor people who want t get into a housing project or tak land for their own," Ms. Vazqu de Bonnet said. The departme analyzes each individual's housin needs and tries to find an alterna tive.

Potential liability resulting fro such decisions or from other a pects could be tremendous.

"Imagine just maintaining th buildings," she said. "Suppose a employee who is cutting the gra leaves the mower on and a bo plays with it and cuts his leg."

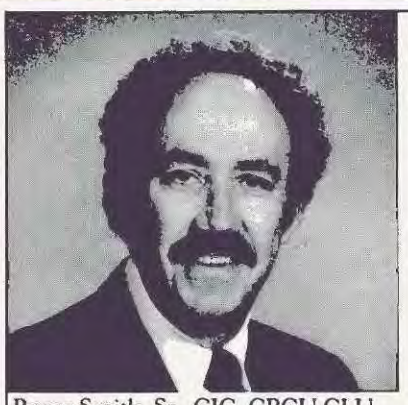
Loss control, not just insuranc is the answer to such risk manag ment problems, she said. "To be fective, risk management philo phy must be communicated fr top to bottom in an organization structure from the executive ma ager to the common laborer."

The risk management functio has to be centralized, with a top ex ecutive in charge, Ms. Vazquez Bonnet said. "He can't be put in office under the stairs or on th back patio. He must have authorit to command things to be done they should."

She says her efforts and those o others are paying off and that ris management is going to boom i Puerto Rico. Businesses and goven ment agencies need risk manager to comply with Environmenta Protection Agency and Occupa tional Safety & Health Administra tion rules and to cope with thei own losses.

"I love it," Ms. Vazquez de Bor net said. "Risk management is beautiful profession because y really can give a company's ass the best protection at the lowe possible cost."

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Communications talks loss control into cost-savings

BY STEVE SHERWOOD

SAN FRANCISCO—Unless a risk manager and his top management speak the same language, loss control is a lost cause, loss control managers and consultants say.

"Communications is one of the biggest problems the risk management staff has," said Joe Jenkins, risk control manager of UTOTEM, a Houston-based trucking firm. "We have a specific vocabulary as professionals and use this among our peers, but do our presidents, vice presidents and plant managers understand our buzz words? Probably not," he told RIMS Conference participants.

If what the risk manager tells other officers is clouded with jargon, there is no communication, he says. "Managers will pay closer attention when you discuss what loss control means based on the company's profit and loss statement."

Gerald Koenning, director of loss control for Frontier Enterprises, a San Antonio-based restaurant chain, agrees.

"When there is a breakdown here, losses increase," Mr. Koenning said.

Loss control managers must relate to top management the principles of risk management, he said. "Too many have the idea that insurance companies pay for losses. Little do they realize we are bearing the costs ourselves."

A loss control manager should get his company's management as involved in the process as possible, he said. Once management is completely aware of the role loss control plays, it makes the job easier, he added.

Jim Brodrick, loss control consultant for Alexander & Alexander in Dallas, agrees. "You have to talk to management in their terms. If you do that, they will respond."

"The safety professional recognizes he has technical limitations and cannot do the job all by himself," said Mr. Brodrick, stressing the need to use outside services.

He cited several excuses commonly used by safety officials who do not want to use outside services.

"Some are afraid the management will see the use of outside help as a dependence," he said. "I take exception to this since the loss control manager cannot be everything to everyone."

Others are jealous of their positions, fear their job will lose status or fear management will balk at the cost, he says.

"Technology is outstripping knowledge and one person can't have enough specific knowledge about everything to do the job himself," Mr. Brodrick said. "Each risk manager should analyze his need for outside assistance to supplement his efforts."

Internal loss control begins with a good accident investigation program, Mr. Brodrick said. "Some employers have fallen pitifully short of getting the results you'd hope they would get."

He defined an accident as any unintended event that may or may not cause bodily injury, including a near-miss. He recommended the systems approach to accident prevention.

"This approach assumes there is an interrelationship between the man, the machine, the process and the product in any accident," Mr. Brodrick said. "A failure anywhere in the system could cause an accident that brings downtime."

A good accident investigation programs should teach supervisors or a review committee the multiple-causation theory, he said. "It should train them to get to the root cause of an accident. Once that is found, positive corrective action is needed. If you don't learn lessons from accidents and catch them before they happen again, you haven't gotten to the root cause."

Supervisors should be account-

Continued on page 26



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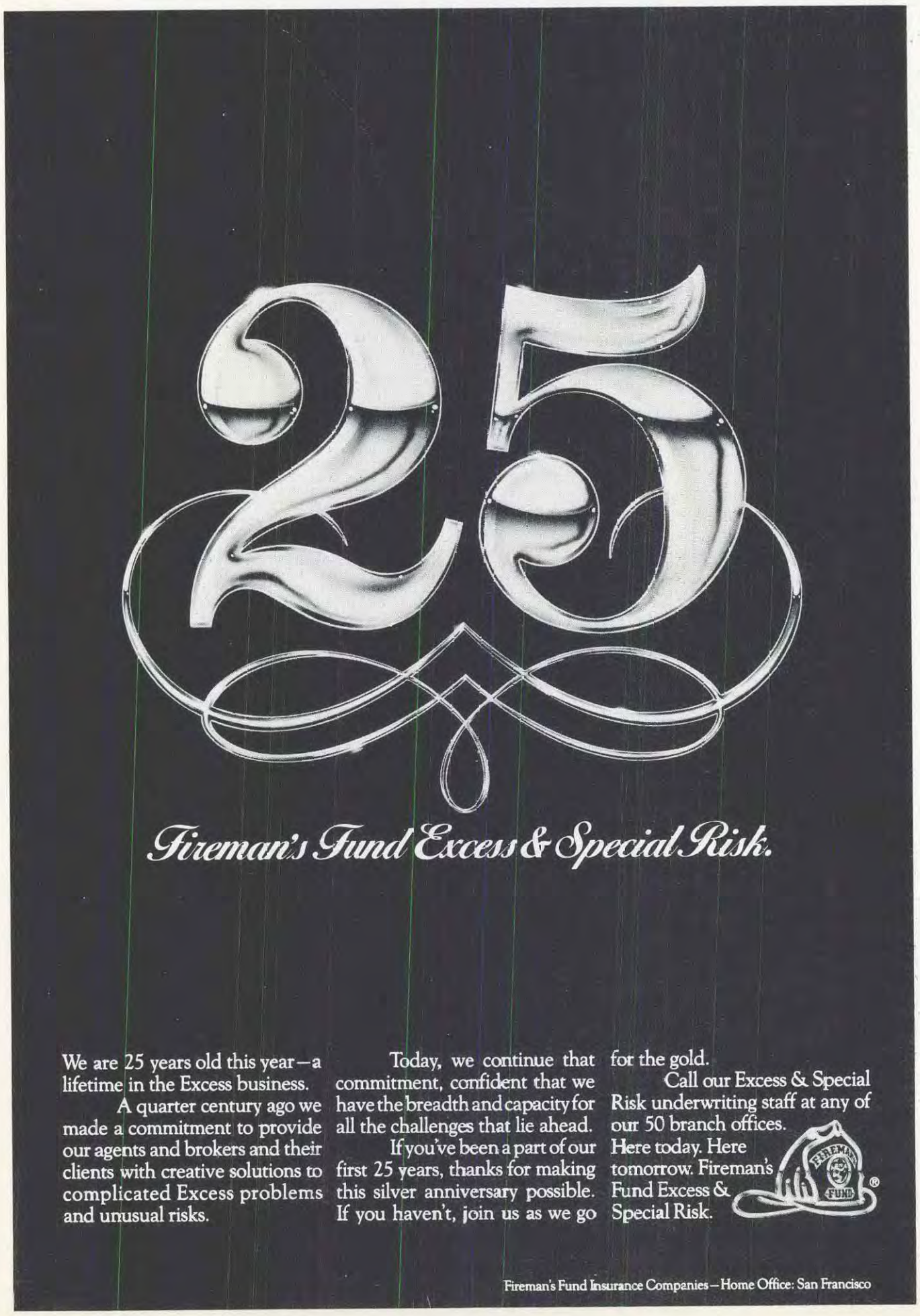
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Photo: Carol G. Blitzer
Gary W. Spangler (left) of Valero Energy Corp. and Gerald W. Koenning of Frontier Enterprise discuss loss control.



Transitions increase risk

Continued from page 24
able for all accidents in their areas, he said. Until they realize accidents are recorded on their performance review and affect raises or promotions, accident investigation won't work, he said.

Gary Spangler, manager of risk management for Valero Energy Corp. of San Antonio, warned that drastic changes in production processes make accidents more likely.

"During corporate transition phases, underwriters are always wary," he said. "Steps should be taken to minimize loss during these times."

"Accidents are generally caused by the violation of simple rules," he said. "Every production or marketing practice has simple dos and don'ts. We built an 11-story office building and didn't have a fire drill. Last November we had a fire on the 11th floor. It was limited, but it looked like a Keystone Cops situation because the security guards did not have override keys for the elevators to let the fire department up to the 11th floor to fight the fire."

Had it been more serious, the fire could have caused the company a big loss, Mr. Spangler said. "We now have a full emergency evacuation plan. There's nothing like a real life example to get action."

Loss control in the restaurant business includes teaching managers first aid techniques, said Mr. Koenning. "I see to it that all the managerial people are trained in first aid, CPR (cardiopulmonary resuscitation) and the Heimlich Maneuver.

"How many of you know what the Heimlich Maneuver is? None? Well you'd all be broke today if you were in the restaurant business."

The Heimlich Manevuer is a procedure for freeing a choking person's throat of an obstruction, such as a chicken bone, Keonning said, demonstrating.

"I know of 10 occasions when it has been used," he said.

Oxygen and first aid equipment is kept on hand at each restaurant, he said.

Mr. Jenkins put loss control on the same level as three other primary factors of a business: cost control, production control and quality control.

"Loss control appears last on the list, but it is not last," he said. "When you put more emphasis on one facet, the others suffer. All have to be treated equally. Until managers are taught to approach loss control on equal terms with the others, their programs will not be effective." ■

Inflation increases damages in wrongful death suits

SAN FRANCISCO—Employers face enormous new risks in wrongful death suits now that courts allow inflation in future wage-loss estimates, says attorney Donald R. Abaunza.

Mr. Abaunza, of Liskow & Lewis in New Orleans, addressed oil company risk managers during a RIMS Conference session here.

"My experience is that most of those injured on an offshore operation are young, with at least a 20-year future wage-loss potential," Mr. Abaunza says.

This long-term wage loss is a greater threat to employers now that future inflation is a factor.

Two 1980 court cases brought this about, he says. The first, Norfolk Western Railway vs. Liepelt, was decided by the U.S. Supreme Court.

"In rejecting the theory that evidence of a wage earner's future income tax liability was too speculative, the court said future inflation is a matter of estimate and prediction," he says.

The second case, Doca vs. Marina Mercante Nicaraguense, was decided by the U.S. 2nd Circuit Court of Appeals. That court chose to follow the "developing majority view" that inflation should be considered in estimating future wages.

"On average, for an injury of a young man offshore, you should now double your guesstimate of loss value," says Mr. Abaunza.

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Boost energy by relaxing creatively

By CAROL G. BLITZER

SAN FRANCISCO—Close your eyes. Picture a tropical sunset with pink and orange flames behind dark cloudy streaks. Picture yourself—alone—lying on the sun-warmed sand and watching that glorious end of the day.

Breathe in, tighten all your muscles, exhale and relax one part of your body at a time until you feel glued to your comfortable seat, only vaguely aware of some restful music in the background.

Try this technique twice a day and soon you'll find you need one to two fewer hours of sleep a night, says Dr. Deborah K. Bright, who has developed a program of "creative relaxation" to turn stress into positive energy.

Dr. Bright, a luncheon speaker at the RIMS conference, took the more than 3,000 participants through this exercise to demonstrate that creative relaxation can unknot stomachs, dry sweaty hands, slow pulse rates, lower blood pressure and raise body temperature by as much as 5 degrees.

To set up what Dr. Bright calls "personal quiet time," remember to make your mental scene as pleasurable as possible, be alone in the scene, let thoughts enter and leave your mind, accept that there is no success or failure in the process and evaluate yourself when you have finished the exercise.

To channel stressful situations more positively, Dr. Bright suggests you:

- Look at a threatening person between his eyes, at about the bridge of his nose. This gives you time to gather your thoughts before looking him in the eye.
- Be aware of your own stress reactions (playing with your mustache or beard, getting a knot in your stomach, becoming irritable, tightly gripping the telephone or steering wheel).

To stop an argument in process:

- Stop talking.
- Inhale quietly through your nose, hold the breath, exhale and create a wave of calm feeling (traveling from your head to your toes).
- Ask yourself what you want.

To stop your stomach from churning in knots:

- Inhale, tighten your stomach, exhale and imagine your stomach coated with a smooth pink layer of Pepto Bismol.

"Nobody can see you doing these things," Dr. Bright says. "You're trying to protect a corporation so what about yourself?"

Dr. Bright notes that her relaxation techniques, which are outlined in her book "Creative Relaxation: Turning Your Stress into Positive Energy," can help you unwind at the end of the day and can even help deal with the effects of jet lag. ■



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Attracting Capital to



Innovative thinking by the U.S. insurance industry is helping facilitate the search for energy resources worldwide.

INA looks at some of the ways insurance is bringing greater financial security to this urgent, high-risk endeavor.

Steady, dependable sources of energy are the sinews of industrial society, influencing national strengths and political strategies. In its search for critical new sources, the energy industry is confronted not only with these realities, but with many uncertainties.

No one can be sure where the next major oil strike will be made, or how much oil it will yield. Largely untapped resources–synfuels, oil shale, solar, wind and tidal power–remain tantalizing, but elusive.

Even existing sources are exposed to grave risk. Ocean drilling rigs are threatened by perils unknown to land operations. Electric utility plants are subject to unexpected overloads which can black out entire communities. The effects of government regulations, particularly environmental measures, represent another major imponderable.

Supplying energy in the face of such uncertainties calls for major expenditures. U.S. oil and gas exploration and development alone will require an average of $70 to $80 billion annually between now and 1990. A shale oil plant producing a modest 100,000 barrels daily of synthetic fuel costs at least $3 billion. To attract such immense sums, some positive assurances of return on investment are needed.

Protecting huge investments

Replacing energy doubts with certainties through indemnifications for loss of physical assets is a prime responsibility of the insurance industry. But the billions of dollars of insurance required to cover exploration projects, refineries, power plants and transmission lines, have strained world markets.

To narrow the gap between need and capacity, most energy companies are using their own funds, through various forms of self-insurance, to cover their more predictable exposures. This frees commercial insurance capacity for the less foreseeable and potentially catastrophic ex-

Energy Development

posures. Moreover, the insurance industry has formed "pools" of capacity to make such outsize risks as supertankers, ocean drilling platforms and nuclear generating plants economically feasible.

Most challenging of all is adapting established insurance products and creating innovative ones to meet emerging energy industry demands.

For example, "builder's risk" insurance typically covers shortfalls in construction and manufacturing. Now it is being extended to such energy activities as recovering heavy crude oil from tar sands. Insurance compensates the owner of such a facility should it fail through technological deficiencies to meet financial commitments.

Similar protection applies to caverns prepared for underground storage of hydrocarbon products. Here, the owner is protected against losses resulting from the cavern's failure to meet pre-established specifications.

Defusing threats of depletion

Owners of energy resources still in the ground count on them heavily in their financial planning. Although current technology can provide useful estimates of the extent of reserves, some doubt inevitably remains.

To counteract such uncertainty, insurance protection can be provided for the minimum value of the reserves. This allows their use as collateral and makes possible firm planning and commitments. It also may permit the use of standard "up-front" plant financing, rather than costly venture capital. In the case of geothermal reservoirs, insurance protects against any resource inadequacy which results in the abandonment of the generating plant.

INA's experience in fulfilling energy insurance needs, domestic and international, reaches back many decades. Today, INA is aggressively involved in all aspects of energy-related insurance, particularly through Energy Facilities, a unit of INA International and Special Risk Division.

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perspective

Regulation

Has the insurance industry brought rules on itself?

By John A. Schoneman

READERS FAMILIAR with the work of the late cartoonist Walt Kelly will recognize a paraphrase of "Pogo Possum." Now that we have a new administration in Washington and the proclamation of a "New Beginning," I wonder if all the real villains who brought us government intervention are actually gone. After all . . . . we're still here. And I suspect we, the insurance industry and corporate consumers, are primary suspects in the growth of intervention.

As we move further into the 1980s with the prospect of deregulation, I think we should consider whether there is a possibility that over the next 10 years we may be re-regulated rather than deregulated.

Until recently, the state insurance departments were our principle regulators. Traditionally, their primary role was to ensure the solvency of the insurance industry. Additionally, they engaged in such activities as rate approval and licensing. In recent years, however, the relative importance of these activities has been diminished in view of the state and federal moves into the much broader arena of market conduct, which refers to the way underwriters behave in the marketplace. The behavior is being evaluated under an ever-changing set of rules.

Three of the rules can be defined for the present in this way:

- Insurance is a necessity in today's litigious and inflationary society.
- Insurance is a right, available to all members of society at a reasonable cost.
- Government has an obligation to mandate the delivery of insurance protection to every person, regardless of sex, age, economic status or residence.

These rules have set the stage for government intervention into our business during the past decade. But can we point an accusing finger at government as the sole guilty party in all cases? In looking back over the various insurance issues of the past decade or two, and my own involvement in them, I begin to feel as if I were participating in a John LeCarre novel, such as "Tinker, Tailor, Soldier, Spy."

The plots were so convoluted that it was difficult, until the very end, to anticipate the outcome or identify the villains.

I see two similarities between spy or mystery novels and what we have acted out in the insurance industry. First, the guilty party has usually disappeared in a fog. Second, the final chapter has been left open to a sequel.



John A. Schoneman is president and chief executive officer for Wausau Insurance Cos.

Take for example the mid-1960's riots in urban areas and on college campuses. Quickly, urban core families and businesses were faced with increased rates, difficulty in finding an agent or company who would insure them or with outright cancellation of their coverages. Insurance companies themselves found it difficult to get reinsurance.

It didn't take a Sherlock Holmes to uncover the clues. The National Advisory Panel on Insurance in Riot Affected Areas was established, and their report caused Congress to pass the Urban Property Protection and Reinsurance Act. FAIR plans were born. Furthermore, London reinsurers insisted that we purchase federal riot reinsurance in order to continue under existing contracts with them. Most of us did. However, this government intervention was predictable.

We failed to provide protection where it was needed, and the social cost of government inaction would have been too great for the public to accept.

The problem of cost and availability prompted government intervention in flood insurance, but in this case there was a new element the insurance industry's inability to establish effective rules.

Now, 15 years later, I believe these rules are having an effect on zoning ordinances in flood plain communities. But I'm left with the nagging feeling that our own ineptness in managing the early program caused it to be taken from us and, I suspect, never to be returned.

Product liability is an issue still fresh in our memories. The doctrine of strict liability and publicity given to large judgments caused near panic among insurance underwriters. Rapid increases in rates, insistence on high deductibles, cancellations and the like caused protests among policyholders and the creation of the Federal Interagency Task Force on Product Liability. The task force concluded there was no crisis except in relation to a few products such as pharmaceuticals and machine tools. In this case, we succeeded in keeping government from intervening by forming mutual assistance programs, most of which I believe disappeared as the so-called product crisis did. But let's face the fact that underwriters, myself included, underpriced this coverage prior to 1974 and overpriced it during the reactionary period of 1974 to 1978.

And here's the real legacy: one of the largest areas of private enterprise, a natural ally, represented by the National Associa-

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perspective

Inflation, rates change property plans

By Gary W. Perry

ARE RISK MANAGERS paying for more property insurance than necessary? This question is especially important to the risk manager who must protect multiple locations.

Inflation has caused property values to climb more rapidly than in the past. Thus, the risk manager is faced with continually increasing insurance premiums to cover them. Of perhaps greater concern should be the property insurance market itself.

For the past several years, it has been extremely competitive. This competition has provided incredibly low rates that have sent many agents and brokers from a competitive bid situation shaking their heads in disbelief.

Some forecasters are predicting a tightening of the market in the near future. But others say it's several years away. Regardless of when it happens, the result is going to be higher property rates.

This, coupled with the constant climb in property values, is going to result in substantial cost increases to corporations at renewal time. It's like a time bomb ready to explode, and no one really knows when it's going to happen.

The survivors will be those who are making plans now for that day when the market reverses its current trend.

Most property insurance is purchased either on a coinsurance or agreed amount basis. Although there is some difference between the two, both stipulate that the amount of insurance to be carried will represent a percentage, normally 90%, of the total insurable values. Insurers use these values when determining premium. Consider the following example

A corporation with 20 locations throughout the U.S. has insurable property value of of $350 million representing 90% of total values. This value will be used to determine the premium. Many factors go into determining a rate. Consider a rate of 0.05 (net). Dividing our values by 100 and then applying our rate, we arrive at an annual cost of $175,000.

In the case of some HPR underwriters who utilize the three-year premium deposit system, our rate of 0.05 would convert to approximately a 0.267 premium deposit rate.

This would result in a three-year premium deposit of approximately $934,500 from which about $174,471 would be absorbed annually. The remaining $400,000 would be returned to the insured at the end of the period.

The risk manager has now purchased $350 million of blanket coverage for the 20 locations. But does this corporation really have a $350 million loss exposure? With 20 locations, it would be only remotely possibile that the corporation stands to suffer a complete loss within any one policy period.

A more realistic approach in determining loss exposure might be as follows:

Using the same example, let's assume the largest single location is valued at $50 million. The second largest is $25 million, with the others below that level. The largest single property loss exposure is $50 million should an entire plant be lost. The possibility of suffering a complete loss of two plants during a policy period is very remote.

If the insured suffers any loss, it will probably be a smaller partial loss at one or more locations. In this example, the risk manager might take the largest location of $50 million plus the second largest of $25 million to arrive at a loss exposure of $75 million. Adding to this an additional factor of 25% to provide some additional protection, we arrive at a total of $93.75 million, which represents a much more realistic figure than the original $350 million.

If the risk manager of this corporation could purchase $93.75 million of blanket coverage, the two largest plants could be replaced in the event of total loss to each. In addition, there is still almost $19 million of coverage left. Consider the premium savings over the original method using the same rate. $93.75 million divided by 100 x 0.05 = $46,875 annual premium and a savings of $128,125.

This example illustrates a more realistic approach to determining actual property exposure and potential loss. Naturally, insurance carriers are going to object because it would cut their income. But why should risk managers be forced to purchase more insurance than their loss potential dictates? It should be obvious that the corporation will never experience a $350 million loss unless the entire operation is lost, yet the premium charge is based on that amount.

What can be done? As for the the majority of insurance carriers, don't expect drastic changes in the immediate future and don't expect them to welcome you with open arms regarding any of these proposals. If risk management starts re-evaluating individual property exposures, we will see some carriers respond with alternative approaches to property insurance buying.

Some carriers are already surfacing with such alternatives as layered programs, stop-loss or combinations. But they are still using the conventional method of values to determine premiums. The bottom line is that the final decision on how much insurance to buy should rest with the risk manager, not an insurance company. ■

Gary W. Perry is an insurance/risk management consultant with McNeary Insurance Consulting Services Inc. in Charlotte, N.C.

speaking out

Are second surgical opinions worth it?

By Terry Stoica

FOR THE PAST few months, the question of whether second surgical opinions reduce costs has been fought out in the pages of major newspapers and insurance trade journals. The controversy was sparked by the November release of a study by Blue Cross and Blue Shield of Greater New York.

The New York Blues raised the concern, in statements accompanying the report, that second-opinion programs may actually increase costs.

They claimed that people who receive opinions confirming the need for surgery were likely to go ahead with procedures they might otherwise have rejected, offsetting any savings resulting from reducing "unnecessary" surgery.

Those comments nearly cost the credibility of second opinions as an effective cost containment tool. Press accounts charged that Blue Cross, other carriers and insurance departments had fumbled the ball with ineffective techniques that demonstrated little definable savings. A closer look at that, and other studies, shows that the doubts raised about second opinions were unwarranted.

The New York Blue Cross study focused on the surgical experience of 1500 participants in its Program for Elective Surgical Second Opinion (PRESSO).

It showed that over one-fourth of patients received second opinions which did not confirm the need for surgery, and 73% did not have the procedures.

This data seems consistent with earlier assumptions about second opinions: they can reduce costs associated with unnecessary surgery.

But the plan centered its attention instead on the majority of its study group that obtained consultations recommending surgery. One-third of that group did

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Photo: Kaiser Permanente

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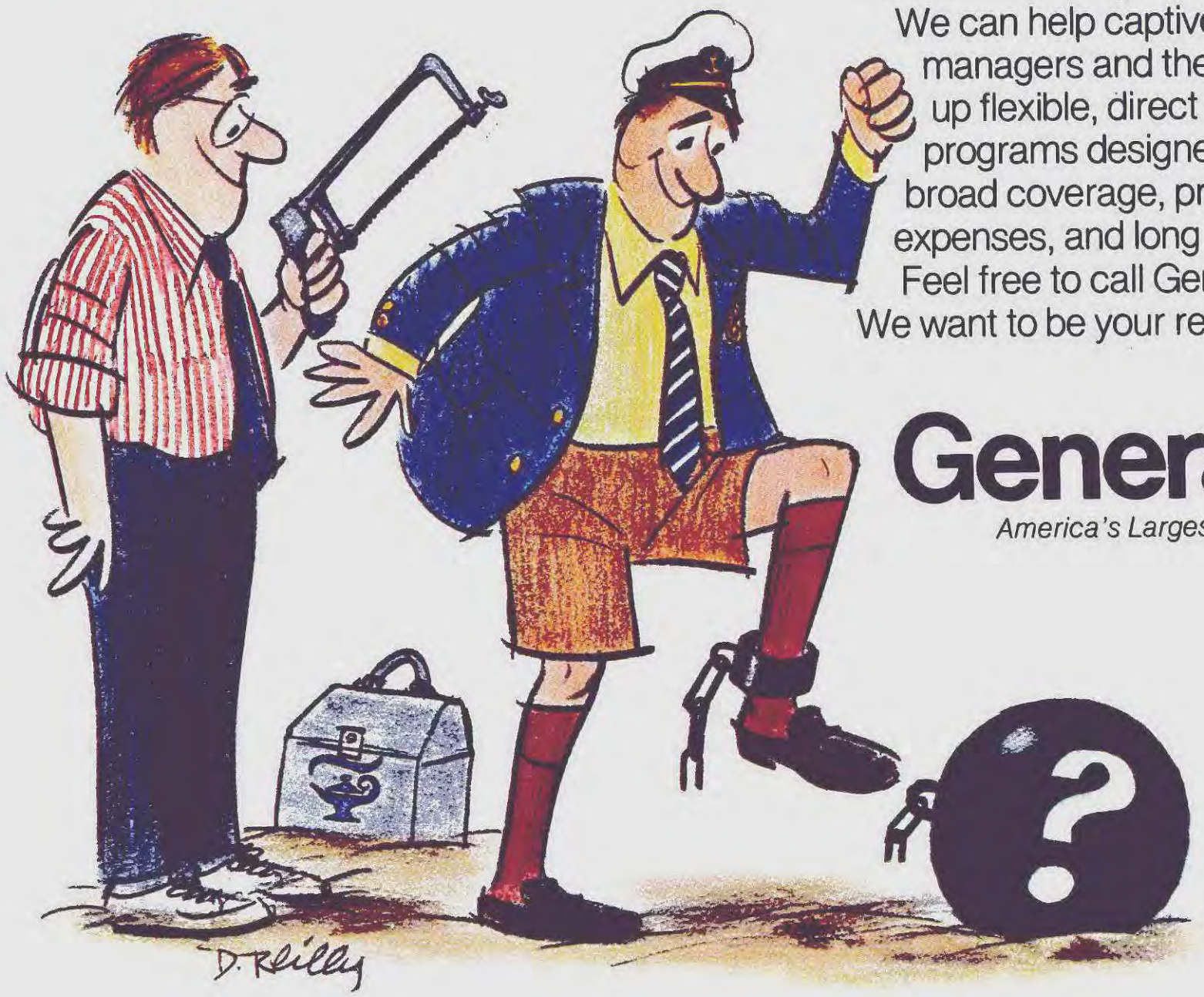
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legal briefs

Workers comp denies stress without injury

The Ohio Supreme Court held that disabilities caused solely by emotional stress without contem-poraneous physical injury or physical trauma are not compensable under workers compensation.

The employee here was a sales clerk in a department store cosmetics department. In 1976, she was showing a customer a requested item that was part of a product line assigned to a coworker. The coworker verbally attacked her, allegedly humiliating her.

The employee left work suffering a headache. She was treated by her physician for nervous tension. She returned to work but collapsed and was hospitalized with a diagnosis of a heart condition. The employee's claim for compensation benefits was disallowed and her appeal to the industrial board also failed.

The state high court upheld the denial of benefits. The majority said the term injury, as used in the compensation law, meant a physical or traumatic damage or accidental harm. Justice Sweeney dissented, maintaining the "prerequisite of 'contemporaneous physical injury of physical trauma' for compensation is an artificial distinction likely to lead to inequitable result." *Szymanski vs. Halle's Department Store*, Ohio Supreme Court, July 23, 1980 (*BI*/01/A.-$5).



Flood insurance



A federal court ruled that cancellation of a flood insurance contract was conditional only when the policyholder unequivocally made known to the insurer the conditional nature of his act.

On Feb. 11, 1977, a tire company applied for two flood insurance policies. The agency forwarded the application and a premium check to the National Flood Insurers Assn. On Feb. 17, the company's president authorized cancellation of the two policies.Two weeks later, the president completed a cancellation form.

General Accident Fire & Life Insurance Co. processed the application on March 21. The agency received the policies July 15, but returned them to NFIA because of the previous cancellation letter.

On July 20, the company suffered severe flood damage. General Life countersigned the cancellation notice Oct. 27 and the following month issued two checks to the company for the premiums previously paid. General Life denied the company's claim for damages under the policies. The company filed suit.

The court rejected the company's claim that the insurer was obliged to refund the excess of premiums paid as a condition of cancellation. Consequently, the court concluded the company was not insured at the time of the loss. *Del Boring Tire Service vs. Federal Emergency Management Agency*, U.S. District Court for the Western District of Pennsylvania, Aug. 4, 1980 (*BI*/03/M-$5).

Directors and officers



A federal court ruled that expenses incurred by a corporation in defending board members in a lawsuit arising out of them sitting on the board of a second corporation at the behest of the first were covered under a directors and officers liability insurance policy.

Continental Copper & Steel Industries Inc. was covered under a D&O insurance policy issued by several insurers. The policy covered any wrongful act in their capacities as directors or officers of Continental for charges or expenses incurred in defending any action to which they were parties.

Because of business agreements with Halliwell Mine Ltd., Continental provided five of its directors, contending they had breached their fiduciary duty to Halliwell. Continental incurred more than $300,000 in expenses in defending that suit and sought to recover those expenses.

The court concluded that the expenses fell within the policy coverage. The court said the claim against all parties was that Continental, through its directors, had dominated Halliwell's board and forced it to accept unfair contract terms. "Although the individual directors were serving as directors on Halliwell's board," the court said, "they had gained that position only because of their responsibilities as directors of Continental." *Continental Copper & Steel Industries vs. Johnson*, U.S. District Court for the Southern District of New York, May 22, 1980 (*BI*/05/D.-$5).

Health policy



A group insurance policy providing hospitalization and medical benefits, intended to indemnify the policyholder for expenses from sickness, was a "health" insurance policy, the Louisiana Supreme Court ruled. The court held the insurer was required by state law to offer coverage for mental disorders.

Sandra Rudloff was an insured dependent under Blue Cross. The policy excluded coverage for mental or nervous disorders.

Ms. Rudloff was hospitalized for a mental disorder and filed a claim under the policy for hospital and medical charges. Blue Cross refused to pay. Under Louisiana law, however, insurers authorized to issue "health and accident" policies are required to offer coverage for mental and nervous disorders. Blue Cross had not offered this option to the policyholder. Ms. Rudloff sued Blue Cross and was awarded a judgment in the trial court. Yet, an intermediate appellate court reversed the decision.

The state high court ruled in favor of Ms. Rudloff. Concluding that the group policy fell within the law requiring an offer of coverage for mental disorders, the court observed that the law provided no remedy to a policyholder who had not been offered the coverage. Thus, the court said the policy must be revised to include the coverage. *Rudloff vs. Louisiana Health Services & Indemnity*, Louisiana Supreme Court, Dec. 18, 1979, on rehearing June 23, 1980 (*BI*/03/F.-$5).

These abstracts were prepared by Cases Unlimited Inc. Copies of the entire decision may be obtained by sending a check for $5 made out to Cases Unlimited to Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. Please list the number for each opinion.

Insurance industry breeds regulations

Continued from page 31

tion of Manufacturers, has lost confidence in our ability to provide the needed products protection. This group is now trying to get Congress to adopt a risk retention bill which would result in increased self-insurance.

In another area, the press and public relations arms of our state regulators now suggest that rating bureaus are actually cartels which reduce competition and raise prices. In this case, I believe we have identified a new suspect—state insurance commissioners. I am a states' righter, but I suffer increasing impatience with the many forms of intervention which state regulators come up with. Recently I have begun to believe that many of them, rather than being a buffer between federal intervention and our industry, have become a picador or even the red flag between us. And rather than defending the flag, state regulators rush to wrap themselves in it.

When we restrict a market, cause too great a spread in rates, ask government to establish codes or rules or to act as a lender of the last resort, are we not encouraging intervention? Should we become exasperated?

As members of the insurance community, perhaps we have brought many of these problems on ourselves. We are a significant part of our own problems and force government, by our unwillingness to be forward thinking.

We have shown great imagination in creating the mechanisms for the management of risk. It is imperative that we direct this same imagination toward creating insurance answers to the pressing needs of our society. ■

Studying second opinions

Continued from page 32

not have the procedures. New York City Blue Cross conjectured, in a paper widely distributed with the findings of the study, that this amount would be higher without PRESSO.

The reasoning was that if patients were dissuaded from having surgery by negative second opinions, the opinions of consulting physicians confirming need must have similar effect in encouraging surgery. It was these comments that misled the press.

The interesting point about these conclusions is that they were not made by the study itself, and indeed were beyond its scope. The plan admitted in its paper that no data was available on how many people normally follow the surgical advice of their physicians. The study did not establish a control test group to compare with PRESSO experience, which would have allowed for broader conclusions. During the same period in Illinois, representatives of insurers and the department of insurance were exploring methods of cutting workers compensation claims costs. One method identified was requiring second opinions for elective surgery.

A few insurers bought the New York plan's conclusions without question. More alarming, though, was that some were prepared to use the supposedly adverse results of second-opinion programs to forestall adopting other cost containment measures.

The coverage of the New York study has raised an important issue regarding cost containment. Negative assumptions about the effectiveness of measures to reduce health costs are common. They are surprising, however, in the case of the New York City Blues, a plan progressive enough to undertake a systematic evaluation of its second-opinion program. But we are often faced with apprehension about programs that, like second opinions,) threaten traditional patterns of medical practice and health care economics.

The Illinois Department of Insurance has worked with the Chicago plan and other health insurers since 1976 to establish cost containment standards. Three essential prerequisites have emerged. First, a willingness to pursue programs with potential savings; second, the use of broad support involving providers, employer groups and other insurers, and third, ongoing evaluation of programs to ensure they meet goals.

Are second-opinion programs cost-effective? Supporting evidence has now been received from Cornell Univesity. The findings of an eight-year study affirmed that savings are possible by reducing unnecessary surgery.

Insurers, employers, and government agencies have a responsiblity to look at this and other promising measures of containing the increasing portion of our dollars going to health care. In the process, we must not sacrifice viable programs without a thorough examination.



Terry Hush Stoica is an assistant to Illinois Insurance Director Philip R. O'Connor on health care and cost containment matters.

School districts can cut premium with pooling plan

BY CAROL G. BLITZER

Banding together to purchase liability and property insurance and keeping up with changes in school board liability exposures can save school districts a lot of money over the next few years, school risk managers learned at the RIMS Conference.

The Alliance of Schools for Collective Insurance Purchasing, which includes large and small school districts from all over California from elementary to community college level, cut 28% off the cost of its members' insurance program, said Mike Patterson of Hacienda La Puerte School District in Southern California.

One district saved 47%, even after canceling its current insurer, he said.

The insurance package purchased from Northwestern National includes monthly computer loss runs, permanent loss information, review of student incident reports, quarterly risk management luncheons, use of a risk management consultant and a loss prevention/safety program.

Advantages to the group are that no funds are retained for a minimum of three years, no prior notice is needed to leave the group, no savings are deferred, members are not required to set up any safety group, each district is separately rated, risks are not shared and no geographical restrictions on membership exist.

Under old plans, school districts could never prove to insurers they were good risks, he added. "Now we have a claims history to prove it," he said.

Another way districts could save money is to be aware of glitches in state law.

For example, California law limits parents' liability for their children's acts of vandalism to $5,000. But if the parents have a homeowners' policy, the district can sue them for negligence and intentional damage and could receive up to $100,000.

Chances are the intentional charges won't prevail, but a district could still be awarded damages for negligence, Mr. Patterson explained.

Whole new areas of risk have been opened up lately for school board liability suits, said Jim Romano, vp of INAX Inc. in Chicago. Issues include alleged violation of a student or teacher's civil rights.

One recent court case held a school board liable for unconstitutional actions even though the board acted under policies deemed legal at the time.

"This makes a vulnerable situation for public officials," Mr. Romano asserted. Boards are being sued for violating teachers civil rights when teachers have been fired for using texts not approved by the board, for pursuing unconventional lifestyles or for expressng unpopular political views.

"For many of these suits, the board won't have to pay. But even if they lose, the legal fees are costly and a district should protect itself," Mr. Romano said.

INAX offers seminars on loss control for professionals stressing education on legal liability, he noted.

The average liability insurance policy written for a school board includes limits of $1 million to $2 million, with deductibles averaging $2,500 per claim, he said. Larger districts usually have a larger self-insured retention, for example $100,000 on a $10 million policy.

When choosing liability insurance, look for discrimination exclusions, defense provisions, what and who is covered (just the board or individual administrators, teachers, students, etc.), severability exclusion and the settlement provision, Mr. Romano advises.

"It's important to retain the right to consent to settle," he said. ■

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The Board of Directors in London announces unaudited profits for 1980 of $182.8m (1979 $202.0m) after providing for taxation.

	1980 Unaudited $m	1979 Published $m
PREMIUM INCOME	**2,799.9**	2,526.7
Investment Income	**361.8**	337.9
Loan Interest	**(20.6)**	(27.7)
	341.2	310.2
Life Profits	**36.3**	36.5
Underwriting Results	**(136.9)**	(46.9)
Associated Companies' Earnings	**6.0**	2.9
	246.6	302.7
Taxation and Minorities	**(63.8)**	(100.7)
Profit Attributable to Shareholders	**182.8**	202.0
Earnings Per Share	**44.48cents**	49.15cents
Shareholders' Funds	**$1,838m**	$1,577m

The figures shown above were announced in pounds sterling and have been converted to US dollars at the rates of exchange prevailing at the close of the years reported, which were in 1980, 2.39 and in 1979, 2.20.

World-wide premium income increased by 2%. After allowing for the effect of changes in rates of exchange, the sale of a majority of our shares in former subsidiary companies in Australia, New Zealand, South Africa and the Republic of Ireland, which have become associated companies, and other factors, the underlying growth in premium income was 17%.

In the United States, premiums increased by over 15%. This growth was considerably higher than the average growth for the industry and, although our statutory claims ratio to earned premiums increased to 70.7% (1979 69.4%), this modest increase was most satisfactory in the adverse conditions prevailing in the market. The expense ratio to written premiums was 34.0% (1979 33.1%) and the statutory operating ratio was 104.7% (1979 102.5%). The expense ratios reflect the continuing implementation costs associated with our long term strategy designed to achieve a larger share of the market as well as greater profitability. In 1980, approximately half of the costs incurred during the year in developing new computer systems were capitalized for U.S. statutory purposes, whereas profit attributable to shareholders has borne all such costs as in previous years. These costs represent one percentage point of the statutory expense ratio. Motor and liability results were worse than last year and the property account was adversely affected by increased weather losses. Workers' compensation results, however, improved significantly and produced a small profit.

Underwriting experience in the United Kingdom deteriorated with liability business being particularly poor and the motor account producing a small underwriting loss. Premium growth was over 25%.

In the Netherlands, there was a marked improvement in the underwriting result compared with 1979, mainly because motor business achieved a satisfactory profit.

Trading conditions in Canada were extremely poor throughout the year and included intense competition combined with wholly inadequate premium rates. The result was a substantial underwriting loss for 1980. However, there are now signs of a more responsible attitude amongst insurers and some premium rate increases have been implemented in 1981.

The underwriting loss for Remainder reflected poor experience in a number of territories in Western Europe although underwriting profits in the Far East increased. Marine and aviation business transacted on the London market for the 1978 underwriting year was closed at the end of 1980 with no release of profit, but the annual review of the marine fund in respect of earlier years resulted in a release of £3.2m to the profit and loss account.

As reported previously, following the integration of our business interests in Australia and New Zealand with those of the National Mutual Life Association of Australasia from 1st August 1980, income from these sources has been accounted for as associated companies' earnings.

Investment income, net of loan interest, increased marginally but after allowing for the effect of changes in rates of exchange, the sale of our shares in former subsidiary companies mentioned above and other factors, there was an underlying increase of 15%.

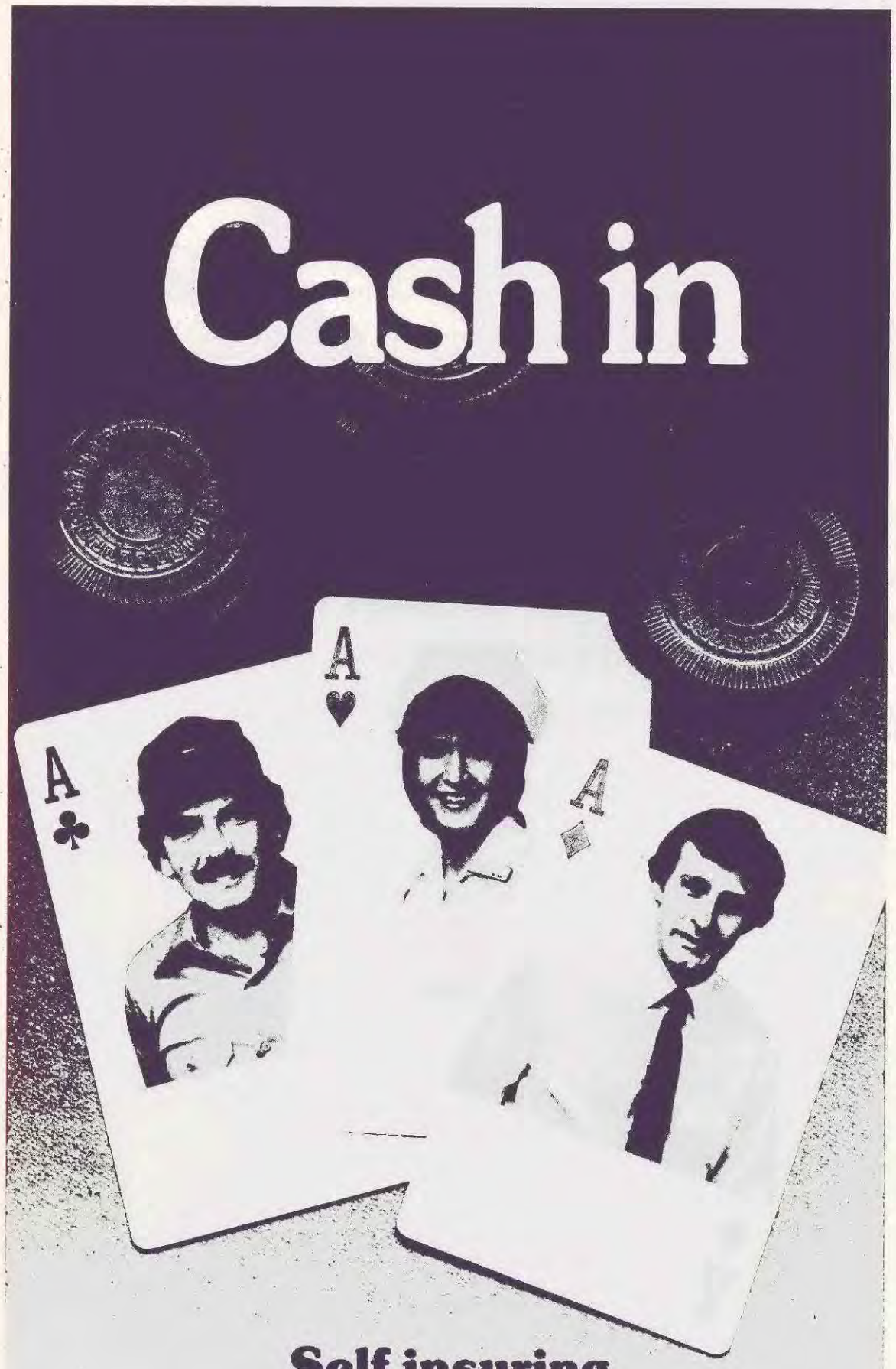
Life profits were reduced in sterling terms by the effect of changes in rates of exchange, but the underlying rate of increase in profit was 8.5% over 1979.

Dividend

The Directors recommend for payment on 15th May 1981 a final dividend on the ordinary shares of the Company of 6.400p (1979 5.800p). This, together with the interim dividend of 4.400p (1979 4.000p) per share paid in November last, gives a total dividend for the year of 10.800p (1979 9.800p) per share, which represents an increase of 10.2% on the dividend paid in respect of the year ended 31st December 1979. These dividends, including preference dividends for 1980, require £44.4m (1979 £40.3m). The balance of profit for 1980 amounting to £32.1m has been added to reserves. UK resident and certain foreign shareholders will be entitled to an imputation tax credit of 4.629p (1979 4.200p) per share at current rates of tax, making a gross dividend for the year of 15.429p (1979 14.000p) per share.

The Report and Accounts for 1980 will be posted to shareholders on 19th March 1981 and the Annual General Meeting will be held on 13th April 1981.

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John R. James will head RIMS in coming year

SAN FRANCISCO—John Robert James is the new president of the Risk & Insurance Management Society.

Elected at the annual conference here, he succeeds Paul Ozan, assistant secretary and assistant general counsel for American Greetings Corp. in Cleveland.

Mr. James is vp of Chemical Bank in New York.

Mr. James, a graduate of Cornell University and the Stonier Graduate School of Banking, was elected vp of Chemical Bank in 1972. He is responsible for the worldwide insurance and risk management functions of the bank, its holding company and subsidiaries.

Mr. James was elected to the RIMS executive committee in 1975. He has served as vp-treasurer, vp-conference, vp-communications and first vp.

He also is a past president of the RIMS New York chapter and is the author of the banking supplement to the "Fact-Finding Questionnaire for Risk Managers" published by RIMS in 1979.

Other RIMS officers elected at the conference were C. Jim Spivey, executive director of the insurance and risk management committee of Charlotte-Mecklenburg in North Carolina, first vp; William L. Mather, administrator of risk management for the Gillette Co. in Boston, vp-conference; Arthur Bostwick, risk manager for Stone Container Corp. in Chicago, vp-communications; Donald T. Browne, vp and manager of the insurace division of First Atlanta Corp., vp-government affairs; Thomas Duffield, vp-insurance and risk management of Archer Daniels Midland Co. in Decatur, Ill., vp-research.



John Robert James

Other officers elected are Richard Hackenburg, assistant treasurer at Allegheny Ludlum Industries in Pittsburgh, vp-education; William P. Stouffer, operating vp and director of corporate insurance at Federated Department Stores in Cincinnati, vp-treasurer; Ronald M. Winans, vp, risk management and insurance for J.R. Simplot Co. in Boise, Idaho, vp-member affairs; and Marc Darby, director of risk management and insurance for La Societe d'Energie de la Baie James in Montreal, vp-business and industry liaison.

The 1982 RIMS conference will be April 18-23 in Washington, D.C.■



Photo: Kathryn J. McIntyre

Walter Woodard (second from left) discusses his experiences with students at the 1978 RIMS conference in New Orleans.

Walter Woodard wins annual Goodell award

SAN FRANCISCO—Walter D. Woodard, former president of the Risk & Insurance Management Society, received one of the organization's highest honors at the RIMS Conference—the Harry and Dorothy Goodell Award.

The Goodell award, named for the first president of RIMS, honors a member who has made a significant contribution to the growth of the organization.

Mr. Woodard, assistant corporate insurance manager for Boeing Co. in Seattle and RIMS president for 1973-74, earned the honor with an educational program that brings a number of risk and insurance management students to the annual conference.

As the first chairman of the society's student involvement committee, Mr. Woodward helps coordinate the annual program in which 16 students can participate in the conference, learning from the education sessions and the experiences of risk managers.

Also spreading the national growth of the organization, Mr. Woodard helped form the Alaska chapter of RIMS and was president of the Washington state RIMS chapter.

As an industry leader, Mr. Woodard served on the insurance committee of the U.S. Chamber of Commerce and on a productivity task force aimed at improving the operations of the Washington state insurance commissioner's office. ■

Defrauders focus on easy targets

By RHONDA L. RUNDLE

SAN FRANCISCO—There is a vast informational underground among criminals who commit insurance fraud, reports James F. Ahern, director of the Insurance Crime Prevention Institute.

Criminals know which insurance companies and self-insurers are good targets for fraud. They know who will pay and who will fight. They direct their activities against companies that are less vigilant, Mr. Ahern told a group of risk managers at a session during the RIMS Conference.

"We have seen cases where claimants, or crooked lawyers, have changed their targets or refused to proceed on a case solely because they were afraid of tangling with a given company or insurer," he said.

"If an insurance defrauder targets your company, you will be the first line of defense," Mr. Ahern said. "Your employees may document the fraudulent claim or pick the first holes in it. Only if they are trained to take a detailed statement and to detect obvious indicators of fraud, can you start to defend yourselves."

Mr. Ahern encouraged risk managers to refer their suspicious claims to the Insurance Crime Prevention Institute. "I'm not promising we will investigate. We have limited resources, and members come first."

The Insurance Crime Prevention Institute is a national nonprofit investigative arm of the insurance industry supported by more than 380 companies that write more than 90% of the insurance in the United States.

"We are a private law-enforcement agency in the business of putting insurance criminals in jail," Mr. Ahern said. More than 100 agents operate out of three regional offices in New York City, Chicago and Los Angeles. The ICPI is headquartered in Westport, Conn.

The institute's investigations involve a broad spectrum of fraudulent schemes—from the individual who pads his insurance claim on a bent fender to the body shop that creates hundreds of phony claims a year. It also cracks down on doctors and attorneys with personal injury mills churning out fraudulent claims daily.

"We are forbidden by our bylaws from getting involved in the civil aspects of a case," Mr. Ahern said. "If we were to use our information to settle claims, we might be characterized as a fair-credit reporting agency and that would prohibit us from providing any criminal information," he explained.

Insurance criminals are repeat offenders, he said. They commit crimes again and again—changing only location and victims. But they create patterns of behavior that can become the basis for successful criminal prosecution, he added.

The insurance industry supports and maintains at great cost several computer indexes that track suspicious property, business interruption and automobile losses. ICPI also maintains a list of 120,000 people who have filed suspicious claims.

Self-insurers cannot belong to the ICPI but can take advantage of some of its services. Mr. Ahern encourages self-insurers to send their most suspicious claims to ICPI since they may be helpful in ongoing investigations.

"We at ICPI stand ready to assist and advise in any way we can," he said. "We have produced a series of films on insurance fraud and lend them widely to the industry and law enforcement." These services are available at minimum cost or on a loan or rental basis.

"If you develop aggressive loss-control programs—and I mean loss control to include fraud—and train your people to spot fraud and direct the attention of your carriers to it, we can all reduce the incidence of fraudulent claims."

He also asked for risk managers' cooperation if an ICPI investigator comes to one of their companies for claims informaton.

"If all of us pull together, we can make a significant dent in the fraudulent claims problem." ■

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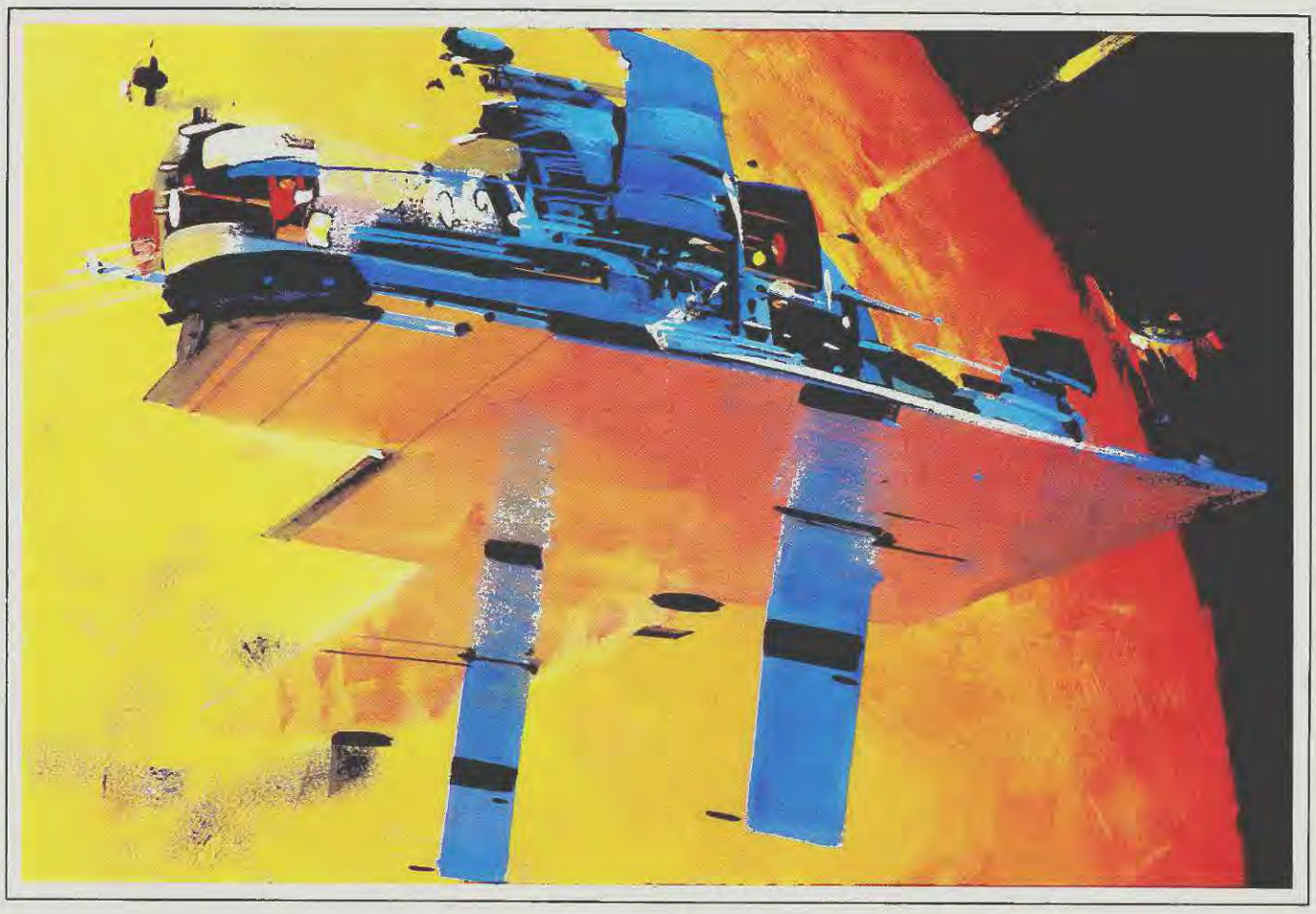
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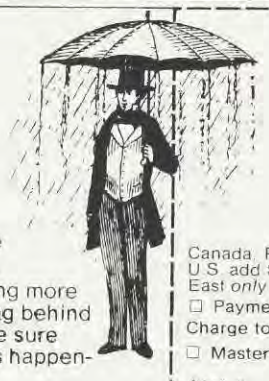
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Cumulative trauma adds new threat

By CAROL G. BLITZER

SAN FRANCISCO—Lack of proper investigation of claims, difficulty in basic definitions of occupational diseases, long latency periods and recent court cases eroding the exclusive remedy doctrine are leading to big trouble in the workers compensation field, panelists warned at the RIMS Conference.

Occupational diseases such as black lung, brown lung, silicosis, asbestosis and some forms of cancer aren't the only problems. A newer threat to a good night's sleep is cumulative trauma, such as heart disease, back strain or psychological effects of job stress.

Robert MacLean, a trial lawyer with Hanna, Brophy, MacLean, McAleer & Jensen in San Francisco, said more than half of his 15,000 court appearances each year are spent defending cumulative trauma cases.

And there are new twists added all the time. From the audience came the question, "How do you handle a double cumulative trauma claim where the boss claimed company pressure caused his heart attack, and he won the case, and the assistant claims her psychological problems were brought on by the pressure put on her boss?"

Mr. MacLean suggested removing the history from the case. Produce substantial lay evidence to offset the medical evidence. For example, did her marriage break up because of job stress or was it on the rocks before?

"The success rate in defending cumulative trauma is not good because not enough investigating is done," Mr. MacLean said. He suggested controlling all occupational disease claims and not settling without approval of the risk management department with input fr medical and legal departments.

Philip A. Sorenson, assistant vp at Johnson & Higgins in San Francisco, questioned the extent workers compensation should be responsible for the wear and tear of daily life and the aging process. "We need a more equitable way to assign cumulative trauma cases to the work day," he said.



MacLean

Dan R. Anderson, professor of risk management and insurance at the University of Wisconsin, noted occupational diseases are difficult to define and in many cases the illnesses can't be differentiated from naturally occurring disease. Two or three things may contribute to the cause of the disease, such as exposure to asbestos plus smoking, causing asbestosis.

Risk managers can help prevent disease by removing workers from contact with the harmful substance or the dangerous work situation, he said.

Risk managers also should improve their data about occupational disease claims. National data, broken down by industry, can help, but data must be kept for 20 to 30 years to draw proper cause-and-effect analyses and be helpful in problem-solving.

So far hard data on occupational diseases is difficult to find, Mr. Anderson said.

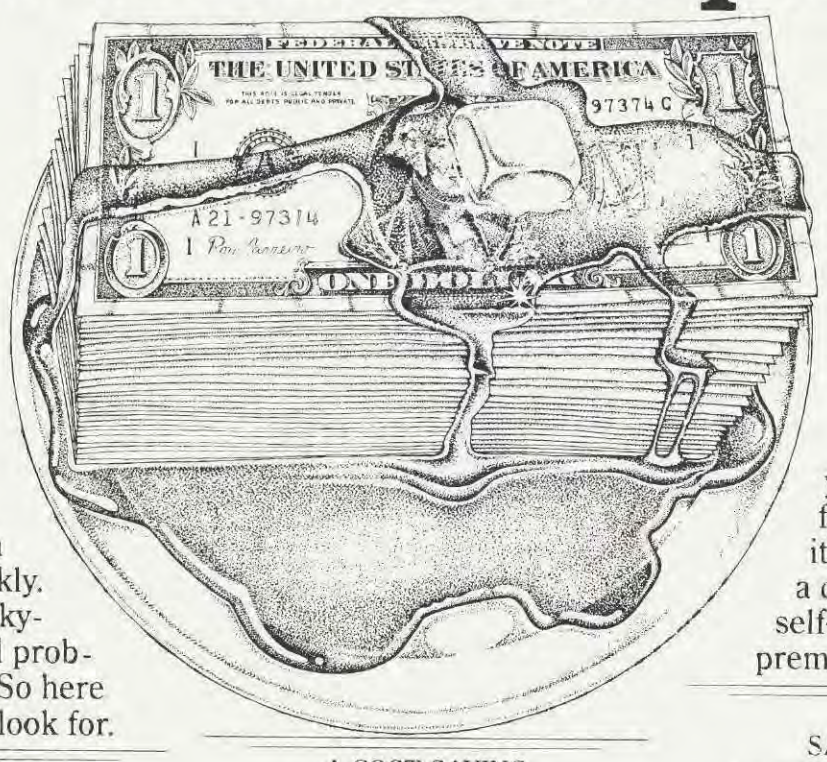
One federal report says 390,000 cases of new occupational diseases are occurring each year with as many as 100,000 deaths.

A 1977 Occupational Safety and Health Administration report says 162,000 occupational diseases are identified each year, with 116,000 cases resulting in lost manhours and 2,000 in death.

Between 1% and 4% of workers compensation claims involve occupational diseases, but workers are not collecting often, Mr. Anderson explained. However, restrictive workers compensation laws are changing.

New cases are being filed because of heightened public awareness and greater involvement by lawyers, he added. ■

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Scientific approach urged to curb losses

By KATHRYN J. McINTYRE

SAN FRANCISCO—Scientific risk management can be as simple as figuring expected losses against premium quotations with a pad and pencil or as elaborate as computer loss runs comparing the after-tax net cash flow of a paid-loss retro with an incurred-loss retro.

In between is inhouse computer access to loss reports to track corporate losses.

Panelists at a RIMS Conference session stressed that the effective risk manager will take advantage of all aspects of scientific risk management to better control the corporate cost of loss.

Howard Weber, director of insurance at 3M Co. in St. Paul, advocates the broad view of scientific risk management, suggesting that it entails applying all accumulated knowledge to solve a problem. "Scientific risk management means an integrated management system to arrive at proper solutions."

At 3M, scientific risk management includes tapping the research teams to develop a new manufacturing environment for producing products using solvents to avoid polluting the air and to reduce explosion risks.

"Loss-prevention techniques follow far behind modern manufacturing processes," Mr. Weber observed. "The leading edge comes from manufacturers. They are our problems; we should solve them."

Mr. Weber also knows how to integrate management concerns to solve problems. When his recommendation that the 45 divisions of 3M implement product reliability programs under a product liability coordinator fell on deaf ears, he tried again, appealing to broader management concerns. He pointed out that the cost of product credits and return products was 10 times the cost of product liability insurance and that more product liability claims were being filed based on the inability of the customer to use a 3M product for the intended function.

"Now we have a complete product reliability program," Mr. Weber explained. The possible consequences of every product are analyzed during development. If it is probable that the product won't pass safety tests, the product development is scrapped early.

Once a product is developed, the vp of marketing must check that all tests have been performed before that particular product is released.

3M also computerizes claims information. But even the large company is an example of how one doesn't need the largest computer system to do the job. The company's product liability claims, which are few in number, are recorded on a word processor.

"It allows us to keep more information on every claim—the date of every transaction, every change in claim status."

Guyon Saunders, president of the computerized claims service Corporate Systems Inc. in Amarillo, Texas, explained that scientific risk management requires taking control of claims information inhouse.

Risk management must include not only insurance and safety management but also claims management, he said. A risk management cost accounting system coordinates the three functions, he maintains, amd provides the foundaton of risk management control.

An independent claims information system transmits claims information to the insurer and the policyholder, getting the loss information to the policyholder more quickly, he said. Giving the policyholder access to the same common data base moves accounting control to policyholders.

The claims information also can be tapped to determine new safety measures. A fast-food chain, for example, wanted to reduce the number of slip-and-fall accidents among employees. A certain type of shoe sole could reduce the falls, and the claims information on how and where the falls occurred determined what kind of the shoe sole to require.

Spencer Traver, assistant treasurer of B.F. Goodrich Co. in Akron, Ohio, who moderated the session, advised risk managers that a risk management accounting system is needed not only for risk management control but also to provide the audit trail needed to comply with the provisions of the Foreign Corrupt Practices Act that addresses internal accounting procedures.

But scientific risk management isn't only for large corporations keeping track of hordes of claims. It's simple arithmetic, too, says Eldrich A. Carr, assistant manager of insurance at Davy Inc. in Cleveland.

When the company office windows were being tinted, the contractor offered the company an insurance policy costing $1,200 to cover the cost of any windows that might crack because of the tinting.

The coating process cracks 2% of the windows coated in the first year. The offices' 100 windows were being coated. The average cost of a pane of glass was $525. Simple arithmetic revealed the average expected loss (two panes at $525) was $1,050, less than the cost of the insurance policy.

Davy Inc. retained the risk—and so far not a window has cracked. ■

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Tell excess insurer about claims

SAN FRANCISCO—Companies that self-insure their product liability exposures should notify their excess insurers as soon as they are hit with a product liability claim.

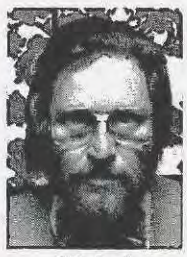
"We notify our (excess) carrier regardless of the amount," Jerry Michel, risk manager for Kawasaki Motors Corp. in Santa Ana, Calif., said at the RIMS Conference.

"We don't want the carrier to complain that a $1,000 claim became a $100,000 lawsuit and that we never told them."

Speaking before a session on how companies with high self-insured retentions can win product liability suits, Mr. Michel said that Kawasaki always invites its excess carrier, C.V. Staff, when it is mapping strategy to defend a product liability claim.

"We want to show them how we handle claims," Mr. Michel explaied. "You build confidence if you tell your excess carrier what you are doing."

Kawasaki, a leading manufacturer of motorcycles, has been self-insuring its primary layer of product liability coverage since the mid-1970s. It is hit with about 75 liability claims a year.


Michel

Kawasaki's philosophy is to fight product liability claims it believes are unjustified even if the amount of damages is small.

"We don't want to develop a reputation as an easy target," Mr. Michel said. "We feel that the plaintiff has to prove his case."

On the other hand, if the company knows that there was a defect in the product that caused an injury it will try to settle to stop a claim from mushrooming into a huge award, he said.

The key to winning product liability suits is maintaining a superb defense counsel, Mr. Michel said. When interviewing prospective defense attorneys, Kawasaki is interested in the clients the attorneys have worked for and the products the clients manufactured.

"It is very expensive to educate defense counsel so we try to keep the same attorneys if they are good," Mr. Michel said.

But even the best defense team occasionally will lose a product liability case. When that happens, Kawasaki brings in a second law firm for the appeal.

"Maybe the second firm will have a fresh idea and will catch something the first firm missed," Mr. Michel said.

Before a product liability case comes to trial, Kawasaki sets up a pretrial conference including the defense counsel corporate counsel, technical experts, the risk management department and excess liability insurers.

The conference is important because a bystander, such as the corporate counsel, can sometimes spot a loophole in the defense that the defense attorneys may overlook, Mr. Michel said. ■

Put money into buildings: Engineer

By CAROL G. BLITZER

SAN FRANCISCO—Thrifty risk managers will spend money to protect buildings against earthquake damage instead of on insurance premiums, panelists at a RIMS seminar on natural disasters suggested.

For every dollar spent on upgrading the construction of a building, $5 to $10 in losses can be saved, said James Lord, president of Seismic Engineering Associates Ltd. in Santa Monica, Calif. In one case, he said, the savings was $250 in reduced losses for every dollar spent on improved construction.

The risk is real, Mr. Lord said. There is a 25% chance a major earthquake will occur in California in the next 10 years.

Mr. Lord cited the diminishing underwriting market, higher premiums for less coverage, and inadequacies in seismic building codes as reasons not to depend on insurance to reduce the risk of earthquake damage.

Technology allows buildings to be designed that exceed building code requirements for seismic safety or to be retrofitted. "If you're relying on code compliance, you're on shaky ground," quipped Mr. Lord. "There's no such thing as an earthquake-proof building, but they can be made earthquake-resistant," he said.

Using earthquake risk analysis, one can identify the source of the risk, monitor it and evaluate it. One can simulate earthquake activity and estimate property damage.

John Wiggins, president of J.H. Wiggins Co. in Redondo Beach, has been asked by the Federal Insurance Administration to address the federal government's role—if any—in earthquake insurance. However, he could not report on his study at the seminar, he said, because it will not be finalized until August.

Mr. Wiggins noted that 72% of all buildings in the United States are at risk from earthquakes, and not all of them are in California. He pointed out that a large quake in Missouri in the 1800s rang bells in Boston and caused damage in New Orleans. "All of the U.S. is susceptible. California is a prime risk," he said.

States most susceptible to earthquake damage, in order, are California, Washington, Colorado, New York, Missouri, Tennessee and Utah, Mr. Wiggins said.

Besides property damage, losses can be expected through death and injury, business interruption, lost opportunities, eroded tax base and interrupted services, he added.

Insurance premiums collected for earthquake insurance amount to $100 million to $150 million annually, he said. But losses represent a loss ratio of about 3% for the years 1919-1973.

He pointed out that in terms of annual national loss on a per capita basis, earthquakes are ranked fifth, after river flooding, tornadoes, expansive soil and hurricanes. Earthquake loss is rated at $3.83 per capita compared with river flooding at $13.57 per capita.

Colin K. Murray of R. J. Kiln & Co. Ltd. of Lloyd's of London, said the insurance market is not falling over itself to write California earthquake insurance. "The problem is price, not availability of coverage," he said. He does not favor involvement by the federal government in a quake program. ■

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Insurers offer global approach to risk problems

By CAROL G. BLITZER

SAN FRANCISCO—Insurers are touting a new solution to the international risk management problems of dealing with language barriers, cultural differences, local insurance regulations, money fluctuations and the need to maintain harmony among offices: global account underwriting.

The global approach is integrating domestic and international risks into a comprehensive insurance package including local underlying policies, explained Richard J. Holt, manager of multinational insurance services for Marsh & McLennan Inc. in New York.

"The concept is not new when you consider Lloyd's has been writing global blocks for years," he said, referring to policies that combine international risks.

In the 1980s, integrated global insurance plans will balance local admitted contract requirements with a master corporate difference in conditions or wraparound contract, he noted.

With integrated global underwriting still in an embryonic stage, some market strategies have merged.

American International Group recently created a global accounts department, which will underwrite on an overall account basis either one or a combination of product lines. Insurance Co. of North America recently formed the international and special risk division. Kemper has a global resource in its national/international department as do the Factory Mutuals and Industrial Risk Insurers, he said.

Continental and Chubb offer global treatment on a less structured basis.

AFIA intensified underwriting relationships with member companies such as Fireman's Fund, Hartford Insurance Co. and Home Insurance Co., Mr. Holt said.

Early insurance negotiations would include headquarters or regional underwriters, Mr. Holt said, as well as coordination through a central point. Once on stream, a formalized global service plan would be necessary.

Douglas N. Smith, vp of Johnson & Higgins in Los Angeles, outlined six problem areas in implementation and administration of international risk management: decision method, control, implementation and administration, interfacing of risk financing with master program, coverage availability and communications.

"Communications will be the biggest area of concern. Nine-tenths of all problems relate to this," Mr. Smith said. Mr. Smith said he favors a controlled master approach to insurance, with the balance on the side of local coverage. "I believe there'll be more use of admitted programs," he said, citing some advantages of using a megabroker, local servicing and the fact that they speak the same language and can better ensure cooperation.

Sophisticated techniques can be hard to implement abroad. For example, key countries may have to be eliminated from retrospective rating plans because money cannot be sent out of the country (or brought in), he explained.

Cash-flow programs are illegal in some countries, and self-insurance is uncommon overseas. The concept must be fully understood before implementation, he warned.

According to Eliot Pardee, president of American International Underwriters Inc. in San Francisco, when considering proposals from brokers for international risk problems, one should ask:

- How and why is the producer organized, both domestically and internationally?
- What are the exceptions?
- What is the extent of services available in various geographical areas?
- Are there plans for expansion?
- What is the philosophy?
- Can you get good advice on tax deductibility, local insurance markets overseas, handling new acquisitions and captive capabilities?

"**No two** multinational companies have the same insurance needs," Mr. Pardee said, noting that a variety of approaches are needed to satisfy these needs, including master programs, locally admitted policies, non-admitted policies, a combination of admitted and non-admitted programs, difference in conditions, difference in limit coverages, dollar or foreign currency premium and loss-payment options.

Looking to the future, Mr. Pardee suggested the need for innovative flexibility, including new cash-flow enchancement concepts (paid-loss retros, property/casualty captives and self-insured retention plans).

"As we enter the '80s, we are sure to see a number of global profit centers develop that will embody their own capacity and authority over major lines as well as an effective risk management capability," he said.

August R. Ralston, associate professor in finance and business economics at the University of Southern California, noted some political risk considerations. He explained that the risk falls into three categories:

- Assets could be seized—through expropriation, confiscation or kidnap/ransom.
- Currency inconvertibility.
- Interference with contractual performance.

"We should not limit ourselves to countries where the risk is obvious, such as Iran or China," he explained. A recent episode involving a North Sea oil-drilling project was affected by changes in British law—enactment of the Pipeline and Submarine Act and the Excess Profits Tax. "There's a tendency to concentrate on revolution and revolt. We need to think in terms of well-developed countries as well as those that are politically adverse to what we want to do," he added.

In analyzing political risk, most use a "country" risk technique, but it's better to determine what impact the environment in that country will have on a business venture in that country, Mr. Ralston said. "The challenge is to use all available information—from employees, banks, the federal government and insurance companies."

"I don't believe political risk insurance is a good device for managing poor management. It won't bail a company out. I see it as a kind of bonding arrangement rather than an insurance," he said.

Firms heavily involved in foreign investments can use their influence better than an insurance policy, but political insurance may be appropriate for smaller firms, he added. ■

AIG global unit underwrites first account

American International Group's new global department is underwriting its first account since it was formed Jan. 1.

A multimillion premium covers a Canadian-based energy company's workers compensation, comprehensive general liability and oil rig risks in three countries.

AIG has underwritten multinational risks on a global basis before, but previously the account was merely coordinated by one person pulling together AIG's multinational capabilities.

Now the global department at AIG has authority to underwrite on all AIG company paper to treat a worldwide risk with a worldwide insurance product, says AIG vp Arthur Phillips, who is in charge of the department.

"This breaks down the dichotomy between domestic versus foreign insurance," he said.

American Home is the flag company for the department, which includes eight persons representing all underwriting disciplines.

"This is account underwriting, including employee benefits," said Mr. Phillips.

The average multinational account, which must generate at least $1 million in premiums to earn this special handling, can look forward to a minimum average savings on insurance of 15%, Mr. Phillips said.

The reduced acquisition costs to AIG and the efficiency of account underwriting creates the premium savings.

The insurer expects long-term relationships under a global account treatment and will stress service in all countries to hold the business he has secured.

AIG's worldwide representation includes that of American International Underwriters, which operates in 140 countries.

The global department will work with captives, provide cash-flow insurance contracts and will consider writing a worldwide risk with a single deductible.

Mr. Phillips expects to underwrite global accounts for 15 of the Fortune 1,000 in 1981.

Escape Breathing Mask will save lives in hotel fires.



PITTSBURGH, PA — National Draeger, Inc. has introduced to the United States a new type of escape breathing mask which could save lives in the event of hotel or motel fires.

The PARAT mask was developed because statistics reveal that the majority of deaths in hotel fires result from breathing carbon monoxide and other noxious fumes, rather than from direct burns. The unit is used in Europe, particularly so where zoning laws require such a device be available in hotels.

The PARAT mask allows individuals to avoid panic, to stay conscious and to follow instructions of the firemen.

When the PARAT system is used, a mask is held in a wall-mounted container. If a fire is suspected, the room occupant opens the container, dons the mask and begins breathing normally. The mask covers the entire head, protecting long hair, beard and spectacles.

PARAT provides a minimum of 15 minutes of safe breathing in the presence of carbon monoxide and noxious fumes, such as hydrogen cyanide and hydrochloric acid — as long as sufficient oxygen is present. The unit includes a filter for smoke and combustion gases which contains a special chemical which protects against the gases and fumes.

NATIONAL DRAEGER INC., 101 Technology Drive, Pittsburgh, PA 15235 ● 412/787-8383.

Industry exec warns against price-cutting

By JERRY GEISEL

SAN FRANCISCO—The current round of price-cutting in the property/casualty insurance market has been more excessive and damaging than any other in the last 35 years, an industry expert says.

"We think that public suicide is unbecoming to a supposedly mature industry," said Charles Ruoff, senior vp at the Continental Corp.

Speaking before a RIMS session on the status of markets, Mr. Ruoff sharply criticized underwriters who set prices on anticipated gain from investment income—cash-flow underwriting—instead of on risk.

Cash-flow underwriters are trying "to burn their way into the market. Some are likely to burn their way out of the market in the not too distant future," Mr. Ruoff said.

Cash flow underwriters could get clobbered because they have failed to consider several developing clouds on the horizon, Mr. Ruoff said. These include:

- The increasing frequency of malpractice awards.
- The sharp rise in personal injury awards of more than a million dollars—85 in 1980 compared to 22 in 1972.
- The soaring increase in asbestosis claims.

Mr. Ruoff said too many insurers jump at the chance for a short-term gain.

"We need to realize that the catastrophes that are now dawning upon the industry are more significant than any single event we could imagine."

Mr. Ruoff saluted competitor Aetna Life and Casualty Co.'s efforts to increase some property/casualty insurance rates (*BI*, April 6).

But he said Aetna's new policy does not mean that the rate-cutting war is over. It might mean "that a truce is in the offing," in which insurers will rethink their pricing and marketing strategies.

Mr. Ruoff conceded that his criticisms of insurers' pricing practices have been made before. "But it needs to be resaid periodically just to remind us ... what we do must make some common sense, otherwise we will go to hell in a hand basket and some of us won't return." ■

No change seen in market

SAN FRANCISCO—The competitive fever that has swept the insurance industry and led to rock-bottom prices in the property/casualty insurance market will continue for at least two years.

A panel of industry experts speaking before a RIMS session on market trends agreed that prices will stay competitive through 1983. None was ready to go on the record predicting an earlier change in the market leading to higher prices or more selective writing of policies.

"I can't see in 1981 or 1982 any real change in the market," said R.J. Kiln, director of R.J. Kiln & Co. Ltd. in London. "There is increasing competition in the market and it will not cease until interest rates come down."

"I see continued fierce competition" in the insurance industry, added Peter Nance, vp with General Reinsurance Corp. in Greenwich, Conn.

Accounting skills needed

By STEVE SHERWOOD

SAN FRANCISCO—The risk manager who does not understand accounting practices is headed for trouble, according to RIMS Conference speakers here.

"You may be an expert in workers compensation, medical benefits, insurance and claims, but something may happen down the line and the accounting office may make an entry you have to explain," said Ralph Gentry, insurance manager for the Times-Mirror Co. in Los Angeles.

"It will not be good enough to say 'I'm not an accountant.' You should know what accounting is doing with your costs. You are responsible for them."

Seeking information through his company's accounting system, a risk manager can either go directly through the accounting department, through the company's internal auditors or through an outside auditor, Mr. Gentry said. Insiders, however, are usually more useful in ferreting out the risks.

The company's controller is of particular use, said Pat Gleeson, assistant treasurer of PPG Industries.

"To develop the information they need, risk managers had better be on good working terms with the controllers," he said.

If the controller is the most useful person, the general ledger is the most important document to a risk manager trying to wade through the company's books, says professor Bruce Evans, executive director of the Risk Management Institute at the University of Dallas in Irving, Texas.

"The inventory sheet lets you know what the company has that could be a potential loss."

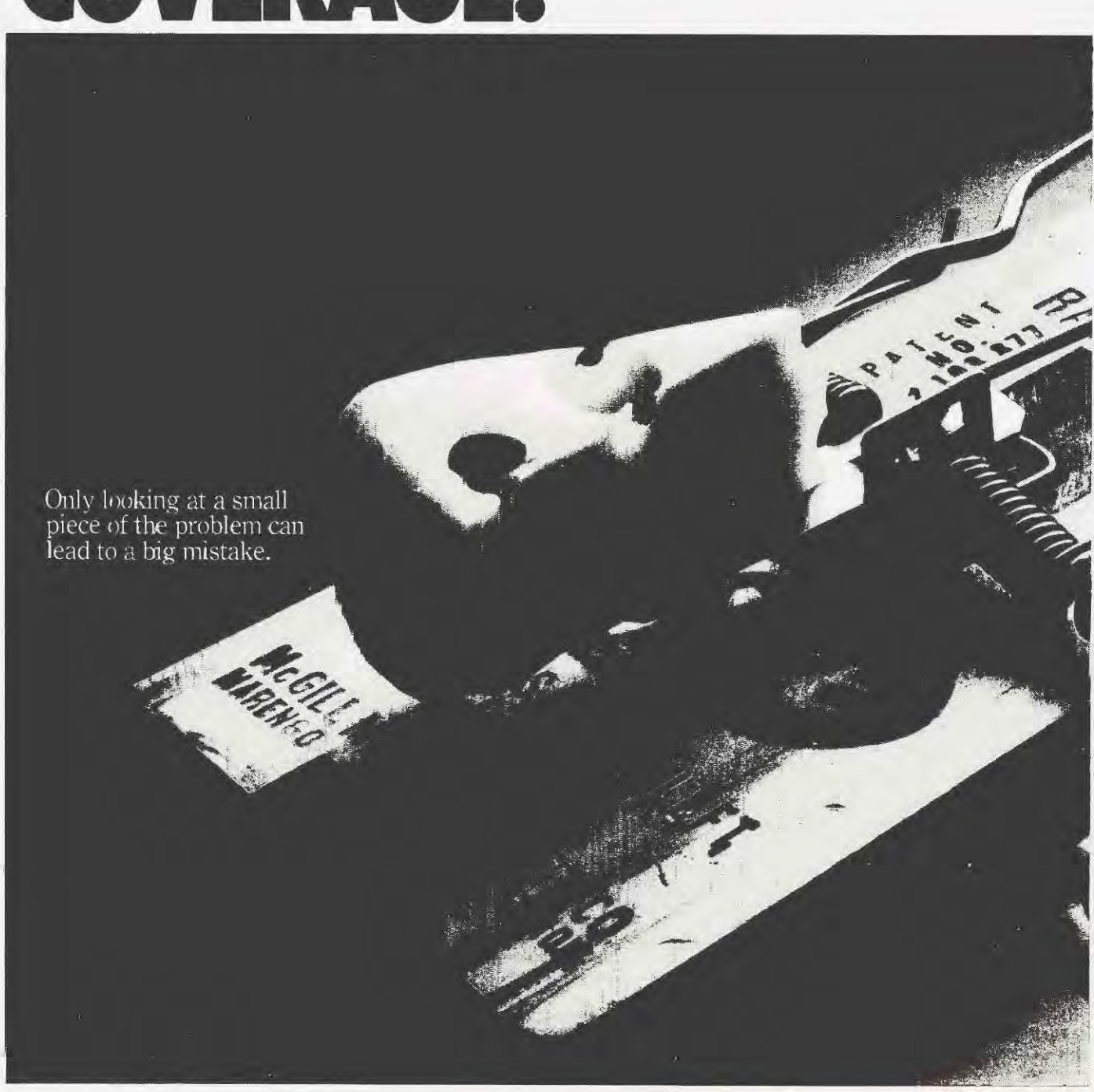
The ledger will also tell the risk manager where each item of the inventory is so he knows where to record it for insurance purposes.

"The general ledger will tell what year an asset was purchased and allows you to identify fixed assets. If it is not available, you have to rely on reports and these might not be in the detail you need."

"You don't have to explain to the general manager how you negotiated an insurance policy," Mr. Gleeson said. "But you do have to explain where he has a controllable problem and why the insurance loss-premium ratio is at its present level."

The risk manager must decide what he wants to communicate to management and make sure he has the tools to make himself understood, Mr. Gleeson said. ■

THE COST TRAP IN HEALTH CARE COVERAGE.





A Kaiser reunion of sorts

Woody Anderson (standing), director of risk management at the University of California at Berkeley, was master of an exclusive ceremonial luncheon held during the RIMS Conference for 38 alumni. The alumni were not of a school, but a company department: risk management for Kaiser Industries and its subsidiaries. Mr. Anderson and Herb Cunningham, vp of administration at Transamerica Corp., both alumni, found lots of enthusiasm among fellow alumni for a luncheon for all insurance buyers and risk managers who ever worked at Kaiser or its subsidiaries. The first such veteran was on hand: Fred Greenlaw, who joined Kaiser in 1943, started the local insurance buyers association in 1952 that is now the RIMS chapter in San Francisco and capped his career at Kaiser as president of Kaiser-Aetna, a real estate subsidiary. The 38 gathered to toast each other, old times and the "great training ground." The one company quirk that sent more than one risk manager on his way from Kaiser is gone: Underwriters Services, the wholly owned brokerage subsidiary, was sold to Reed Stenhouse. "It was too much of an insurance buyers' game with the brokerage house," said one alum, adding "all have gone on and found decent jobs."

Policy caps retained loss

SAN FRANCISCO—Is your corporate self-assumed risk in line with corporate financial strategy?

Too few risk managers can answer the question, contends Jim Davis, vice chairman and chief executive officer of the research and development division of Corroon & Black Corp.

Even the most sophisticated risk managers are assuming more risk for their corporations than internal financial strategy allows, he says.

An all-lines annual aggregate stop-loss insurance policy offered in the London market and at least one U.S. market can solve the problem.

Corporations beginning to realize they might have a problem of assuming too much risk are requesting retention studies.

Expected losses under all deductibles, self-insured retentions and captive programs and worst-case scenerios are compared with the company's financial objectives and ability to retain losses.

A company growing rapidly with borrowing needs does not want to show any drops in earnings per share that could jeopardize its borrowing power.

An all-lines aggregate stop-loss insurance policy can cap self-assumed losses under all programs at the level the corporation is able to assume. London is the largest market for this coverage.

Donald F. Muldoon & Co. Inc. in New York, however, is also marketing an all-lines annual aggregate stop-loss underwritten by Transit Casualty Insurance Co.

The Muldoon program will even cover unrelated risks underwritten by a captive insurance company if the unrelated business is an "incidental amount." Ten percent of premium volume is incidental, Mr. Muldoon said.

"It's a great opportunity for American carriers," Mr. Davis observed, "but you are asking a person to expand his expertise across all lines of insurance."

Companies are finding themselves with too large a loss retention because too often the financial department and the risk management department aren't talking to each other, Mr. Davis says.

Corroon & Black has developed a computer model to help the two department integrate their goals. Varied loss assumptions, retention levels and premiums are pitted against financial restraints established by the corporation. ■

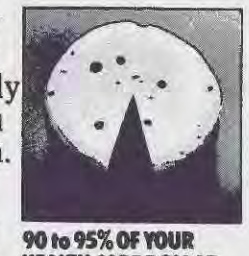
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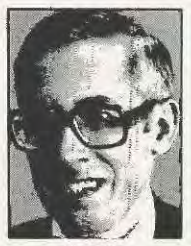
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IRS continues challenge of retro plans and captives

By KATHRYN J. McINTYRE

SAN FRANCISCO—Retrospectively rated insurance programs designed to free the insurer from risk and allow the policyholder to pay its own way are under attack by the Internal Revenue Service, a risk-funding expert warns.

Corporations using captive insurance companies also can expect the IRS to challenge that, said Jim Davis, vice chairman and chief executive officer of the research and development division of Corroon & Black Corp.



Davis

Reviewing cases involving retro plans he knows of confidentially, Mr. Davis said:

• An incurred-loss retro written with a 200% maximum was declared self-insurance by a field auditor and the policyholder was denied a tax deduction for the premium paid. Instead the auditor only allowed deductions for paid losses. The policyholder did not fight the determination.

• A paid-loss retro with an eight-figure premium was deemed self-insurance by the IRS. Tax deductions for the premiums paid for the policy for two years have been disallowed.

"The IRS has accelerated captives' audits," Mr. Davis contended during a presentation at a mini seminar at the RIMS Conference:

• A Seattle-based company is being challenged on the tax deduction for a premium paid to a captive insurer for six months of coverage in 1977.

• An Oregon-based firm passed a field auditor's review of its captive with the company considered an insuance company, but supervisors in the IRS said it was not an insurance company for tax purposes.

"I would rather defend a well-designed captive than a retro plan because I've yet to see a well-designed retro," Mr. Davis said.

Another panel member, Ralph Gentry, insurance manager for Times Mirror Co. in Los Angeles, commented, "I'm struck by the unfairness to major corporations to disallow deductions for reserves allowed small insurance companies we could buy and sell with petty cash." ■

Risk-funding study tips

SAN FRANCISCO—When you contract for a risk-funding study, you'll get your money's worth if you follow these tips from self-funding experts:

• Have on hand loss runs from the past three years to provide the hard data necessary. If you want a self-funding study done next year, you should have started saving loss runs two years ago.

• Don't give the broker or consultant control of the assumptions used on your company's study.

• Beware of the "black-box syndrome." A computer should be used only to perform functions that can be done by hand except that they are too tedious.

• Become more computer-oriented, using computers in-house to organize loss reports and forecast next year's premium and losses.

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Political loss prevention plans to be stressed

By RHONDA L. RUNDLE

SAN FRANCISCO—"It is highly unlikely a natural disaster will put you out of business in a foreign country, whereas a political loss might do so," warns a political risks consultant.

In the next 10 years, every major multinational corporation will have political loss prevention programs as sophisticated as their present fire and liability programs, predicts Julian Radcliffe of Control Risks Ltd. in London.

Lloyd's of London data shows that corporate costs in a kidnap negotiation average more than the ransom amount, Mr. Radcliffe pointed out.

"I do not want to overemphasize the threat of a terrorist attack on your companies, but there are a number of phenomena that are making business more vulnerable to such activity," Mr. Radcliffe told an audience of U.S. risk managers at the RIMS Conference.

The world is becoming a more politically difficult place to conduct business as the number of independent countries multiplies. The political practice of "linkage"—responding to aggression by applying pressure on an adversary's flank—can disrupt modern trading relationships.

"An incident in El Salvador affects the whole of the rest of Central America," said Mr. Radcliffe.

To achieve significant economies of scale in industry, investors in overseas operations are dealing in ever larger sums of money, creating correspondingly bigger exposures.

The most effective approach to managing political risks is to meet together with department heads in personnel, finance, legal services, overseas operations and other appropriate divisions to discuss the corporation's response to a terrorist threat, said Mr. Radcliffe.

"One hour in a meeting like this can probably achieve more than the slow, tedious process of gaining top management approval for a broad corporate policy," he pointed out.

A first step in managing political risks is obtaining reliable information about what is happening in parts of the world where the corporation maintains operations, said Mr. Radcliffe. Treat all information with skepticism, he advised.

"Pay attention to the bias of the source," he said. The state department, for example, does not want to rock the boat with inflammatory reports on local conditions. Corporation personnel on the scene tend to give an overly optimistic view of potentially dangerous events, he said.

"Even given all the resources of state, they cannot predict even in general what will happen," cautioned Mr. Radcliffe. He advises multinational corporations to consider four or five different scenarios in political risk control planning.

The key problem is the timing of the decision to evacuate, noted Mr. Radcliffe. Evacuation cannot be done without endangering the future success of the local operation, he said. Typically, corporate headquarters wants to withdraw personnel too soon, locals make the decision too late.

A delay may imperil the lives of local personnel or lead to a hostage situation. Mr. Radcliffe said his company has been consulting on six kidnap cases this year, three of which are ongoing. They average about six months in duration, he said.

Very few kidnap victims are unable to return to a normal life after the ordeal, added Mr. Radcliffe. ■

Time running out for pollution coverage

Continued from page 11

in New York and panel moderator. He advised his fellow risk managers to act now and said after the session that some trade groups are planning to lobby in Congress for an extension on the January 1982 deadline.

The EPA regulations require all TSDFs to have sudden and accidental pollution insurance with limits of $1 million per occurrence and $2 million annual aggregate by July. For most firms, this already is covered under existing comprehensive general liability policies.

For the nonsudden and accidental coverage, deadlines were assigned according to company size. After the January 1982 deadline for firms with more than $10 million in annual sales, a January 1983 deadline for buying the coverage is imposed on firms with less than $10 million but more than $5 million in annual sales. Smaller firms have until 1984 to comply.

The 100 risk managers at the session also were cautioned not to think they can ignore the regulations because they don't apply to them or because the EPA won't enforce them.

Although the regulations do not apply to generators of hazardous wastes now, it does not take much to cross the line separating the generators from the TSDFs, said panelist Robert S. Faron, an attorney with Le Boeuf, Lamb, Lieby & MacRae in Washington.

If a firm has as little as 1,100 kilograms (about two 50-gallon barrels) of hazardous waste on its premises for 90 days, it is considered a treatment/storage/disposal facility and must purchase nonsudden pollution insurance, he said.

Recent cuts in the EPA budget for staff to enforce compliance with the new rules won't let anyone off the hook either, said Mr. Mahoney.

"There is no way that hazardous waste is going to be handled or mishandled as it was in the past," he said. "If it is, we are all in big trouble. Don't think the cut in the EPA budget will save you."

The budget cuts actually will hurt corporations, said panelist Stephen E. Nash, regional manager for health and safety for Alexis Group of Alexander and Alexander.

Besides eliminating $60 million to increase staff to enforce the regulations, the cuts also pared $97 million for research and development of technology for waste disposal. Mr. Nash says this means private industry, instead of the government, will pick up the tab for the improved technology needed to find a solution to hazardous wastes.

The risk managers, who often during the session shook their heads in disbeief as the impact of the complex regulations were explained, also were given an additional warning. They were reminded that compliance with the EPA regulations and the Resource Conservation Recovery Act does not exempt them from third-party liability lawsuits. If someone is injured or their property damaged because of nonsudden pollution by hazardous wastes, he or she will sue the generator, not just the TSDFs, agreed Mr. Mahoney and Mr. Faron. And the plaintiff won't care if the company met EPA regulations, they pointed out.

The four markets for nonsudden pollution insurance cited at the seminar are Cranford Insurance Co. through Wohlreich & Anderson in the U.S., limits of $10 million per occurrence and $20 million annual aggregate; Evanston Insurance Co. through Shand, Morahan & Co., $10 million per occurrence and $20 million annual aggregate; American International Group, $30 million per occurrence and $30 million annual aggregate, and Great American Surplus Lines Co., $5 million per occurrence and $10 million annual aggregate (an additional $5 million to $10 million can be arranged).

L.W. Biegler Inc. in Chicago, a subsidiary of Crum & Forster, announced in February that it would offer nonsudden pollution coverage with limits of $10 million per occurrence and $20 million aggregate (*BI*, Feb. 16). It wasn't listed in the material distributed by Marsh & McLennan at the session.

Currently, defense costs are included in the liability limits, but the EPA prohibits coverage for defense costs within the mandated limits. Policy forms are expected to be changed before July to meet the regulation through increased limits or a sublimit applicable only to defense costs.

Although deductibles of $5,000 to $50,000 are allowed under the EPA mandate, self-insurance is not allowed. However, the panelists, who criticized the EPA for its lack of knowledge about insurance, said a push is on to allow self-insurance. When an audience member asked if a company could use a captive to insure nonsudden pollution risks, a panelist said it probably wouldn't matter because "the EPA doesn't know what a captive is."

Panelists also advised the seminar participants that they probably could file a certificate of insurance with the EPA to show compliance rather than the certified copy of the insurance policy required under the regulations. "What are they going to do with a stack of 72-page policies?" a panelist said. ■

He's sold on it

SAN FRANCISCO—Bahamas Prime Minister Lyndon O. Pindling says he is "sold on risk and insurance management."

The leader of the Bahamian government attended the RIMS meeting as planned to convince risk managers and those concerned with captive insurance company management of this.

The Bahamas, where captives were domiciled in the late 1960s, wants to attract a captive insurance company industry to complement its banking industry.

Mr. Pindling addressed a miniseminar on captives, inviting those attending to consider the Bahamas as a home for captive insurance companies.

The insurance law in the Bahamas, which now specifically exempts nonresident or captive insurance companies from the 1% premium tax and requirement to publish annually a summary of the balance sheet, may be amended to attract more captives.

About 20 captives are registered in the Bahamas.



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Back-dating: Not insurance, but needed

Continued from page 1
proved to be too small in today's inflation-riddled economy.

Changes in legal liabilities also might force companies to look for retroactive insurance, suggested the manager of risk management for a chemical coatings company.

Only nine respondents said retroactive insurance isn't needed and only six would never buy it.

The *Business Insurance* Risk Management Board is comprised of nearly 150 risk and insurance managers who have agreed to respond to periodic surveys.

The issue of back-dating insurance was raised earlier this year when MGM Grand Hotels Inc. purchased expensive back-dated liability insurance to increase its insurance for the fire at its Las Vegas Hotel (*BI*, Feb. 16).

MGM broker Frank B. Hall & Co. contends the coverage is occurrence coverage that will respond as a conventional insurance policy. Reinsurance sources say that General Reinsurance Corp., which holds most of the first excess layer of back-dated coverage, is liable for losses only to the extent of paid premium and investment income according to a pre-established interest rate.

Fitting in

Risk managers disagree on where the product fits into a risk management program.

"The basic premise of risk management is to identify risk and make cognizant decisions on insurance transfer or retention before the loss," contended the risk manager for a conglomerate with $4 billion in sales who disapproves of the product.

"If we accept risk management as a financial tool, then purchases of this nature will have to be recognized as another method of funding for loss available to the risk manager," said the risk manager for a commercial bank.

The amount of actual transfer of risk to the underwriters concerns risk managers on both sides of the fence. "If it is for a flat premium, okay. If it is a retro plan, it is just a gimmick," said an assistant vp of risk management for drug stores.

Many who disapprove of the product argue it lacks the essential

rm board

insurance element of risk transfer. "Insurance, as we know it, is purchased prior to the occurrence," said the risk manager for a lodging/restaurant chain.

One who approves of the product, the risk manager for a manufacturing concern with more than $1 billion in sales, counters, "There is transfer of risk. Carriers are risking the quality of their actuarial assumptions of the loss."

The risk manager for an electronics manufacturer notes back-dated policies are insurance "to the degree that litigation and loss costs are unknown."

The vp of insurance for a hospital management company asserts: "There is no doubt in my mind it is a proper insurance product. Even after the loss occurs, there is a large unknown liability potential."

Some who approve of the product also agree it isn't insurance. Those approving of back-dating insurance policies included the manager of insurance for a forest products company who asked, "If both parties are agreeable, why not?" But even he added, "I consider it to be a financial guarantee and only slightly insurance."

'Not insurance'

"It's not insurance. It's only a cash-flow plan to avoid an auditor's qualification in the annual report," commented the risk manager of an acute care hospital.

Risk managers who disapprove of back-dating insurance policies noted they don't disapprove of dating a policy a week or a month prior to the date of agreeing to terms to compensate for a missed renewal, for example. They disapprove to back-dating policies to provide coverage after a loss where there would be no coverage without the back-dated policy.

Even among the 25 risk managers who condemned the sale of back-dated liability insurance, nine admitted they would purchase it.

The insurance manager of a company with $300 million in sales who disapproves of back-dated liability insurance as "defeating the general philosophy of the insurance industry," admitted he would seek the same coverage "if the financial stability of the corporation were in jeopardy."

Only three risk managers admitted to buying anything resembling back-dated or retroactive liability insurance.

The director of risk management for a manufacturing company with more than $1 billion in sales bought retroactive general liability insurance in 1975 for unreported liabilites of an acquired company. Marsh & McLennan brokered the policy to Travelers.

The director of risk management for a publishing firm said he purchased retroactive directors and officers liability insurance.

The vp and general counsel for a tire manufacturer has negotiated changes in the terms of a product liability policy that was then back-dated.

"I would not rely on the availability of back-dated coverage to avoid purchasing adequate coverages; however, if a loss arose which was potentially insured, the cost of the back-dated coverage may be less than the existence of an uncertain contingency," he explained.

Considering all the products available, the attorney observed, "I see no real difference between so-called 'real' insurance sold on a prospectively rated basis; back-dating where a casualty has occurred but there exists a contingency with respect to damages; and retroactive coverage where there is full disclosure by the insured of known claims. In each case, there is a transfer of risk for a price, the real question being whether the insurer has exercised adequate judgment in pricing the product."

Among the narrow majority of the 27 board members who said they approve of back-dating liability insurance policies, only 20 affirmed they would buy the product and 10 qualified their approval.

Tax deduction

"It should not replace prudent risk management, but instead cover very unusual circumstances," suggested the risk and insurance manager of a financial institution.

"I believe it will price itself out of the question in a short time," the risk manager added.

Some panel members approved of the product because it affords the purchaser a tax deduction for the premium paid while no tax deduction would be allowed for self-insured loss reserves.

The tax deduction could be elusive, other panel members point out. Thirty-five or more than 60% of the respondents predict the Internal Revenue Service will challenge tax deductions for premiums paid for back-dated policies, arguing the back-dated policies are not insurance. Slightly more than half the respondents think the IRS should challenge the product as not being insurance.

More than one risk manager suggested companies should be adequately insured before a loss.

A government risk manager said, "It seems to be a cover-up of a past mistake."

"I don't believe the insurance industry could retain ongoing financial stability doing this," worried another government risk manager.

The assistant risk manager for a retailing company, however, is confident "the insurance companies involved invest the premiums at current high interest rates and when the claims are finally settled will have made money on the investment."

"I'm worried about the effect on reinsurance markets to the general insurance customer," said the insurance manager for a conglomerate. "A few benefit against the majority."

"The insuring public should not be called upon by underwriters to make up any deficit in payment for such losses by future rate increases," suggested the risk manager for an engineering and construction company.

"It's a bad precedent," warned the risk manager of a pulp and paper company. "People will feel they don't need insurance until a loss occurs. Is this really insurance or just a bank account?"

"Banking arrangements should be done with banks, not insurance companies," gibed the director of risk management and insurance for a pharmaceuticals company.

Those who disapprove of the product but would purchase it expressed limitations, such as "only where they comply with all laws and specifications and due to limited market are unable to obtain coverage required."

"If there was a coverage misunderstanding, I would request back-dated coverage," said the risk manager for a freight transportation concern.

"Since it is basically gambling, it might prove attractive if we estimate it to be cheaper to buy the coverage than bearing the cost of the occurrence," said a senior financial analyst with a manufacturing company.

Seven of the eight respondents who see no need for retroactive liability insurance policies—designed to increase the coverage available for unreported losses from previous years—are among the 25 who disapprove of back-dated liability insurance.

"It's an insult to the insurance profession," said the risk manager for an education institution.

'Not needed'

"It's not needed if risk managers do their jobs properly," said the risk manager for a steel manufacturer.

"Most well written DIC or umbrella contracts can take care of the catastrophe cover in the retroactive area," said the assistant vp and director of risk management for a wholesale distribution firm with various subsidiaries.

"Our company policy is to adequately cover our potential risks in advance," said the vp and secretary of a manufacturing concern who won't consider buying retroactive insurance.

But more risk managers see a need for retroactive liability insurance policies to cover exposures in previous years that were uninsured because they were unknown or underinsured because they were under-estimated.

●

Risk managers and buyers of property/casualty insurance are invited to join the Business Insurance Risk Management Board. Just send a card with your name, title, company and address, noting you would like to join the Risk Management Board, to Kathryn J. McIntyre, Editor, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. You will receive six surveys during the year on risk management and property/casualty insurance issues.

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Institute fights fires with fire engineering

Continued from page 3
"There are a lot of people out there who have B.S. degrees in other areas like electrical engineering, who have jobs in fire protection and want to go back to school and learn more about it," he said.

Insurance companies hire about half of the engineers, but industry, especially construction and aerospace programs, also want to hire more fire protection specialists because of today's advanced technology.

The WPI program is offering its first semester of courses, which include a brush up in chemistry and thermo-dynamics for students who, now working, have been away from school for a while.

Thirty hours of study are required for the degree that includes courses in fire dynamics, risk evaluation, fire protection systems, fire and casualty insurance practices, program management, building engineering for fire safety and studies in failure analysis and special problems.

Noncredit, professional development courses are available in analytical tools for fire safety, protection systems and devices, building design and construction and fire codes, standards and practices. ■

Shuttle returns home safe, insured

Continued from page 1
space flight, a $500 million liability policy as requested by the National Aeronautics and Space Administration will be available to protect users of the craft, he adds. The package, underwritten by a consortium of insurers including Lloyd's of London, several U.S. companies, European insurers and Far Eastern companies, was designed by C&B/Inspace and includes NASA as an additional insured.

NASA, in return, will indemnify users for losses over $500 million, according to Mr. Barrett.

"We expect that outerspace industry will become a giant business," Mr. Barrett noted, "generating up to $2 billion in premium in the next decade." ■

Reinsurers line up to buy loss reserves

Continued from page 3
get all the information we needed," he explains. "This is not a shoot-from-the-hip proposition. It requires detailed actuarial analysis of the captive's loss reserves."

For example, most prospects want to fold up a captive or bedpan mutual, Mr. Ingrey says. Others want to sell off loss reserves to help build surplus or to close down a policy year.

Reinsurance intermediaries are not active in this area, Mr. Ingrey says. Most of the proposals come from the alphabet brokers. "When we talk to them, it's one of the things we bring up," he adds.

Consultant Felix Kloman, president of Risk Planning Group Inc. in Darien, Conn., agrees that a loss account transfer may be an attractive option for some captive insurance companies.

He identifies five reasons that might motivate a captive manager to consider the move:

- The parent corporation wants to wind down its captive.
- The Internal Revenue Service has denied parent tax deductions for premiums paid to the captive.
- Independent auditors have qualified the parent's financial statement due to uncertain captive liabilities.
- The chance to "play the market" and clean up the captive's books is too attractive to turn down.
- The underwriting manager might want to get out of a specific line of coverage.

IRS letter rulings and the recent Carnation Co. appellate court decision (*BI*, March 16) suggest that a parent company cannot take a tax deduction for premiums paid to a captive. But a deduction could be taken for the premium a captive pays to the reinsurer who accepts the loss account transfer.

Corporations whose tax deductions for premiums paid to a captive have been challenged by IRS are definitely prospects for reinsurers, Trenwick's Mr. Billet says.

The tax deduction might be compromised, however, if the reinsurer gets a cap on its liability through its contract with the captive. The corporation's tax counsel might not approve a cap transaction as risk transfer, he says.

To avoid this, yet protect the reinsurer from unlimited liability for the losses it acquires, the reinsurer may seek its own back-up reinsurance for the transaction.

Trenwick has made several offers but has not yet been successful in receiving an order, Mr. Billet says. There is mounting interest, he says, because more captives realize that reinsurers' discount factors are quite liberal.

Even so, price is the biggest obstacle to a deal, reinsurers say. In order for the reinsurer to come out ahead, it must charge enough premium so that combined with investment income, its earnings exceed the liabilities it takes over.

There are two assumptions that have to be made in reaching an agreed price—the assumed rate at which the losses will be paid, and the reinvestment interest rate that will accumulate on the reserves.

Before they will quote on such business, reinsurers will perform a thorough claims analysis to determine if the captive's case reserves have been properly established, as well as an actuarial analysis of the overall book of business to see if reserves are adequate to meet ultimate liabilities.

The difference between the value of the loss reserves and the premium the captive pays presumably flows to the bottom of the income statement as profit and would be taxable, Mr. Billet says. ■

business insurance

INSURANCE SERVICES GUIDE:

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turn to page 50

N.J. watches costly care

Continued from page 2
the time and effort required to render the health service; the difficulty of the procedure and skill involved; the experience, reputation and ability of the professional, and special conditions.

Their recommendations to the state board would be required within 60 days of the complaint's receipt.

"We're looking for a situation where a majority of the committee says the fee is way out of line," said Mr. Janousek. "We're not here to set fees."

The concept is viewed as a way to establish controls over providers, who are now virtually unchecked.

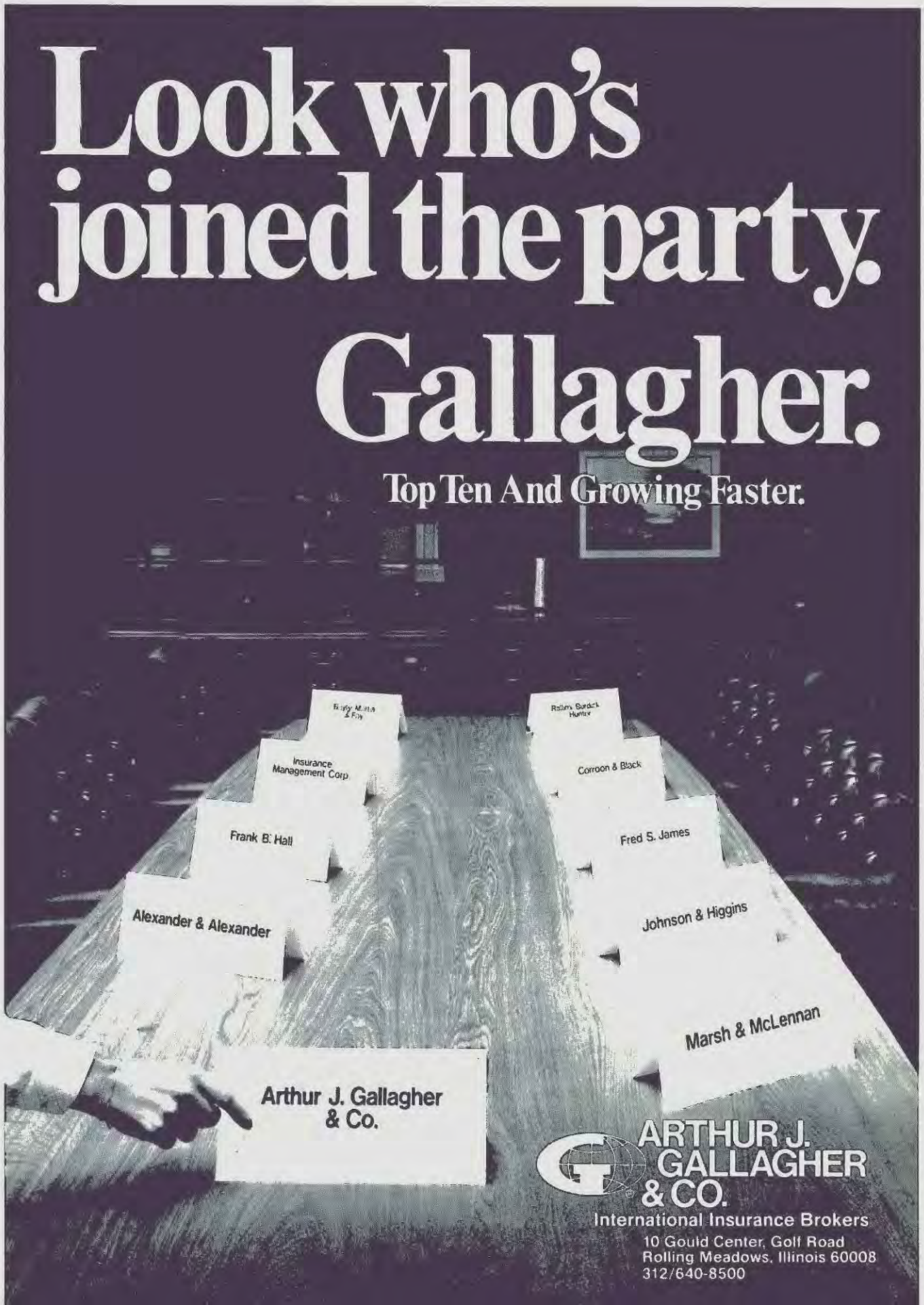
"This has a little more teeth than review of bills by medical societies," since such societies have no authority to sanction members and can at most request providers reimburse patients or insurers in overbilling cases, he said.

Also, medical societies' powers are limited because not all providers are members and those chastised for billing methods often pull out rather than change the bill in question.

"We applaud the board's efforts," said a spokeswoman for New Jersey Blue Shield. "In our experience, it's a very small percentage of physicians in New Jersey charging exorbitant fees, but this will help."

Before the proposal is enacted, the board will have to approve a final draft on May 13 and then possibly submit the idea to a legislative oversight committee, Mr. Janousek said.

The oversight committee's approval may or may not be needed at that time, pending a constitutional challenge now underway by the attorney general. ■



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Blues control half of benefit classes with health plans

Continued from page 3

Hawaiian Life Insurance Co. Ltd. came in as second-most-popular provider with just 34, with BC/BS running a close third with 31 and Aetna following in fourth place with 30.

• Self-funded plans were the second-most-popular group benefit funding method for dental and prescription plans. Of 3,499 dental plans, 349 were self-funded. Of 361 prescription drug plans, 144 were self-funded. BC/BS held an easy lead as front-runner for both plans, with 473 dental and 325 prescription drug plans. Aetna was reported to be the third-largest provider of dental plans with 321, and Kaiser Foundation Health Plan came in third for providing prescription coverage with 65 plans.

• Life Insurance Co. of North America easily takes the number-one position among underwriters of 1,418 travel/accident insurance plans with 324 plans. American Home Assurance Co. is second with 185 plans, compared to the 120 benefits plans provided by Continental Casualty Co.

• Lafayette Life Insurance Co. took the lead in providing stop-loss plans, with 54 reported. Republic National Life Insurance Co. was second with 33 plans and SAFECO Life Insurance Co. followed in third place with 30 reported. Only 315 stop-loss insurance plans were clearly identified as such.

• The largest number of the 5,154 long-term disability plans recorded was reported with UnionMutual Life Insurance Co., which had 467 plans. Some 316 long-term disability plans were reported as self-funded. Mutual Benefit captured 280 of the plans.

• Aetna, Prudential and Equitable Life Assurance Society took the first, second and third spots, respectively, in providing 15,822 life insurance and 11,068 accidental death and dismemberment plans.

A benefit plan is defined by Group Insurance Reports as a single benefit provided for a certain group of employees. There are multiple benefit plans provided by one employer under one contract, yielding more than 75,000 benefit plans within 37,000 contracts.

The information culled applies to the 1978 plan year, the most current information available from the Department of Labor.

The numbers confirm a trend by employers to self-insure at least some benefits, but BC/BS still has the stronghold on five major categories of benefits. Some 4,650 plans are recorded as a BC/BS basic health plan 1,320 plans are reported as self-funded. The third-largest number of basic health plans (777) are reported with Aetna.

Aetna followed BC/BS in providing major medical plans to employers, with Prudential coming in as a distant third.

BC/BS reported 2,434 plans with employers for major medical insurance; Aetna had 1,072 plans and Prudential followed with 668.

BC/BS also stayed on top of the commercial insurer pack in providing hospitalization and medical/surgical plans to employers, with 1,843 and 1,057 plans in each category respectively.

Capitol BC/BS, the name of the association's plan in Harrisburg, Pa., was the runner-up in providing hospitalization and medical/surgical, while Aetna followed for both benefits in third place.

BC/BS also took the lead in providing supplemental major medical plans to employers, although the numbers are consideribly lower than other categories of benefits.

BC/BS reported 35 plans for supplemental major medical, Mutual Benefit followed with 14 plans and only three major medical plans were recorded as self-funded.

In total numbers of plans, BC/BS has 8,235, self-funding was reported for 3,493 plans and Aetna was reported with 2,475 of the plans. Prudential followed in fourth position with 1,692 plans.

Also with more than 1,000 plans were Connecticut General (1,136), Equitable (1,130) and Travelers Insurance Co. (1,034).

Grain elevator loss insured

Continued from page 2

determine just how much will have to be demolished. We have estimates that 50% to 70% of the facility was destroyed. The estimated replacement cost of both building and inventory is $50 million."

Insurance covering the elevator is believed sufficient for all damages, said Dan Hodgkins, the port's chief financial officer. The coverage includes numerous layers, with property and business interruption covers beginning after a $100,000 deductible and going up to $66 million.

The primary layer of $26 million begins with $5 million written by Holland-American Insurance Co. of Kansas City, Mo., a Mission Insurance Group member. Houston General Insurance Co./Lloyd's of London writes another $5 million. This is topped by a $16 million package put together by Wetzel Co. and distributed among Lexington Insurance Co. of Boston, Northbrook Insurance Co. of Northbrook, Ill., Great American Insurance Co. of Cincinnati, Employers Mutual Casualty Co. of Des Moines, Iowa, and Lloyd's of London.

The second layer of $40 million in excess property and business interruption insurance begins with $8.4 million written by Northbrook, then $3.5 million with Employers Mutual Casualty, $7.7 million with Lloyd's, $5 million with Lexington and $5.4 million with Northeastern Fire Insurance Co. of Havertown, Pa. The remaining $10 million is underwritten by National Surety Corp., a member of Fireman's Fund Insurance Cos.

In addition, the port has general liability insurance of $15.5 million. The Travelers Insurance Co. underwrites the first $100,000 of bodily injury and property damage coverages. Interstate Fire & Casualty of Chicago underwrites the next $200,000 of bodily injury coverage and $400,000 of property damage coverage.

Umbrella insurance is underwritten by Marine Office of America Corp. of New York for $5 million and by Lexington Insurance Co. for $10 million.

Benefits to survivors of those killed in the accident will vary, depending on the age of widows, the number of children and the wage level of the victims, but could be around $100,000.

The system designed to keep the inside of the elevator free of grain dust was renovated a year ago at a cost of nearly $2 million.

"It was a new system," an official said. "We completely rebuilt the truck and railcar dumping sites and installed two very large vacuum systems that remove and filter dust. We were able to provide an exceptional level of dust control with it," an official said.

Several contractors were involved in installing the system, one official said, but he declined to name them. "There are suits being brought by various families against some of our designers and contractors. We are not a party in them," he said.

The port's public elevator was built in 1954 and consists of two buildings with 153 storage bins. Each bin is about 150 feet high and 25 feet in diameter.

At the time of the explosion, three types of grain were being stored there: milo from South Texas, and winter wheat and corn from the Midwest, the official said. "I heard one estimate that 2.9 million bushels were stored before the explosion—worth from $9 million to $10 million—but not all of that was destroyed."

At least 1.7 million bushels were not affected by the explosion because that grain was stored in the second building.

Safety inspections were carried out daily by elevator employees, weekly by the port authority's safety committee and monthly by inspectors sent by insurance companies, he said.

Half a dozen different investigations are under way to determine the explosion's cause. ■

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Only disaster can slash reinsurer rates

Continued from page 3

Mr. Nelson said.

By underwriting to a loss, insurers and reinsurers are depending on investment earnings to pay claims, he said.

"What will happen when interest rates eventually fall?" asked Mr. Nelson. "The earnings from this source will decline quickly, but claims and expense costs will continue to rise with the going rate of inflation, leaving insurers in a position where they cannot protect themselves."

The influx of U.S., foreign and captive reinsurers in the last decade has caused the market to depend on investment income to maintain capital-to-surplus ratios, Mr. Barnes said. In the U.S. alone, the aggregate surplus in 1980 grew to a safe ratio margin of 2-to-1, although underwriting losses were substantial, he said.

"This is due to the high returns obtainable on invested assets. It is hard to find someone who believes such high rates won't still be available a year from now," Mr. Barnes said.

A shock could hit the market, however, if the courts continue to favor the "exposure theory" in the asbestos liability cases, said Mr. Nelson. Under the exposure theory, which has been established by the highest U.S. court ruling to date, insurers and reinsurers who were at risk from the mid-1940s onwards, and over a period of 30 years, will be held liable for asbestosis claims.

If excess of loss reinsurance coverage for asbestosis losses is written with fixed deductibles without taking 30 years of inflation into account, "no amount of investment earnings is going to compensate for this loss," Mr. Nelson said.

If the U.S courts ruled that asbestosis can be linked to cigarette smoking, there would be a large product liability exposure for cigarette manufacturers, he said. "If the need to insure such liabilities were demonstrated, a very large portion of the overabundance in the market could be soaked up."

The market could harden if 30 reinsurance companies went out of business, said one reinsurer. Others suggest this most likely will happen in the unstable countries where reinsurance business is just beginning.

"I think that some areas of the globe will suffer increased political instability, leading to the destabilization of markets or an increase in nationalistic tendencies," says G. Plescoff, president of Assurances Generales de France.

But few, if any, reinsurers will up the ante significantly in the near future unless a major physical or financial disaster occurs, reinsurers agree. Despite increased overheads and lower premium volumes, reinsurers must keep rates low to stay afloat in the highly competitive market. ■

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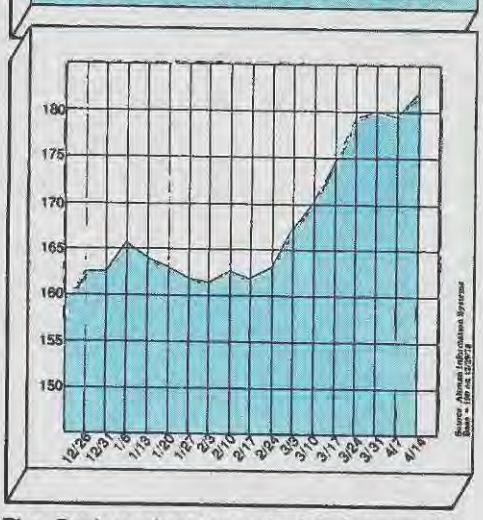
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BI Insurance Index



The *Business Insurance* stock index rose 2.4, to 181.9 from 179.5, with 42 stocks rising, 18 declining and 10 remaining unchanged. Largest increases were: Crown Life Insurance Co., 16.8%; Foremost Corp. of America, 10.8%; Washington National Corp., 9.2%; Avemco Corp., 8.8%, and Frank B. Hall & Co., 8%. Great West Life Assurance Co., at 7%, and Carolina Casualty Co., at 5.6%, were the largest declining stocks. The 1.3% index rise surpassed the drops in the three major market indicators. The New York Stock Exchange and Standard & Poor's were both down 0.9%, while the Dow Jones Industrials dropped 0.3%. American Financial Corp. has been suspended from the listing because of the sale of its common stock.

British Issues

4/14 Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence	pence
Commi Union	163	8.8	15.43	9.4	173—	152
Eagle Star	242	9.1	15.00	6.2	253—	242
Genl Accident	356	8.9	19.29	5.4	368—	350
Gdn Royal Exch	344	8.6	22.14	6.4	362—	344
Phoenix	268	9.6	21.29	7.9	280—	268
Royal	375	8.2	34.29	9.1	400—	375
Sun Alliance	830	9.9	47.14	5.7	850—	822
Brokers						
CE Heath	240	11.7	13.87	5.8	245—	235
Hogg Robinson	116	9.3	8.14	7.0	123—	116
Alex Howden	123	9.4	10.00	8.1	126—	123
JH Minet	102	12.8	6.45	6.3	105—	100
Sedg Grp	122	12.1	7.14	5.8	125—	122
Stenhouse Hldg	81	7.7	6.64	8.2	81—	79
Stew Wrightson	210	11.7	17.14	8.2	223—	210
Willis Faber	320	13.4	17.14	5.3	325—	312

Source: Philip Olsen/Alan Clifton, Insurance Industry Specialists Kitcat & Aitken Stockbrokers. London

Workers compensation helps Mission Insurance stay ahead

By STUART EMMRICH

E. R. DEROSA IS COUNTING on workers compensation business to keep him happy.

Already there's a smile on his face when he discusses the year-end results of Mission Insurance Group, of which he is president. And he's also optimistic about 1981.

Mission isn't immune to the underwriting problems that are affecting most of the industry, Mr. DeRosa conceded. But by relying heavily on workers compensation business, it's staying ahead because work comp rates are somewhat adequate and cash flow from investment income in enormous, he explained.

There are some rough times ahead in other lines of the company's business, but Mission is doing well compared to other industry leaders because it picks and chooses its business, Mr. DeRosa said.

The company has partial access to $5 billion of an $18 billion national market in workers compensation and writes 6% of the workers compensation business in California, its home base, Mr. DeRosa said. Workers comp earned premiums increased 11% last year to $190 million and Mr. DeRosa sees that figure growing to $222 million this year.

Overall, the company's income from operations increased 25%, to $40.4 million from $32 million, while investment income increased 38%, to $32.8 million from $23.8 million.

Mission's revenues come from three major sources: its managing general agencies, led by Sayre & Toso; a reinsurer and reinsurer management firm, and four insurance company subsidiaries, primarily the Mission Insurance Co.

Of the insurance company operations, 72% of the business comes from workers compensation. The rest is drawn from liability, property and commercial multilines peril policies written in a small number of states. Most of the company's business is in California and Arizona.

Mr. DeRosa makes it clear that the company's financial health rests firmly on its workers compensation business. Experience in other lines was "rather atrocious" in 1980, he recently told a gathering of financial analysts.

BI ticker

In contrast, he said that rate levels in workers comp were mostly adequate last year and he doesn't expect any great difference in 1981.

The company's results in workers compensation were buoyed by a 10% increase in the base payroll in California. Mr. DeRosa predicts that pattern will be repeated this year.

Other positive factors in California were a "slight decline in litigation," which Mr. DeRosa attributed to a relatively high level of employment and what he called the effectiveness of Mission's benefit consulting programs. Cumulative trauma claims also dropped by about 5% last year, another positive sign for workers compensation insurers.

The company also is beginning to see signs that casualty prices might bottom out soon, Mr. DeRosa said. Mission recently recorded some slight renewal increases, he said.

"It is nothing to hang your hat on, but it is refreshing to see," he added.

Mr. DeRosa is optimistic about trends in workers compensation in 1981, particularly in California.

He said the "usual plethora" of compensaton bills have been introduced, but there is little sign of any legislation being enacted, especially in the area of raising benefits levels for temporary and permanent disability.

Mr. DeRosa also predicted that new state insurance commissioner Robert Quinn will come out later this year with a "strict edict against paid-loss retros in workers comp, which would bring back some sanity to this business." However, other industry observers say that prediction is little more than wishful thinking; Commissioner Quinn has said he has no such plans.

Besides recent expansions into Florida and Oklahoma, Mission is planning to corral some of the lucrative workers compensation business in Texas during 1981. Mission is attracted to the state because the markets have been historically stable and self-insurance of workers compensation is not allowed yet, he said. However, legislation has been introduced this session to allow employers to self-insure their work comp risks (*BI*, April 6).

Other expansion plans for 1981 include the formation of Mission Risk Management Services to sell unbundled services to self-insurers and captives. "We see this as a logical extension of our business."

Mission has avoided some of the pitfalls of the underwriting cycle by branching out into such related areas of business as specialty lines operations.

These managing general agencies, led by Sayre & Toso, receive commissions and fees for managing, underwriting and placing commercial business on a national "not subject to risk" basis for major domestic and foreign insurers. They also serve as excess/surplus brokers.

Last year, written premiums in this area increased 17% to $251.3 million and the business recorded its highest commission and fee income—an 18% increase to $30.8 million.

The company's reinsurance subsidiaries also recorded substantial gains in 1980. Operating income grew 26% to $1.9 million, while premiums written increased to $37 million from $30 million.

Both the company's commercial package business and its commercial general liability operations showed underwriting losses in 1980, but they were offset by the workers compensation results. Insurance operations recorded a combined ratio of 99.0%, up almost a point from a year ago, but still less than the 1980 industry average of 103.5.

For 1981, Mr. DeRosa projects that the industry will continue to see rate-cutting and depressed underwriting results on most lines, especially if investment income remains high.

But he doubts that a capacity and pricing crunch similar to that of the 1970s will reoccur.

"It would take a confluence of events, say a couple of hurricanes and a few destructive tornadoes, to really make a difference."

Instead of a sharp turnaround, Mr. DeRosa predicts buyers will see a gradual increase in prices starting early next year.

"I see a permanent change in the U.S. insurance markets, somewhat akin to what happened in the marine and aviation markets. There is just too much capacity chasing premium," he said.

BI Industry Stock Report

Insurance Cos.		APR. 14, 1981 Price	% Chg.	P/E	$ Div.	% Yld.	4/8/81 THRU 4/14/81 High	Low	Vol. (000)
Aetna Life & Cas Co	NYSE	34.25	3.4	5.4	2.32	6.8	34.75	33.50	543.8
American Bankers Ins Group	OTC	6.88	0.0	4.6	0.22	3.2	7.00	6.88	273.0
American Gen Ins Co	NYSE	44.50	0.3	6.8	2.00	4.5	44.88*	44.38	285.1
American Indty Finl Corp	OTC	16.25	-4.4	6.3	1.12	6.9	16.75	16.25	16.4
American Intl Group Inc	OTC	79.50	1.0	10.6	0.60	0.8	80.00	79.50	134.4
American Natl Ins Co	OTC	14.25	-1.7	6.4	0.68	4.8	14.38	14.25	152.4
American Sts Life Ins Co	OTC	18.50	2.8	6.3	0.72	3.9	18.50	18.00	2.5
Aneco Reins Ltd	OTC	3.88	-3.1	0.0	0.00	0.0	4.00	3.88	37.4
Appalachian Natl Corp	OTC	2.13	0.0	6.1	0.05	2.4	2.13	2.13	1.0
Avemco Corp	AMEX	10.88	8.8	9.4	0.50	4.6	10.88*	10.13	23.7
Banks Iowa Inc	OTC	30.50	0.0	5.1	1.44	4.7	30.50	30.50	4.0
Bitco Corp	OTC	42.00	0.0	6.0	2.16	5.1	42.00	42.00	23.2
Carolina Cas Ins Co	OTC	8.50	-5.6	5.4	0.32	3.8	9.00	8.50	1.9
Central Natl Finl Corp	OTC	10.88	0.0	4.0	0.65	6.0	10.88	10.88	0.0
Chubb Corp	OTC	42.50	-0.9	5.0	2.68	6.3	42.50	41.63	68.8
Combined Intl Corp	NYSE	21.88	2.9	6.2	1.60	7.3	21.88*	21.00	132.9
Connecticut Gen Ins Corp	NYSE	52.50	3.4	6.9	1.76	3.4	52.50	50.75	174.7
Continental Corp	NYSE	25.75	3.0	6.9	2.40	9.3	25.75	25.38	141.5
Crawford & Co	OTC	19.25	0.0	14.7	0.52	2.7	19.25	19.25	4.4
Crown Life Ins Co	OTC	118.00	16.8	9.9	2.80	2.4	120.00*	114.00	2.5
Crum & Forster	NYSE	30.13	1.7	5.6	1.44	4.8	30.25	29.50	119.5
Employers Cas Co	OTC	34.25	0.7	5.5	1.20	3.5	34.25	34.00	0.2
Equifax Inc	NYSE	21.25	0.6	6.7	2.40	11.3	21.25	21.00	6.3
Farmers Group Inc	OTC	30.63	0.4	9.7	1.12	3.7	30.75	30.50	179.7
First Colony Life Ins Co	OTC	40.50	2.5	13.9	0.80	2.0	40.50	39.50	8.8
Foremost Corp Amer	OTC	28.25	10.8	9.3	0.80	2.8	28.25*	25.50	24.8
Great West Life Assurn Co	OTC	251.00	-7.0	10.4	10.00	4.0	251.00	251.00	0.0
Hanover Ins Co	OTC	43.75	-2.2	4.0	1.08	2.5	45.00	43.75	15.2
Hartford Steam Boiler Insptn	OTC	39.50	0.0	7.9	2.60	6.6	39.50	39.50	9.4
Jefferson Natl Life Ins Co	OTC	44.50	-4.3	30.9	0.64	1.4	46.00	44.50	12.9
Kemper Corp	OTC	33.25	1.1	5.1	1.60	4.8	33.25	32.88	24.0
Lincoln Natl Corp Ind	NYSE	41.50	-0.6	5.7	3.00	7.2	42.25	41.50	54.8
Mgic Invt Corp	NYSE	33.63	-5.6	9.2	1.28	3.8	36.00	33.63	224.6
Mission Ins Group Inc	NYSE	44.13	2.0	8.6	1.00	2.3	44.38*	44.00	53.2
Nationwide Corp Ohio	OTC	24.00	1.1	6.8	0.70	2.9	24.25*	24.00	4.3
Northwestern Natl Life Ins	OTC	30.50	3.4	6.7	1.25	4.1	30.50*	29.50	58.2
Ohio Cas Corp	OTC	40.75	-0.6	6.8	2.04	5.0	41.13	40.75	43.8
Old Rep Intl Corp	OTC	17.13	-4.9	4.7	0.92	5.4	17.88	17.13	37.5
Pinehurst Corp	OTC	6.88	3.8	0.0	0.00	0.0	6.88	6.63	32.4
Preferred Risk Life Ins Co	OTC	19.75	2.6	6.6	0.80	4.1	19.75*	19.25	3.8
Provident Life & Acc Ins Co	OTC	45.50	1.1	6.7	2.20	4.8	45.50	45.00	36.6
Republic Natl Life Ins Co	OTC	27.00	0.0	16.3	0.70	2.6	27.00	27.00	2.6
Ryan Ins Group Inc	OTC	24.00	2.1	9.4	0.12	0.5	24.00*	23.50	1.8
St Paul Cos Inc	OTC	41.13	3.5	7.8	2.32	5.6	41.13	39.38	201.4
Safeco Corp	OTC	39.50	0.0	7.1	2.00	5.1	39.75	39.38	28.2
Sri Corp	OTC	23.50	1.1	5.8	0.80	3.4	23.50	23.25	43.5
Seibels Bruce Group Inc	OTC	21.75	-0.6	11.0	0.80	3.7	21.88	21.75	25.4
Statesman Group Inc	OTC	5.75	2.2	4.4	0.15	2.6	5.75	5.75	68.0
Tokio Marine & Fire Ins Co	OTC	164.50	4.2	18.2	1.03	0.6	164.50	161.50	13.9
Travelers Corp	NYSE	48.13	5.2	5.6	2.88	6.0	48.13	46.00	210.7
United Fire & Cas Co	OTC	48.50	0.0	12.7	1.00	2.1	48.50	48.50	9.5
United States Fid & Gty Co	NYSE	44.00	-1.9	5.4	3.20	7.3	45.88*	44.00	128.5
United Svcs Life Ins Co	OTC	16.13	2.4	6.5	1.00	6.2	16.13	15.88	20.1
Uslife Corp	NYSE	30.75	-2.0	7.6	0.72	2.3	32.00	30.75	373.8
Washington Natl Corp	NYSE	37.13	9.2	7.3	1.62	4.4	38.13	34.50	62.8
Zenith Natl Ins Corp	OTC	17.50	4.5	10.9	0.50	2.9	17.50	16.75	17.7
INSURANCE COMPANIES	AVERAGE			7.9		3.8			
Agents/Brokers									
Alexander & Alexander Svcs	OTC	37.50	1.4	12.3	1.84	4.9	37.50*	37.00	90.4
Baldwin & Lyons Inc	OTC	33.50	6.3	5.9	0.80	2.4	33.50*	32.50	6.3
Corroon & Black Corp	NYSE	25.50	2.0	10.8	1.76	6.9	25.50	25.00	34.4
Crump E H Cos Inc	OTC	12.00	-2.0	10.5	0.40	3.3	12.13	12.00	6.6
Hall Frank B & Co Inc	NYSE	27.00	8.0	9.9	1.60	5.9	27.00	25.75	63.2
Integrated Res Inc	AMEX	17.38	6.1	8.1	0.00	0.0	17.88	17.38	59.5
James Fred S & Co Inc	NYSE	27.50	4.8	11.8	1.60	5.8	27.50*	25.75	101.6
Marsh & Mclennan Cos Inc	NYSE	36.75	5.0	11.8	2.00	5.4	38.00	35.50	153.8
Penncorp Fincl Inc	NYSE	6.13	-3.9	5.5	0.16	2.6	6.38	6.00	118.5
Reed Stenhouse Cos Ltd	OTC	12.75	6.2	12.1	0.56	4.4	12.75	11.88	24.4
Rollins Burdick Hunter Co	OTC	25.25	1.0	12.2	1.24	4.9	25.25*	25.25	13.6
AGENTS/BROKERS	AVERAGE			9.7		4.6			
Conglomerates/Holding Cos.									
American Express(Fireman's Fd)	NYSE	43.50	-2.8	8.3	2.00	4.6	45.50	43.50	728.3
Anderson Clayton(Ranger/PanAm)	NYSE	21.63	1.2	5.9	1.20	5.5	21.88	21.50	25.6
Armco Inc	NYSE	37.75	-2.9	9.6	1.64	4.3	39.00	37.75	218.8
City Investing Co. (Home Ins.)	NYSE	27.50	10.6	7.5	1.60	5.8	27.75*	25.00	1,026.2
CNA Finl Corp (CNA)	NYSE	17.00	3.0	6.3	0.00	0.0	17.00	15.88	36.8
Control Data (Comml. Credit)	NYSE	69.75	0.7	8.2	0.90	1.3	72.75*	69.25	415.3
General Re Corp	NYSE	63.75	0.6	9.0	1.76	2.8	64.00	63.38	95.1
INA Corp (Ins. Co. of NA)	NYSE	42.63	-2.3	6.0	2.40	5.6	43.38	42.38	165.8
ITT (Hartford Group)	NYSE	32.88	-0.4	5.4	2.60	7.9	33.50	32.88	449.2
Reliance Group Inc	NYSE	75.88	0.5	6.1	3.00	4.0	76.25*	74.50	12.5
Sears Roebuck & Co. (Allstate)	NYSE	19.13	1.3	10.0	1.36	7.1	20.00*	18.88	2,199.3
S & H Co. (Bayly Martin & Fay)	NYSE	32.25	-1.5	15.0	1.00	3.1	32.75	32.13	26.3
Teledyne Inc (Argonaut)	NYSE	138.00	-5.2	9.1	0.00	0.0	147.75	138.00	269.4
Transamerica Corp (Occidental)	NYSE	20.88	1.2	5.7	1.28	6.1	21.13	20.63	280.6
CONGLOMERATES/HOLDING COS.	AVERAGE			7.7		3.2			

*Record high/low since Jan. 1, 1981.

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Financial Briefs

Prudential purchase

Prudential Insurance Co.'s attempt to buy the Bache Group Inc. is coming closer to completion.

The New York attorney general informed the insurer it would not attempt to block the deal, and the New Jersey insurance commissioner expressed no objections to the takeover bid.

In addition, neither the Federal Trade Commission nor the Department of Justice requested information on the proposed deal, thereby freeing Prudential to proceed with negotiations.

Marsh & McLennan

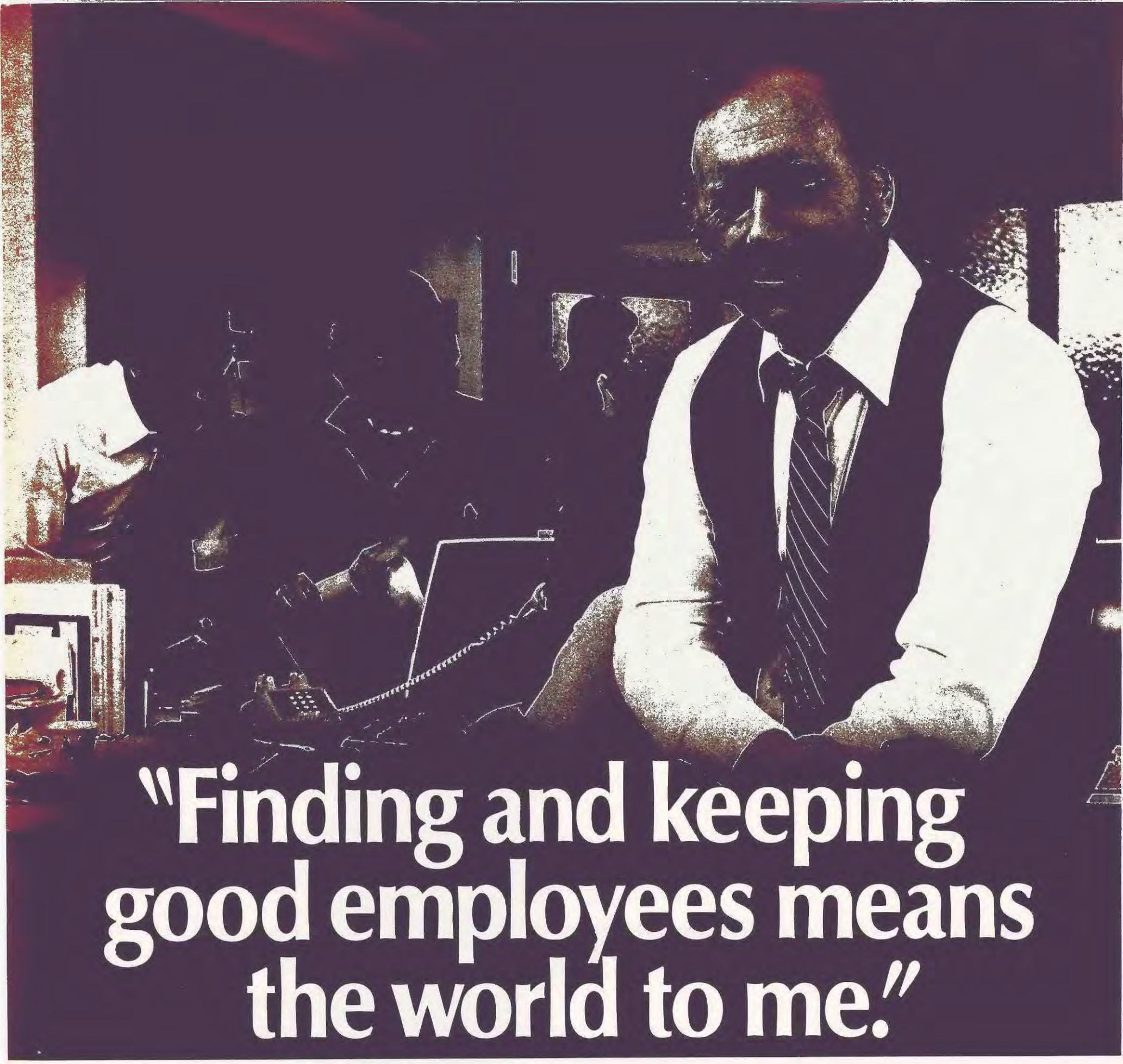
The board of directors of Marsh & McLennan Cos. declared a quarterly dividend of 50 cents per share payable May 13 to shareholders of record April 3. The dividend rate is unchanged from the first quarter of 1981.

A&A

Alexander & Alexander Services Inc. has declared a regular quarterly dividend of 46 cents per share, payable May 28 to shareholders of record May 5.

General Re

General Re Corp. has paid a regular quarterly dividend of 44 cents per share on common stock to shareholders of record March 23. This represents an increase of 26% over the previous payment. ■



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