IN '85 STRIVE FOR EXCELLENCE

RIMS risk management report . . . Page 3

APRIL 29, 1985

business insurance®

Reporting weekly for corporate risk, employee benefit and financial executives/$1.50 a copy; $52 a year

update

ISO may cap defense costs under new CGL policy forms

NEW YORK—The Insurance Services Office is considering rewriting its new commercial general liability form to include defense costs within the policy limits.

ISO announced April 19 that it is conducting a study to determine the ramifications of including defense costs within CGL policy limits. That study is to be completed by July 1.

In a letter to ISO member insurers,

Continued on next page

FBI sting operation nabs 3 men for insurance crime

By DOUGLAS McLEOD

PHILADELPHIA—A New York insurance agent and two former Pennsylvania state senators are facing a variety of criminal charges in the wake of a wide-ranging securities and insurance sting operation conducted by the FBI.

The five-year undercover operation, which was concluded last week with several indictments, was built around a number of fictitious insurers. The operation was primarily intended to snare dealers in fraudulent securities that were supposedly to be used to capitalize the insurers.

Since the sting was organized in 1980, 29 people have been indicted on charges ranging from transportation of counterfeit securities and sale of stolen American Express travelers checks to narcotics violations. Twenty-two defendants have already pleaded guilty or have been convicted on charges stemming from the operation.

Related to insurance crimes, a federal grand jury in Philadelphia last week indicted:

- Louis Mazzella, owner and president of Sentinel Facilities Ltd., an insurance agency based in Great Neck, N.Y., and owner of Colonial Investment Co., a holding company for Colonial Assurance Co. of Elkins Park, Pa.

The New York Insurance Department revoked the licenses of Mr. Mazzella and Sentinel last December. Colonial Assurance is currently being liquidated by the Pennsylvania Insurance Department.

Mr. Mazzella, charged with mail and wire fraud, is accused of diverting $2.4 million in reinsurance premiums due to Colonial from

Continued on page 60

Jewel salmonella suits exceed $200 million

By MEG FLETCHER and DIANE LYNN KASTIEL

MELROSE PARK, Ill.—Jewel Food Stores faces at least $204 million in damage claims stemming from 92 lawsuits filed after more than 10,000 confirmed cases of salmonella poisoning were linked to milk processed at a Jewel plant.

Illinois authorities have cited the bacterial infection as the primary cause of two deaths and a contributing factor in two others.

And, Jewel already has been asked to pay medical bills submitted by more than 4,000 individuals and families.

Liability insurance covering the claims against Jewel, which was purchased last year by Salt Lake City-based American Stores Co., is provided under American Store's liability insurance.

The Home Insurance Co. provides first-layer excess coverage to American Stores above a self-insured retention, according to insurance industry sources. Sources say the self-insured retention is most likely in the range of $100,000 to $300,000. Information on American Stores' additional excess insurance was unavailable last week.

Jewel previously had purchased $1 million of liability insurance from Commercial Union Insurance Co., plus several layers of excess insurance. Jewel had a $100,000 self-insured retention under the Commercial Union policy, which was brokered by Marsh & McLennan Inc.

In February, when American Stores consolidated the insurance for Jewel with its own, M&M lost the account to Johnson & Higgins, *Business Insurance* has learned.

American Stores risk manager Robert Salmon, J&H and The Home refused to comment on Jewel's liability insurance.

Jewel also is suffering business losses and was taking steps last week to regain its share of the high-volume, low-margin food market in the Chicago area.

About 8% of regular Jewel customers and 14% of all food shoppers say they no longer will patronize the chain, according to a *Crain's Chicago Business* survey conducted two weeks ago by Ben L. Kahn Marketing/Research. Of the 500 grocery shoppers contacted,

Continued on page 64

Plan termination could shock pension system

By JERRY GEISEL

PITTSBURGH—If Wheeling-Pittsburgh Steel Corp. terminates its heavily underfunded pension plans, it could be the first step in the unraveling of the nation's defined benefit pension system, experts say.

Earlier this month, Wheeling-Pittsburgh, the seventh-largest steel manufacturer in the United States, sought protection from its creditors under Chapter 11 of the Federal Bankruptcy Act.

The bankruptcy filing is raising concern that the company may terminate several underfunded pension plans that could slap the Pension Benefit Guaranty Corp.—the federal agency that guarantees workers' pensions—with $200 million to $300 million in unfunded liabilities.

So far, the largest claim in the PBGC's 10-year history was $63.3 million (see chart).

PBGC Acting Executive Director David Walker estimates that a termination of the Wheeling-Pittsburgh plans could cost the PBGC more than $200 million, while S. Howard Kline, counsel for employee benefits at the United Steelworkers Union in Pittsburgh, said the PBGC liability could exceed $300 million.

Either way, the possible termination of the Wheeling-Pittsburgh plans may be a harbinger of more terminations of pension plans dependent on America's declining smokestack industries. Such massive terminations could eventually bankrupt the PBGC. Or, employers would be forced to pay such high premiums to the PBGC that they would shun defined benefit pension plans en masse, unraveling the nation's current pension system, experts say.

Largest pension claims assumed by the PBGC

Company	Date of termination	PBGC liability
1. Wisconsin Steel Co.	May 1980	$63.3 million
1. White Motor Corp.	November 1981	$63.3 million
3. Rath Packing Co.	September 1982	$60.9 million
4. McClouth Steel Corp.	November 1982	$54.7 million
5. Braniff International Corp.	August 1982	$50.5 million
6. Phoenix Steel Corp.	August 1983	$50.1 million
7. White Farm Equipment Co.	September 1982	$48.3 million
8. Alan Wood Steel Co.	November 1977	$40.5 million
9. Mesta Machine Co.	January 1983	$29.8 million
10. Mansfield Tire Corp.	June 1979	$23.0 million

Source: Pension Benefit Guaranty Corp.

As of Dec. 31, 1983, Wheeling-Pittsburgh's pension plans had $255.9 million in assets while the value of vested benefits was $589.4 million, according to the company's 1983 10K Form filed with the Securities and Exchange Commission, the most recent public information available.

If a claim were filed in the range of $200 million, it would dwarf the previous largest claims incurred by the PBGC. The most costly claims to date were the result of the terminations of plans sponsored by Wisconsin Steel Co. and White Motor Corp. The Wisconsin Steel and White Motor terminations each will cost the PBGC $63.3 million, the agency estimates.

More huge terminations could be just around the corner. For example, Allis-Chalmers Corp. of Milwaukee is considering termination of several plans, with about $80 million in unfunded vested benefits, covering workers in a farm equipment division that the company is negotiating to sell to a West German company. The pension liabilities would not be transferred to the buyer.

So far, Wheeling-Pittsburgh has not said if it will terminate the plans. Corporate financial officers referred all calls to a public relations spokesman who would only say that the future of the plans is under review.

Continued on page 62

Kemper Corp. contributing $50 million in capital to reinsurance subsidiary
Page 2

Employers leading workers into battle against taxes on employee benefits
Perspective, Page 37

NEWSPAPER

update

ISO may cap CGL defense costs

Continued from previous page
the property/casualty rate and policy advisory organization said members should "plan now for the possible incorporation of a defense-expense containment program in the new commercial general liability policy forms that become effective Jan. 1, 1986."

Richard R. Savage, senior vp for ISO, told *Business Insurance* that ISO is considering the change because of concern among both direct insurers and reinsurers over growing defense costs associated with CGL policies. Mr. Savage said defense costs often exceed 30% of the cost of a claim paid under a CGL policy.

Since ISO already is redrafting the CGL policy forms, he said this would be a good time to include defense costs within policy limits.

ISO announced last October that it was redrafting its two new CGL policy forms to eliminate virtually all coverage for pollution claims and to include a retroactive date on the claims-made contract (*BI*, Oct. 29, 1984).

In addition to placing defense costs within the aggregate CGL policy limits, ISO also is considering an optional endorsement in which the insurer and policyholder would share liability for defense costs after the insurer paid a certain amount of defense costs.

However, ISO says if it decides to include defense costs in the CGL policy limits, it will not issue an endorsement that would reinstate the current unlimited defense cost provision.

William Brady, chairman of the Independent Insurance Agents of America's commercial lines committee, said he is polling IIAA members for comment on the ISO study. But, he said he expects "very strong resistance" on the part of agents to any additional changes in the CGL policies until "we've had a chance to digest the changes that ISO has already proposed."

BankAmerica forms captive

SAN FRANCISCO—BankAmerica Corp. has formed a captive insurance company in the Cayman Islands to provide directors and officers liability coverage for its Bank of America subsidiary.

BankAmerica Corp. has formed B.A. Insurance (Cayman) Ltd. on Grand Cayman to insure its D&O liability exposure, according to officials at the bank's San Francisco headquarters. The new captive, which began providing coverage April 15, is being managed by Johnson & Higgins (Cayman) Ltd.

A spokesman for Bank of America said the captive was formed because, "We couldn't get adequate coverage at an appropriate cost" in the commercial market.

In March, Bank of America filed a lawsuit against Employers Insurance of Wausau in an effort to recover a $95 million loss tied to allegedly fraudulent mortgage-backed securities handled by officers of the bank. Wausau has since canceled $80 million in D&O coverage it wrote for the bank, and First State Insurance Co. has indicated it will cancel a $20 million excess layer on May 15.

The new captive will retain 100% of the risk; no reinsurance is being purchased, according to the spokesman. The spokesman would not comment on the exact limits of D&O coverage the captive would provide.

The captive will write only D&O coverage for Bank of America and has no plans to accept third-party business, he said.

Michael Cetera, a consultant with The Wyatt Co. in Chicago, said the bank's move to form a captive to provide D&O liability coverage could signal growing efforts by financial institutions to explore other options for funding this type of risk.

"D&O, particularly for financial institutions, is drying up," said Mr. Cetera. "The limits that were there before just aren't available anymore. When you can get them, the premiums are going way up."

EIL coverage rules relaxed

WASHINGTON—Enforcement action will not be taken against companies that can prove they have made a good-faith effort to obtain environmental impairment liability insurance, Environmental Protection Agency officials decided earlier this month.

In an April 12 memorandum to enforcement division directors, Jack W. McGraw, assistant administrator for solid waste and emergency response, said companies that have been unable to obtain coverage or have had coverage canceled "generally" should not be penalized if they can demonstrate a good-faith effort to obtain EIL insurance.

According to the memorandum, criteria that may be used by enforcement officials to determine whether a company has made a good-faith effort to obtain EIL insurance include: whether the firm submitted a complete application to an insurance company or insurance companies in a timely fashion; whether its application was submitted to "known" suppliers of EIL insurance; and whether the firm can document its efforts to obtain insurance with known insurers, including reasons given by the insurers for denial or delay of their applications.

Continued on page 64

index

Vol. 19, No. 17—*Business Insurance* (ISSN 0007-6864) is published weekly at 740 Rush St., Chicago, Ill. 60611. Second-class postage is paid at Chicago, Ill., and at additional mailing offices. Postmaster: Send address changes to *Business Insurance*, circulation department, 740 Rush St., Chicago, Ill., 60611; 312-649-5221.

Work comp reform

Illinois will consider state fund measure

By CAROL CAIN

SPRINGFIELD, Ill.—The perennial competitive state fund bill is back in the Illinois Legislature, and some say it has a better chance of passage this year.

Rising workers compensation premiums over the past year may convince employers to support a state fund now, believe the bill's sponsors and other legislative sources.

But employer groups and their attorneys say they still will fight the establishment of a state fund to provide workers compensation insurance, contending that government should stay out of the insurance business.

Nineteen states have state funds that provide workers compensation insurance. Thirteen of those states have competitive state funds, which compete with commercial insurers for workers compensation premiums. This is the type being proposed in Illinois.

The other six states have exclusive or monopolistic funds that exclude commercial insurers from underwriting workers compensation risks in those states.

"In all the states that have a state fund, premium rates have been less and there are less administrative costs," said Illinois Rep. E.J. Giorgi, D-Rockford, the major sponsor of H.B. 1515.

He sponsored a nearly identical bill during the last legislative session. However, that bill was ignored when the Legislature focused on amending and refining provisions in a major workers compen-

Continued on page 58

Hawaiian legislators tighten benefit rules

By CAROL CAIN

HONOLULU—Hawaii employers are claiming victory in their battle against high workers compensation costs with the passage of a bill that tightens requirements for receiving work comp benefits.

The bill also establishes a competitive state workers compensation fund, although it does not include any start-up money for the fund.

The multifaceted, often-revised, workers compensation bill was passed by the Hawaii Legislature in the final hours of an extended session on April 22.

The business and insurance communities lobbied intensively for workers comp reform, arguing that Hawaii's workers compensation rates and claims frequency are among the highest in the country.

As the bill—H.B. 463—wound its way through legislative committees, additional benefits to injured workers were added to the package and cost-cutting features were eliminated.

Gov. George R. Ariyoshi, concerned about the business climate of the island state, buttonholed several lawmakers in the final days of the session in a personal lobbying effort to seek relief for employers, and they give him much of the credit for the passage of the bill.

Although the final bill was not the major reform package for which employers and insurers had hoped, it is expected to cut employers' costs overall. Representatives of business, the insurance industry and organized labor all say more reform is needed

Continued on page 58

Kemper pumps $50 million into reinsurance subsidiary

By STEPHEN TARNOFF

LONG GROVE, Ill.—Kemper Corp.'s $50 million capital infusion into its reinsurance subsidiary, Kemper Reinsurance Co., will allow the reinsurer to write additional new and renewal business in an improved market environment, the reinsurer's president says.

The $50 million capital infusion, which was raised through a public offering of an additional 2.6 million shares of Kemper Corp. common stock, represents a 40% increase in Kemper Re's capital from the $124.7 million reported at the end of 1984.

But Kemper Re President David B. Mathis maintains the addition of new capital, which was announced last week, does not mean the company will change its underwriting standards.

In addition, he says he does not anticipate a significant expansion of the per-risk capacity it offers, although it expects to increase its net premium volume by more than 25% this year.

"We may expand participation within our underwriting guidelines," Mr. Mathis says. "But we are not changing our underwriting guidelines."

Kemper Re's maximum per-risk net retention is $3 million, according to A.M. Best Co., though Mr. Mathis said Kemper Re rarely writes its maximum line.

Kemper Re last week reported it had written $58.7 million in net premiums in the first quarter, an increase of 64.6% over the same period in 1984.

However, Mr. Mathis estimates that Kemper Re's total 1985 volume will rise by 27% to about $300 million, compared with $236.1 million last year.

While Kemper Re generally expects volume to increase, it will also lose some volume by rejecting some risks because of unsatisfactory terms, Mr. Mathis said.

"We know with the increased surplus capital we have the ability to handle more business," he added. "We intend to treat that judiciously."

He would not predict Kemper Re's combined ratio for 1985 except to say it should improve from the 119.2% posted by the reinsurer in 1984.

Mr. Mathis says Kemper is one of the first reinsurers to increase its capital to take advantage of the hardening market.

"We're one of the first that went out with a share offering for that purpose," he says. "I don't know of any intermediary market subsidiary that has done what we've done."

Mr. Mathis says also that the $50 million capital increase does not mean the reinsurer will change its mix of business.

The company currently reinsures all sizes and most types of risks, and Mr. Mathis says he does not expect Kemper Re to concentrate its new capital on any particular type of risk.

About 65% of Kemper Re's U.S. business is commercial casualty, while the rest is primarily property business, Mr. Mathis said.

Continued on page 59

N.Y., Illinois fight over Ideal reinsurance

By JUDY GREENWALD

NEW YORK—New York and Illinois insurance regulators are battling in court over which department should receive reinsurance recoveries that may be payable to Ideal Mutual Insurance Co. and its Illinois affiliate, Optimum Insurance Co. of Illinois.

Ideal Mutual was placed into liquidation by the New York Insurance Department in January, after the department found the insurer was $155 million short of meeting its liabilities.

At the same time, Optimum was placed in voluntary rehabilitation under the aegis of the Illinois Insurance Department (*BI*, Jan. 14; Feb. 4).

The New York Insurance Department says that, as Ideal's liquidator, it alone is entitled to any reinsurance payments to Ideal and Optimum, while the Illinois Insurance Department says it should also have a share of the reinsurance.

The two sides, which have taken the matter to both state and federal courts, have agreed to delay any further legal action until May 10 in an effort to negotiate an agreement.

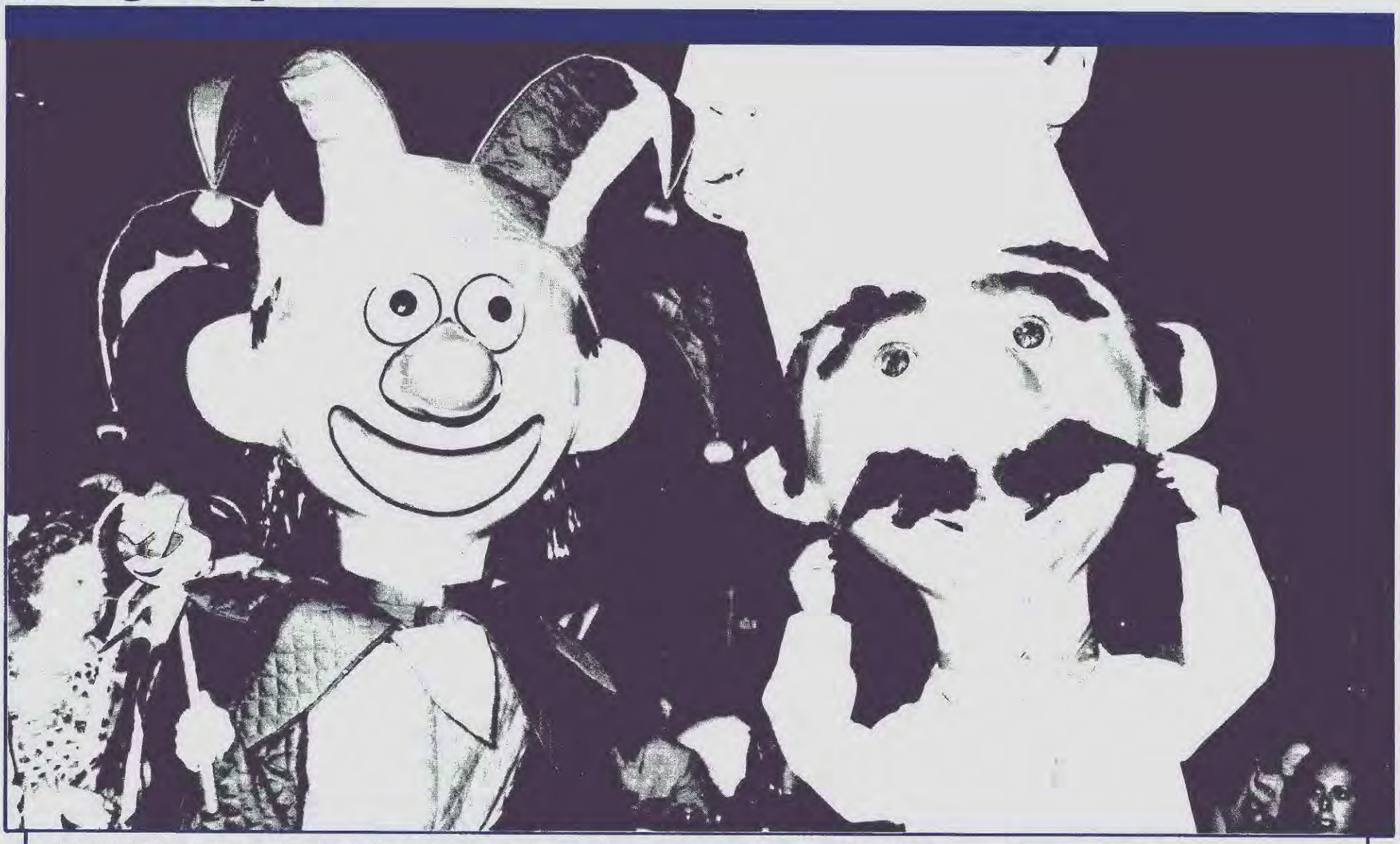
At the center of a dispute is a pooling agreement between Optimum and Ideal.

In 1980, Ideal, which is a mutual insurer owned by its policyholders, formed a downstream holding company, Optimum Holding Corp., and sold 49% of the new company to the public. Optimum Holding Corp. then formed Optimum Insurance Co. of Illinois.

Under the pooling agreement subsequently entered into by Ideal and Optimum Insurance, the two companies shared premiums, expenses and liabilities on business written by the two companies on a 51%-49% basis.

The agreement also provided that "the rights and benefits" of reinsurance contracts or treaties written on Optimum business would be assigned by Optimum to Ideal.

Continued on page 63



Carnival characters reminiscent of Mardi Gras entertain at the Spencer Foundation benefit that opened the Risk & Insurance Management Society's annual conference.

RIMS/New Orleans

New CGL forms attacked, defended

By LORRIE GIBSON

NEW ORLEANS—The new commercial general liability policy forms are restrictive—not attractive—and should be rejected because they do not offer insurance for a corporation's legal liabilities, says one attorney who specializes in insurance coverage litigation.

But, according to insurance industry advocates of the new CGL forms, a change to the new claims-made general liability form is necessary because insurers must be able to realistically assess risks or they cannot continue to underwrite them.

However, even they admit that the transition to the new policy forms presents myriad problems for both risk managers and the insurance industry, warning that the switch to the new forms next year will be chaotic.

The implications of the new CGL forms, which were introduced by the Insurance Services Office in early 1984 but then revised last fall to further limit insurers' liabilities, were discussed at the annual Risk & Insurance Management Society conference, held earlier this month in New Orleans.

While similar sessions at the 1984 conference were attended by only about 25 participants, both of this year's sessions attracted standing-room-only crowds that made their concerns about the new policy forms heard.

And, repeatedly, the speakers on both sides of the debate reminded the audience, "Don't underestimate the change that is upon us!"

The change began in January 1984 when ISO, the rate and form advisory organization for the property/casualty inurance industry, unveiled two new CGL forms, one which features a claims-made trigger and the other the more-traditional occurrence trigger.

The new forms mark the first major revision in the CGL form in almost two decades, and the change was prompted by the looming exposure to insurers from long-latent disease claims.

Under the occurrence form, used in most CGL policies today, an insurer is liable for any bodily injuries or property damage that occur while it is on a risk, regardless of how long after a policy's expiration a claim is filed

Continued on page 11

Tight market challenges risk managers

By DOUGLAS McLEOD

NEW ORLEANS—The current tightening commercial insurance market will create worse problems for risk managers than have previous tight markets, a panel of experts warns.

And, while risk managers can take steps to mitigate the hard market's impact, they will not escape the squeeze this time, the experts said.

The problems posed by a tightening market were discussed by a panel at the general session of the Risk & Insurance Management Society's annual conference earlier this month in New Orleans. The panel was composed of:

- W.N. Murray Lawrence, deputy chairman of Lloyd's of London.
- Rolf Hueppi, chief executive officer of Zurich-American Insurance Cos.
- Frank Tasco, president of Marsh & McLennan Cos. Inc.
- John R. Cox, former president and chief executive officer of Associated Madison Cos., a unit of American Can Co.

Three interrelated industry problems have been brought to the fore in the tightening market of the last year, Mr. Lawrence said: capacity, lack of continuity of buyer-insurer relationships and insurer security.

And, underlying the short-term causes of the hard market—bad experience after years of rate wars and cash-flow underwriting—are a number of trends that have developed over the last 30 years, Mr. Lawrence said.

As industrial insurance buyers have grown, the number of risks in a given industry has declined while the size of individual risks has increased, thereby reducing insurers' spread of risk, he observed.

"Ever since management in industry began to appreciate the cost advantage of size, our book of business has become steadily more unbalanced and unpredictable," he explained, adding that the trend has been exacerbated by an increase in self-insurance.

Development of new technology and the need to insure new types of risks has also created problems for underwriters, who have found themselves, "wittingly or unwittingly. . .the guarantors of that technology," Mr. Lawrence said.

Inflation in the last 10 years also has created problems in assessing insured

Continued on next page

A hands-on lesson in information systems

For the risk manager interested in purchasing a risk management information system for his department, the Risk & Insurance Management Society's annual conference earlier this month in New Orleans was the place to be.

With the help of Katie McBride of Corporate Systems, John W. Schaefer, risk analyst at Intel Corp. in Santa Clara, Calif., tests CS's On-Line system at the RIMS conference in New Orleans.

To accommodate the increasing interest in information systems, a separate exhibit hall was set up for computer software vendors to allow them to offer risk managers a hands-on demonstration of their wares. A report on the RMIS lessons learned begins on page 22.

Overall, a record 3,100 persons were registered for this year's RIMS conference. This week's report on the seminars continues through page 57.

Market tightens

Continued from previous page

values for underwriters who must pay claims on a replacement-cost basis, he added.

These developments are causing underwriters to change their approach to rating, he said. These changes include:

- Less tariff or manual rating of large risks.
- Less willingness to rate risks on past losses alone. Instead, underwriters must consider spread of risk and the values involved on property business.
- Greater emphasis on a "long-term approach to rating," in which underwriters base rate decisions not just on the last three or four years of experience but on "a very much longer period."

Despite complaints about severely restricted capacity in some lines, Mr. Lawrence said that Lloyd's capacity—measured by the premium income limits of all the market's investors—has increased 30% this year to $8 billion from $6.25 billion in 1984.

However, the increase in capacity has been adversely affected by the by the strength of the U.S. dollar, which has appreciated 20% against the British pound in the last 12 months. About 60% of Lloyd's business is transacted in dollars, Mr. Lawrence noted.

Mr. Lawrence

As a result, Lloyd's growth in capacity has been effectively cut in half, Mr. Lawrence said.

Increases in the capital of Lloyd's syndicates—and thus their capacity—is also adversely affected by a "general pattern" of poor results in the insurance industry, he said. "It does have the effect of making it difficult to persuade names that 1986 is the time to join Lloyd's".

Nevertheless, Mr. Lawrence said that the Council of Lloyd's has decided to increase the maximum gross premium limit allowed for individual names to $1.6 million from $950,000 in 1986.

As many as 10,000 of the existing 26,000 Lloyd's investors may wish to increase their limits, and Lloyd's expects a "surge" of applications for membership in 1986, Mr. Lawrence said.

Another problem that has led to a capacity crunch for some risks is the breakdown in continuity caused by the soft market, Mr. Lawrence complained.

"A marketplace in which buyers constantly flit from one supplier to another simply to obtain the cheapest rates is bound to be inimical to the provision" of insurance services, he said.

"It is hard to see how those who take, maybe quite understandably, a short-term view of this question can then complain if they find capacity problems developing for themselves as a result."

Another problem linked to the capacity shortage is the prospect of insurer insolvency, he suggested.

While "inadequate" premium levels are one threat to insurer security, "there are some other basic problems that cannot be cured by simply throwing money at them," he said.

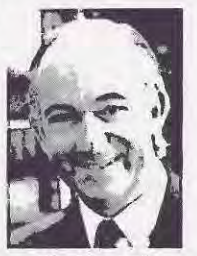
One problem, he observed, is the increasingly liberal interpretation by U.S. courts of insurance policies in favor of the policyholders.

"We enter into a contract today with no conception of the conditions under which our successors will be forced to honor it," he said. "Gone is any question of intent as understood at the time of writing between the parties. Instead, our successors are faced with the then-current views of the courts handing down ever more unrealistic, inconsistent and incomprehensible awards."

A solution to the problem would be for insurers and policyholders to arrive at a clearer understanding of their intent in an insurance transaction and to express that intent more clearly in policies, he suggested.

One "great step forward"—though not a cure for insurers' ills—would be mandatory adoption of claims-made liability forms, under which insurers are responsible only for claims that are filed during the policy period, Mr. Lawrence said.

Mr. Hueppi expanded on Mr. Lawrence's review of the industry's problems.



Mr. Hueppi

Among other recent pieces of bad news for insurers, he noted that:

- Industry-wide 1984 underwriting losses hit a record $21 billion, while the combined ratio on commercial business rose to 127% from 118% in 1983.
- Investment income failed to make up for the underwriting losses, leaving the industry with a $2 billion operating loss for 1984.
- Premium growth hasn't kept pace with the growth in claims. While the value of claims rose 18% in 1984, premiums written increased by only 9%.
- The Insurance Services Office projects that one-third of all insurers will operate at a 4-to-1 premium-to-surplus ratio by 1987, making for a "severe capacity crunch."

Two principal causes of insurers' problems, according to Mr. Hueppi, are inflation of claim costs and a growing gap between exposures underwriters are asked to assume and premiums they are paid.

Mr. Hueppi noted an "alarming" increase in jury awards, citing research showing that the average jury award in Illinois grew to $227,392 in 1983-84 from $117,587 in 1982-83.

One of the lines most affected by "social inflation" is workers compensation, where the definition of an occupational claim has broadened and where injured workers increasingly seek both workers comp benefits and jury awards in product liability or intentional tort lawsuits, he said.

Other developments worrying liability insurers, he said, are:

- Broadening definitions of product liability.
- More-liberal punitive damage awards.
- Possible homeowners' class-action suits against asbestos manufacturers and installers.
- The "unmeasurable effects" of pollution liability cases.
- Policyholder liabilities resulting from crime and discrimination.

While insurers' exposure to losses has increased dramatically, premiums haven't kept pace, Mr. Hueppi noted.

The industry's pure losses have increased 84% since 1978, while premiums have increased only 46%, he said.

Adjusting for several years of under-reserving by insurers, Mr. Hueppi estimated that pure losses are actually up 90% since 1978.

The turn in the market over the last year won't produce any immediate improvements for insurers, he added.

"The attempt to strengthen results primarily through rate increases will, ironically, lead to more acute surplus problems," he said.

Mr. Hueppi added that another threat to surviving insurers is the possibility of post-insolvency assessments by guaranty funds in 49 states.

"Potential assessments are a real and major threat" to the solvency of some companies, he said. "They could have a serious domino effect on marginal insurers."

Continued on page 10

The Government stopped us from offering some of our Flexible Spending Programs.

Flexible Spending Accounts are a good idea for employers and employees.

Unfortunately, the IRS doesn't agree. In recent rulings, they eliminated some of the many advantages offered by FSAs.

But despite the changes, Flexible Spending Accounts are too important of an idea to die. Not only do they provide employers with a method for controlling benefit costs, but they help employees cover medical costs with non-taxable income.

So NWNL Group has been working within the recent rulings to develop flexible spending accounts that offer maximum advantages to employers and employees.

As a result, Flexible Spending Accounts are alive and well, and available right now from NWNL Group.

Because the way we see it, as long as there's a need for Flexible Spending Accounts, we'll work to find an appropriate way to provide them. To find out how we're doing it, return the coupon for more information.

Send to: Ginny Charboneau
NWNL Group
Box 20, Minneapolis, MN 55402

Please tell me more about Flexible Spending Accounts.

Name_____

Title_____

Company_____

Address_____

City_____

State_____ Zip_____

BI-3

NWNL GROUP

A division of Northwestern National Life Insurance Company
Home Office: Minneapolis, Minnesota

So we've reconstructed them.

CIGNA WORLDWIDE HAS A VERY CONTROVERSIAL WAY OF HANDLING CLAIMS.

WE PAY THEM.

Consider everything that an insurance company can offer you. Flexibility. Capacity. Innovation.

Then consider what that is all worth when that insurance company won't pay your claim.

After all, more than one insurance company has sought to build its reputation by offering the most innovative, sophisticated, and wide-ranging array of empty promises in the industry.

Needless to say, at CIGNA Worldwide, that's not the way we choose to do business.

Because we believe the primary goal of an insurance company should be to provide insurance. So we don't use hidden loopholes or prolonged "investigations" to keep your money in our account.

That means, when you get a policy from us, you should know exactly what you're covered for. And best of all, it will be what you tell us you want to be covered for.

If something does happen, we'll have adjusters on the spot as soon as possible. And they'll be there to settle, not quibble.

It's not our practice to avoid paying a claim to improve our cash flow at the expense of yours.

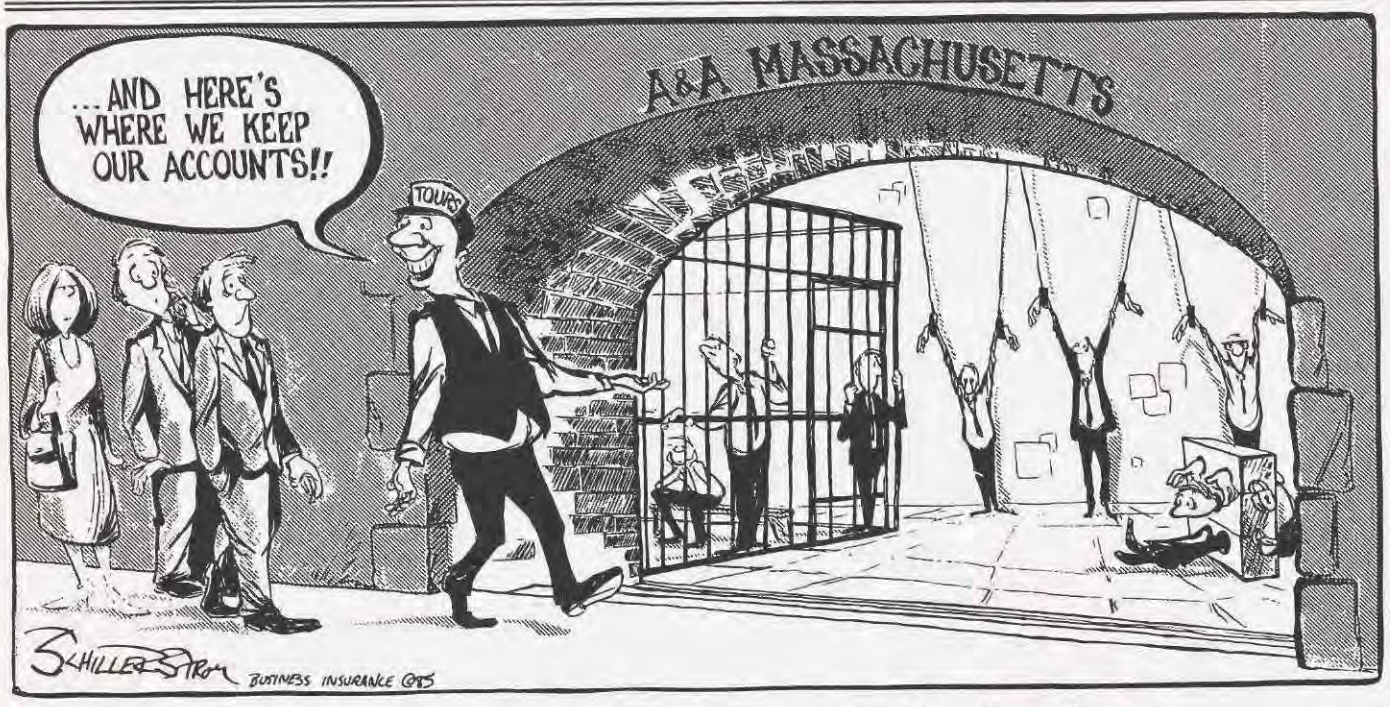
Maybe you don't find our claims handling procedures controversial at all.

But you can bet our competitors do.

CIGNA Worldwide, Incorporated
a CIGNA company

CIGNA

opinions



Preserve buyers' rights

CORPORATE insurance buyers' rights to select the broker of their choice should not be squashed when brokers tangle over non-compete agreements.

Insurance buyers are not parties to non-compete agreements signed by insurance brokers and should be left out of the fray.

Yet, Alexander & Alexander Inc. in Massachusetts is tromping on insurance buyers' rights in the process of pressing its litigation against Rollins Burdick Hunter of Massachusetts Inc. to enforce non-compete agreements it obtained from two brokers now employed by RBH (*BI*, April 22).

A&A charges that the two brokers, one former A&A employee and one former employee of an agency acquired by A&A are violating the non-compete agreements they signed that pledged they would not solicit their former clients for a specified period of time if they worked for another brokerage.

In its effort to enforce the non-compete agreements, A&A succeeded in obtaining a sweeping preliminary injunction against the entire staff of RBH in Massachusetts, forbidding the company from soliciting or accepting business from all clients who could be identified as clients of A&A and its acquired agency in Massachusetts during a period preceding the departure of the two brokers.

Already, two corporate clients have had to obtain court approval in order to select RBH as their broker.

This is an atrocious development in the relationship between insurance buyers and their brokers.

A&A has every right to seek court action to force compliance by the two signers of the non-compete agreements. And, A&A has every right to seek damages for violations of the agreements.

But, we strongly object to the injunction prohibiting all of RBH from soliciting business from clients that were with A&A or its acquired agency and even accepting business from a client that seeks it.

That constitutes curtailment of insurance buyers' rights to select their insurance brokers.

Insurance buyers should be entitled to receive quotations from any broker and to place their business with any broker they choose. If that account later is found to have been obtained in violation of a non-compete agreement, then the court can award damages or fashion another remedy.

But neither brokers nor the courts should dictate which broker a client can select.

letters

Case for claims-made form is less than convincing

To the editor: Liberty Mutual Insurance Cos. Chairman Melvin Bradshaw did a marvelous job of describing the current abysmal state of the environmental liability marketplace and the overwhelming challenges it presents (*BI*, April 8). He also delivered an eloquent argument for including defense costs within the limit of a liability policy. However, the case made for the adaptation of the claims-made policy was less than convincing.

Courts have created a good deal of confusion about the definition of "occurrence," yet the adoption of the claims-made form will not correct the situation; it will most certainly make it worse.

Not only does the new form retain the concept of "occurrence," it does so for the purpose of excluding coverage. The insured is burdened with the duty of reporting every "occurrence," but is warned that "notice of an 'occurrence' is not a notice of a claim." It does not trigger coverage under the policy.

A client reports to the insurer an occurrence that is certain to result in a costly claim. Coverage is not triggered, but the insurer is free to cancel and quote the highest possible premium for an extended discovery period or to quote a renewal at a prohibitive premium. Should the client decide to change insurers, the occurrence, which is not yet covered, must be revealed and will either be excluded or contemplated in the premium. If this does not result in a torrent of litigation, policies are not printed on paper.

Mr. Bradshaw emphasized the great risk of continuing to write general liability on an occurrence form. It is "to gamble our economic destiny." But this enormous risk—one that it is alleged cannot be quantified by all of the resources of the insurance business, that stumps the experts, the actuaries and the billions of dollars worth of computers—is not to be eliminated; it is merely to be transferred back to the clients of the business. It is they who must gamble their "economic destiny."

Without the resources of the insurance business, without the actuaries and the computers, every business that purchases claims-made coverage must decide in 1986 what to charge for its products or services, contemplating the eventual cost, which may not be known by 2012. If it errs, it goes out of business.

In the meantime, insurance companies, which have neither the talent nor the gumption to assume real risk, are allowed to collect premiums for a policy that does not respond to the real needs of the clients.

The claims-made policy may not even provide the insurers the relief they seek. At least one court has already decided that such a policy responds to the same losses that would be covered under an occurrence contract. The courts will not cease to rewrite contracts in favor of the buyer. The mandatory availability of a "discovery period" for a fixed maximum cost puts a company in the same position as one that wrote occurrence coverage.

Environmental impairment liability is best excluded from the general liability policy, and there are good arguments for including defense costs within the liability limit (though ISO has not proposed this—yet). Few would object to wording that would prevent the "pyramiding" of liability limits, avoiding the tapping of successive policies to cover a single occurrence. But a claims-made form is not necessary to accomplish these worthy objectives.

Charles A. McAlear, CPCU
McAlear Associates Inc.
Grand Rapids, Mich.

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

business insurance®
Reporting weekly for corporate risk, employee benefit and financial executives

Publisher: Alfred Malecki *(New York)*

Editor: Kathryn J. McIntyre, A.R.M. *(Chicago)*
Managing Editor: James M. Burcke *(Chicago)*
Deputy Editor: Lorrie Gibson *(Chicago)*
CHICAGO: Alison Kittrell *(Copy Editor)*, Marla Antelis *(Assistant Copy Editor)*, Carol Cain *(Associate Editor)*, Meg Fletcher *(Associate Editor)*, Stephen Tarnoff *(Associate Editor)*, Linda J. Collins *(Agent/Broker Topics Associate Editor)*, Diane Kastiel *(Staff Reporter)*, Marilou Jones *(Directory Editor)*, Holly E. Seguine *(Graphics Editor)*, Amy Palmer *(Graphic Artist)*, Donna DiBlase *(Proofreader)*, Cali Sangalis *(Editorial Assistant)*
LONDON: Stacy Shapiro *(London Editor)*
LOS ANGELES: Robert A. Finlayson *(Bureau Chief)*, Steve Taravella *(Associate Editor)*
NEW YORK: Douglas McLeod *(Bureau Chief)*, Michael Bradford *(Associate Editor)*, Judy Greenwald *(Associate Editor)*
WASHINGTON: Jerry Geisel *(Washington Editor)*
Corporate: Joe Faraci *(Corporate Art Director)*

Advertising Director: Donald A. Walsh *(New York)*
Midwest Sales Manager: Robert L. Niesse *(Chicago)*
CHICAGO: Deborah D. Neale *(District Manager)*, Beverly J. Kluxdal *(District Manager)*, Fran Prybylo *(Production Manager)*
LOS ANGELES: Michael J. Sharpe *(District Manager)*
NEW YORK: Charles A. Horvath *(District Manager)*, Jack Forrest *(District Manager)*, Martin J. Ross *(District Manager)*, Nancy Ellen Schwartz *(District Manager)*

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

EDITORIAL: Chicago: 312-649-5398; London: 01-404-4228; Los Angeles: 213-651-3710; New York: 212-210-0100; Washington: 202-662-7200
ADVERTISING: New York: 212-210-0133; Chicago: 312-649-5276; Los Angeles: 213-651-3710
COMMUNICATIONS: New York: 212-210-0132
CIRCULATION: Chicago: 312-649-5221

Published by Crain Communications Inc., Chicago
G.D. CRAIN JR.
Founder (1885-1973)
MRS. G.D. CRAIN
Chairman
KEITH E. CRAIN
Vice chairman
S.R. BERNSTEIN
Chairman-executive committee
RANCE CRAIN
President
MARY KAY CRAIN
Treasurer
MERRILEE P. CRAIN
Secretary
JAMES M. FRANKLIN
Vp-finance

Published weekly at 740 Rush St., Chicago, Ill. 60611, Telex 25-4248, Cable CRAINCOM. Offices: 220 E. 42nd St., New York, N.Y. 10017, Telex 604207 CRAIN COM NYK; Suite 814, National Press Building, Washington, D.C. 20045; 6404 Wilshire Blvd., Los Angeles, Calif. 90048; 20-22 Bedford Row, London WC1R 4EB, England. $1.50 a copy. $52 a year in U.S. Canada and all other foreign add $16 for surface mail. Europe and Middle East only add $45 for air delivery. First-class mail to U. S. and Canada only, add $48. Bermuda only, $97 per year expedited delivery. WILLIAM STRONG, vp-circulation. ROBERT FIORITO, *circulation manager*. ROGER DiGREGORIO, *fulfillment director*. Four weeks' notice required for change of address. Send subscription correspondence to Circulation Department, Business Insurance, 740 Rush St., Chicago, Ill. 60611, or phone 312-649-5221. Microfilm copies are available from University Microfilms, 300 Zeeb Road, Ann Arbor, Mich. 48013. Microfiche copies available: Bell & Howell, Micro Photo Division, Old Mansfield Road, Wooster, Ohio 44691. Portions of the editorial content of this issue are available for reprint or reproduction in other media. For information and rates to reproduce in general circulation media, contact: ART MERTZ, The Crain Syndicate, 740 Rush St., Chicago, Ill. 60611, 312-649-5303. For reprints or reprint permission contact: Reprint Department, Business Insurance, 220 E. 42nd St., New York, N.Y. 10017, 212-210-0229.

BPA Member of Business Publications Audit of Circulation ☆ABP

If You're Not Selling Extra Strength[sm] Builders' Risk... You're Not Building Your Business.

The present building boom is not only creating business for contractors—it can build your business, too. Because The Home has created a new package for builders called Extra Strength[sm] Builders' Risk insurance. It's the first policy that was designed to cover practically *every* builder's risk.

Extra Strength[sm] Builders' Risk Is The Most Constructive Policy On The Market.

We offer a full range of the most comprehensive features. For example, the policy provides true "All Risk" protection for property coverage, including earthquake and flood. Protection for contractor's equipment is part of the package, too—with extra features other policies don't offer. And, unlike any other builder's insurance policy, ours protects the builder against third-party losses due to "faulty workmanship" for a full year after the project has been completed.

Another valuable feature we've added is Soft Costs and Loss of Rents coverage, which includes loss of income and continuing expenses due to construction delays. Such protection can make an important difference to a builder's bottom line during these days of increased financing costs. Home Insurance has dedicated itself to developing coverages that are right for the times ...and this is just one more example.

If You Want To Keep Building Your Business, Be Constructive.

Contact The Home field office nearest you. Or, return this coupon today and we'll send you more information on how our policy can give you the extra strength you need.

This policy is available in most states.

Please send a brochure on The Home's Extra Strength[sm] Builders' Risk Insurance.

Name _____

Firm _____

Address _____

City _____

State _____ Zip _____

Telephone No. _____

Mail to: Marketing Department, 3rd Floor,
The Home Insurance Company
59 Maiden Lane, New York, NY 10038

THE HOME INSURANCE COMPANY

A City Investing Company

HOME 1853

59 MAIDEN LANE, NEW YORK, NY 10038

Special skills needed to survive in tight market

Continued from page 4

In order to survive, insurers will be taking a number of steps, he said. These include:

- Concentration on essential services, leading to the sale of affiliates and foreign operations.
- Increasing capital through stock or debenture sales.
- Increased risk selectivity.
- Concentration on lines of business with better-than-average profitability.
- Tightening terms of retrospective premium plans and other loss-sensitive programs.
- Restricting allowances for interest income on reserves when rating policies.
- Adopting claims-made liability forms.
- Adopting more-stringent loss-control measures.

Mr. Hueppi added that the capacity crunch is real and in several ways worse than the hard market of the mid-1970s.

Among the differences, he noted that:

- Reinsurers this time had worse results than direct insurers.
- Capacity from European and Japanese insurers, which eased the crisis of the 1970s, is no longer available for U.S. risks.
- The surplus and reserve position of U.S. insurers is worse than in 1975.
- Captives may not prove as attractive an alternative "for a variety of reasons."
- Industrial conglomerates are "disillusioned" with the property/casualty business and are less likely to add capital to it.
- Capacity that could be used for property/casualty risks will instead be applied to more-lucrative personal lines business.

As a result, risk managers should be ready for rate hikes and more stringent underwriting, and should develop longer-term relationships with stable markets, he advised.

"If you have international exposures, make sure you are with an insurer that can and will maintain the expensive foreign operations at the necessary service level," he said.

Mr. Tasco

He added that insurance buyers should pay particular attention to the impact of higher deductibles or increased self-insurance and should anticipate capacity problems by approaching the market early on renewals.

"There will be no miracle to get us out of the problems we face."

M&M's Mr. Tasco agreed the capacity shortage this time around is more severe than a decade ago.

"In the past, the white knights of capacity have been the reinsurers. Now you can forget it," he said.

Total limits of $100 million are tough to arrange in some lines, he added, noting one client that recently tried to find $500 million in errors and omissions coverage.

The client was only able to get $100 million, with a higher deductible, more restrictive insuring conditions and at more than double the previous year's premium for half the limits, he said.

Since January, capacity for directors and officers liability insurance has dropped by $100 million while rates have increased 100% to 300% for policyholders with no losses and up to 1,000% for those with poor loss history, he said.

M&M hopes to ease the capacity problem for some of its clients by raising $100 million to form a new insurance company, Mr. Tasco said. The aim of the new company would be to provide excess liability limits of at least $100 million over whatever limits were available from the worldwide market.

Stock in the company will be sold to M&M clients and to other insurance companies, added Robert Clements, president of Marsh & McLennan Inc.

Mr. Clements said the company will not operate as a risk-sharing pool, and it will accept business submitted by other brokers.

The idea has "gone over very well" with M&M clients, some of which have already committed to contribute capital, Mr. Clements said. He added that M&M itself will have no equity interest in the company.

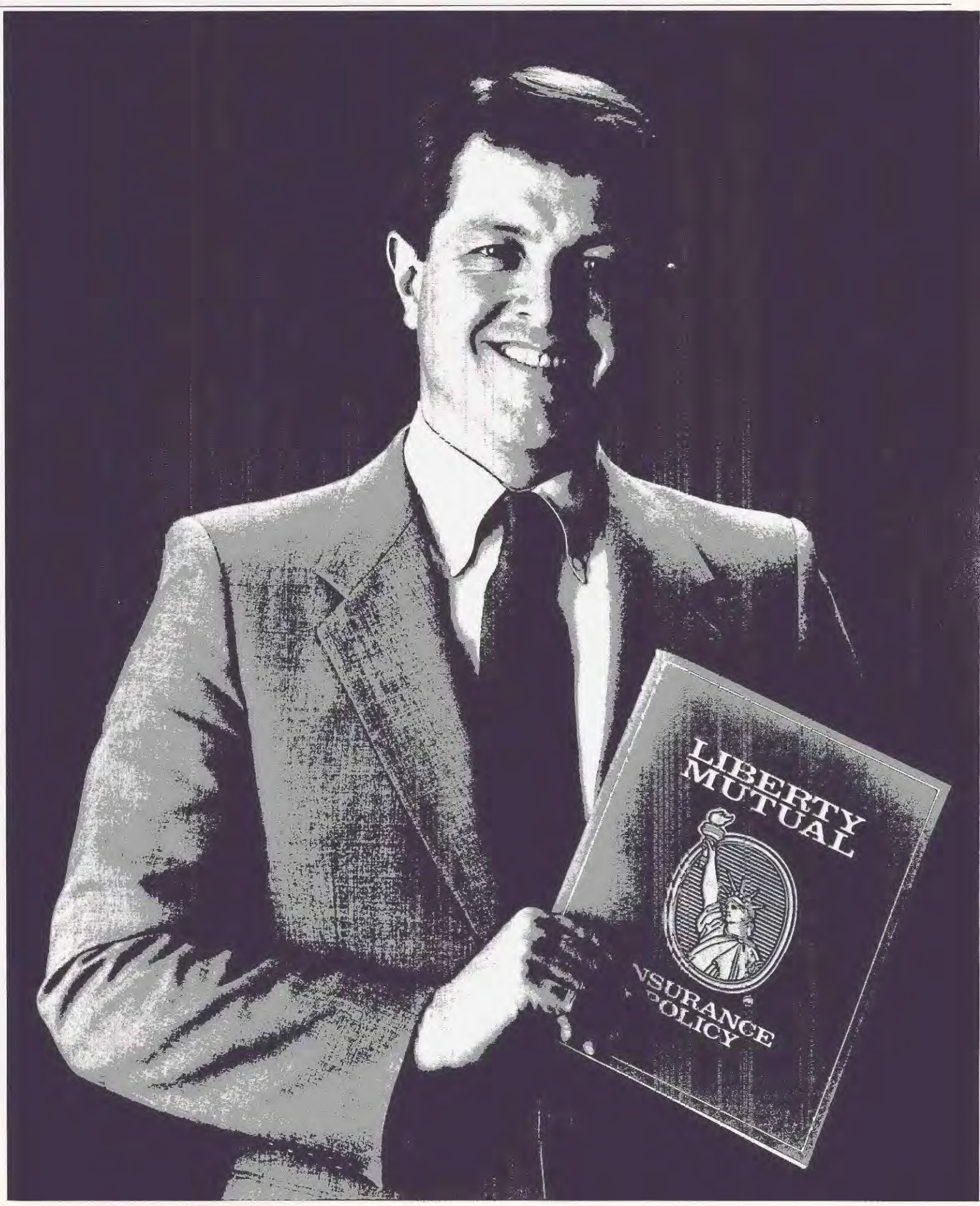
The company, whose intended lines of business will include environmental impairment liability coverage, will be located offshore, though Mr. Clements would not comment on which domicile will be chosen.

Mr. Cox

Mr. Cox, who resigned from Associated Madison Cos. recently to attend law school, offered some advice to risk managers trying to cope with the sellers' market in commercial insurance.

Among his suggestions:

- Convince senior management that rate increases and coverage restrictions are inevitable.
- Don't look for any quick solutions to commercial market problems. "Self-insurance in its many forms will help, but it's not going to be a panacea this time," he said.
- Review current self-insurance programs to assess their adequacy.
- Solidify your position with current brokers and insurers. "It is cheaper for you, your broker and your carrier to remain together," he said. "No one makes any money in the first year of affiliating."
- Examine your participation in "cooperative schemes" with other buyers, such as association programs. "You may find yourself with severe contingent liabilities," he warned, recommending withdrawing if this is the case.
- Require your broker to provide financial appraisals of the insurers on your account. Companies with captives should ask captive managers to provide the same appraisals of the captives' reinsurers.
- Be willing to separate—and pay more for—catastrophe coverage.
- Place excess and surplus lines exposures with insurers specializing in E&S lines.
- Try to remove or extend any 60-day cancellation clauses from your policies.
- While recognizing that brokers have been undercompensated during the soft market, "make your broker aware that you expect him to participate in this cost squeeze and that you do not expect him to get a windfall" from commissions on higher premiums.
- Convince your chief financial officer that insurance buying power can be gained by placing property/casualty and employee benefit programs under common control. ■



New CGL forms

Continued from page 3

For example, many insurers that underwrote liability coverage on the occurrence form for asbestos producers in the 1930s and 1940s were not hit with claims stemming from asbestos-related injuries until as late as the 1970s and 1980s, when the injuries were manifested.

This situation created by long-latent diseases has prompted disputes and litigation among insurers and policyholders over when injury does occur and, therefore, what policy must respond.

Under a claims-made form, an insurer is responsible only for claims filed during the policy period, which cuts the long-term exposure insurers face under the occurrence form and will reduce coverage litigation, proponents of the claims-made form say.

Besides introducing a new claims-made form, the ISO proposal in early 1984 also included a system of aggregate limits to cap insurers' total liability under any one policy and revised the wording of the exclusion of coverage for gradual pollution.

However, in October 1984, ISO revised its proposed policy forms. The two major restrictions added were a retroactive date on the claims-made policy and total exclusion of coverage for all pollution stemming from an insured's premises or ongoing operations, including the sudden and accidental pollution previously covered under the CGL. Pollution from products/completed operations will still be covered.

The retroactive date provision allows insurers to exclude coverage for bodily injury or third-party property damage that occurs before a date selected by the underwriter, even if the first claim is filed within the claims-made policy period.

It is expected that in most cases the retroactive date will be the effective date of a policyholder's first claims-made policy.

If a policy is canceled by either party, the policyholder must be given the option of buying an extended-reporting-period endorsement or tail.

Such tail coverage would cover claims stemming from any incident that occurred between the retroactive date of the claims-made policy and the policy expiration date even if the claims were not reported while the policy was still in force. The tail coverage would be considered excess of any other primary or excess coverage available to the policyholder.

While the new occurrence form will be offered to buyers next year side by side with the new claims-made form, it is expected that the claims-made form will be the form of the future.

Insurers say it initially will be priced as much as 40% or 50% less than the occurrence form, which will look very attractive in the current tight market.

In addition, because of the tight market, insurers may be able to force the claims-made policy on buyers desperate to find coverage. In many cases, insurers say, their reinsurers are demanding that they write only claims-made coverage.

Mr Anderson

"The new claims-made form is being touted by ISO as modern, attractive and simplified," said Eugene R. Anderson, an attorney who often represents policyholders in insurance coverage disputes.

"But, it is *not* attractive, and any risk manager who thinks it is should find a different risk manager for his company.

"The new form represents the first CGL policy revision in history that *restricts* coverage," stressed Mr. Anderson. "Every other prior revision broadened coverage.

"The purpose of insurance is to insure—an almost revolutionary concept today," he quipped. "P.T. Barnum would make a fortune on these forms."

Mr. Anderson, of the law firm of Anderson Russell Kill & Olick of New York, represented Keene Corp. in its landmark court battle to win coverage for asbestos injuries from its liability insurers.

Mr. Anderson urged the audience to focus on the "insidious way" ISO changed the CGL form.

"Worst of all, is that name!" exclaimed Mr. Anderson, pointing out that the new policy is called *commercial* general liability insurance instead of the former *comprehensive* general liability insurance.

"That makes a difference to you," he warned risk managers, explaining that in court when lawyers have pointed out that insurance was written under a "comprehensive" policy form, judges have held insurers to their promises to provide comprehensive coverage. "But, that's gone now," he added.

Similarly, he pointed out that the new form also omits the words "on behalf of" and "all" from the important phrase "will pay out *all* sums *on behalf of* the insured" that was contained in the old form.

The word *all* "has been a very valuable tool for policyholders in court" when insurers have argued that they only meant to pay on a pro rata basis, Mr. Anderson said. "Look for an explanation from ISO on why 'all' has been deleted."

He also pointed out that the old CGL form says insurers have a duty and right to defend lawsuits even if they are groundless or fraudulent. "That is not in the new policy any more," he lamented. "Valuable words are gone."

Despite these changes, however, Mr. Anderson says the revised forms do nothing to remove the use of the term "occurrence" that has caused insurers to debate their responsibility to respond to claims when it is unclear when an injury occurred.

"It boggles my mind that that same word is in the form," he said, "after they have complained for 10 years about the interpretation of 'occurrence.'"

Mr. Anderson said that insurers, who blame the tort system for many of the problems they face in underwriting coverage, should be leading the push for tort reform since 60% of the lawyers in the United States are directly or indirectly employed by the insurance industry.

"The insurers have the clout to push tort reform," he said, but they do not because they are afraid if they lobby for it others will lobby to have insurance regulation federalized. "They are afraid of federalization."

Although it is "late in the day," Mr. Anderson admonished risk managers not to apathetically accept the new CGL forms.

"You wouldn't accept a car from GM with only three wheels, would you?" he asked.

"Contact the insurance commissioners in the states where you do business and suggest to them that 'insurance' should still be available," he advised. The ISO form must be approved by state insurance departments before it can be used.

"Challenge ISO on this. Protest. Get your local RIMS chapter to contact insurance commissioners," he stressed.

"Remind insurers that asked you to be loyal during the soft market that loyalty runs both ways," he said. "We don't think insurers should climb out of the ring when the going gets tough. We need insurance."

Richard R. Savage, senior vp of ISO, said that the new claims-made

Continued on next page

CPCU sets teleconference

A live video teleconference to discuss the new commercial general liability insurance forms will reach more than 4,500 insurance underwriters, brokers, risk managers, claims administrators and others across North America.

During the May 15 teleconference, sponsored by the Society of Chartered Property & Casualty Underwriters, officials from several insurance industry trade groups will discuss the ramifications of the Insurance Services Office's new CGL policy forms, scheduled for use starting Jan. 1, 1986 (see story, page 3).

Larry L. Klein, director of professional services for the Society of CPCU, said the teleconference will cost "well in excess" of $100,000. The registration fee is $85 for CPCU members and $95 for non-members, and the society has lined up 62 locations across North America for viewing the conference, which will be transmitted from the campus of American College in Bryn Mawr, Pa.

Time has been set aside during the teleconference for a live question-and-answer session, when viewers will be able to call in questions to the six panelists.

Mr. Klein says that a videotape of the teleconference will be made available after May 15, but details are not yet available.

For information on the teleconference location in your area or to register, contact Mr. Klein at Kahler Hall, 720 Providence Road, Malvern, Pa. 19355; 215-251-2734.

New CGL forms

Continued from previous page

form establishes a situation where "one and only one policy will respond per claim and that policy is easily identifiable."

"That was the entire purpose" in revising the CGL form, he said. The new form does not reproduce the problem of deciding when injury occurs that is inherent in the occurrence form.

"The new claims-made form can remove all the expenses attached to occurrence form litigation," he stressed.

However, since it will take time for the market to accept the new claims-made form, the new occurrence form also will receive the full support of manual rules and rates from ISO, he said.

He said ISO had four objectives in redesigning the CGL form:

- First, to pinpoint the attachment of cover and address stacking of limits by introducing the claims-made form.
- Second, to define the parameters of insurers' maximum liability by introducing aggregate limits for all coverage so insurance can be priced based on expected losses.
- Third, to continue to provide coverage as required by insurance contracts.
- Fourth, to introduce a real mechanism for dealing with the growing pollution liability problem.

Mr. Savage

The catalysts behind the changes are the growing underwriting losses suffered by both primary insurers and reinsurers and court rulings in coverage disputes that favor policyholders, especially in the environmental liability area, he said.

Although ISO's revision of its new CGL form last fall restricted coverage by adding a retroactive date to the claims-made form and excluding all pollution coverage for premises and ongoing operations, it also was liberalized in some areas, Mr. Savage pointed out.

For example, a 60-day mini-tail is automatically attached to terminated policies at no charge that will provide the policyholder with coverage for claims filed after the termination date that stem from occurrences between the retroactive date and the termination date.

The purpose of this provision is to reduce the insurers' incentive to cancel coverage after they are notified of a claim but before the claim is filed and to give policyholders time to decide if they want to purchase the extended tail coverage.

Counting the 30-day cancellation notice required of insurers and the 60-day mini-tail, policyholders would have 90 days to get claims filed stemming from occurrences within the claims-made policy period.

The new policy form also specifies that the most an insurer can charge for the extended-reporting tail coverage is 200% of the premium paid on the original policy. This provision was inserted to allay insurance buyers' fears that insurers would price the tail coverage too high to be feasible to purchase, thus leaving coverage gaps.

The new form also creates new "laser beam" exclusions and endorsements that allow insurers to exclude coverage for known prior liabilities within the retroactive coverage period without hampering the policyholder's ability to obtain coverage for other risks, Mr. Savage explained.

Although pollution coverage is excluded under the new policy forms, it can be bought back for both sudden and gradual pollution in three ways, Mr. Savage said.

First, a pollution liability coverage endorsement can be added to the general liability policy to remove the coverage exclusion for property damage and bodily injury stemming from pollution. This coverage would be subject to the general aggregate limits of the policy and would not remove the exclusion of pollution cleanup costs.

Second, a separate, full pollution coverage part can be purchased under the claims-made form for bodily injury, property damage and cleanup costs. This coverage would have separate aggregate limits.

Third, a limited pollution coverage part can be purchased that would exclude coverage for cleanup costs. It also would have separate aggregate limits.

Mr. Savage also pointed out that the effective date of the new forms was moved back to January 1986 from November 1985 to minimize treaty reinsurance renewal problems for insurers and to allow more time for insurers to implement the use of the new forms.

And, he said, both the old and new forms will be available for use until January 1987 to allow time to educate underwriters and policyholders in the use of the new form.

"The whole insurance industry—insurers, producers and buyers—must be re-educated," said Joseph P. Decaminada, senior vp, secretary and general counsel for Atlantic Mutual Insurance Co. in New York and president of the Chartered Property & Casualty Underwriters.

"Company people are as confused as you are if they admit the truth," he said. "The average underwriter in the average company is not happy because he has to be re-educated."

"Don't think insurers are overjoyed," agreed Robert Hammond, secretary and home office casualty claims manager for American International Group. "Both sides are accepting the new form begrudgingly, but in the end I think it will

Continued on page 16

YOUR CARD GETS YOU THIS GAME.

METROPOLITAN'S CARDS HELP YOU WIN IT.

At Metropolitan we've made group insurance an entirely new game. And if you're a group insurance broker or consultant, it's yours with our compliments. Just play your card – right on the coupon – and we'll send you a game free. You'll see that when you need to design life, income replacement, medical, dental or any kind of group benefits plan for 50 or more lives, Metropolitan's the name of the game.

GET MET. IT PAYS.

Metropolitan Life
AND AFFILIATED COMPANIES

SEND TODAY FOR YOUR FREE GAME

Simply complete this coupon, attach your business card and mail to:

Metropolitan Life Insurance Co.,
Group Marketing Division – Game
One Madison Avenue
New York, N.Y. 10010.

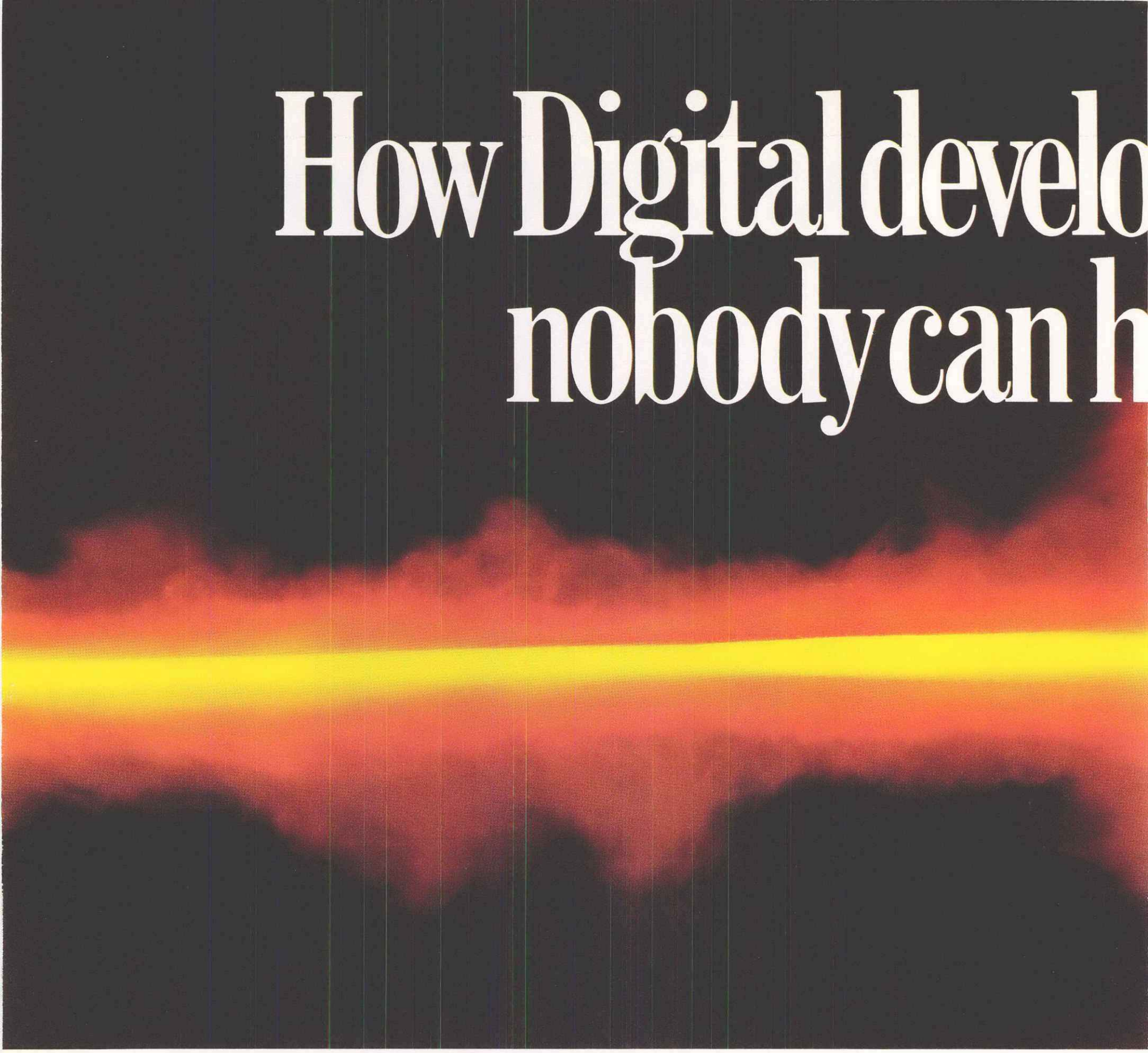
Type of group case you are most likely to handle:
☐ Life ☐ Income Replacement
☐ Medical ☐ Pensions/IRAs ☐ Dental
☐ Full Package ☐ Creditors

Size of group case you are most likely to handle:
☐ 50-200 lives ☐ More than 200 lives

Frequency of group cases handled per year:
☐ 1 or 2 ☐ 3-5 ☐ 6 or more

4B185

Supply of games limited. Offer expires June 30, 1985 and is available only to group insurance brokers and consultants. Offer not available to employees of Metropolitan Life Insurance Company, its subsidiaries, affiliates and advertising agencies or previous game respondents. Please allow 6 weeks for delivery.



If there's one thing that can make a computer company hot under the collar, it's watching millions of dollars worth of high technology products go up in smoke.

Fortunately, that's one experience Digital Equipment Corporation will probably never go through, thanks to two things.

A very innovative risk management department. And a very innovative insurer. Arkwright-Boston.

RESPONSIVENESS WAS THE HOT BUTTON.

So, why does one of the world's largest computer companies pick an insurer like Arkwright-Boston to protect their computers?

Well, look at it this way. Digital is a leading supplier of information management systems and network products for the office and small business. With total revenues of more than $5 billion, from operations in 48 countries on five continents, Digital needs an insurer that can react. And fast.

Which is precisely what we did when Digital asked us to help with a major challenge.

It seems that Digital, in an effort to protect their computers and peripheral equipment, packs them in foam plastic cushioning.

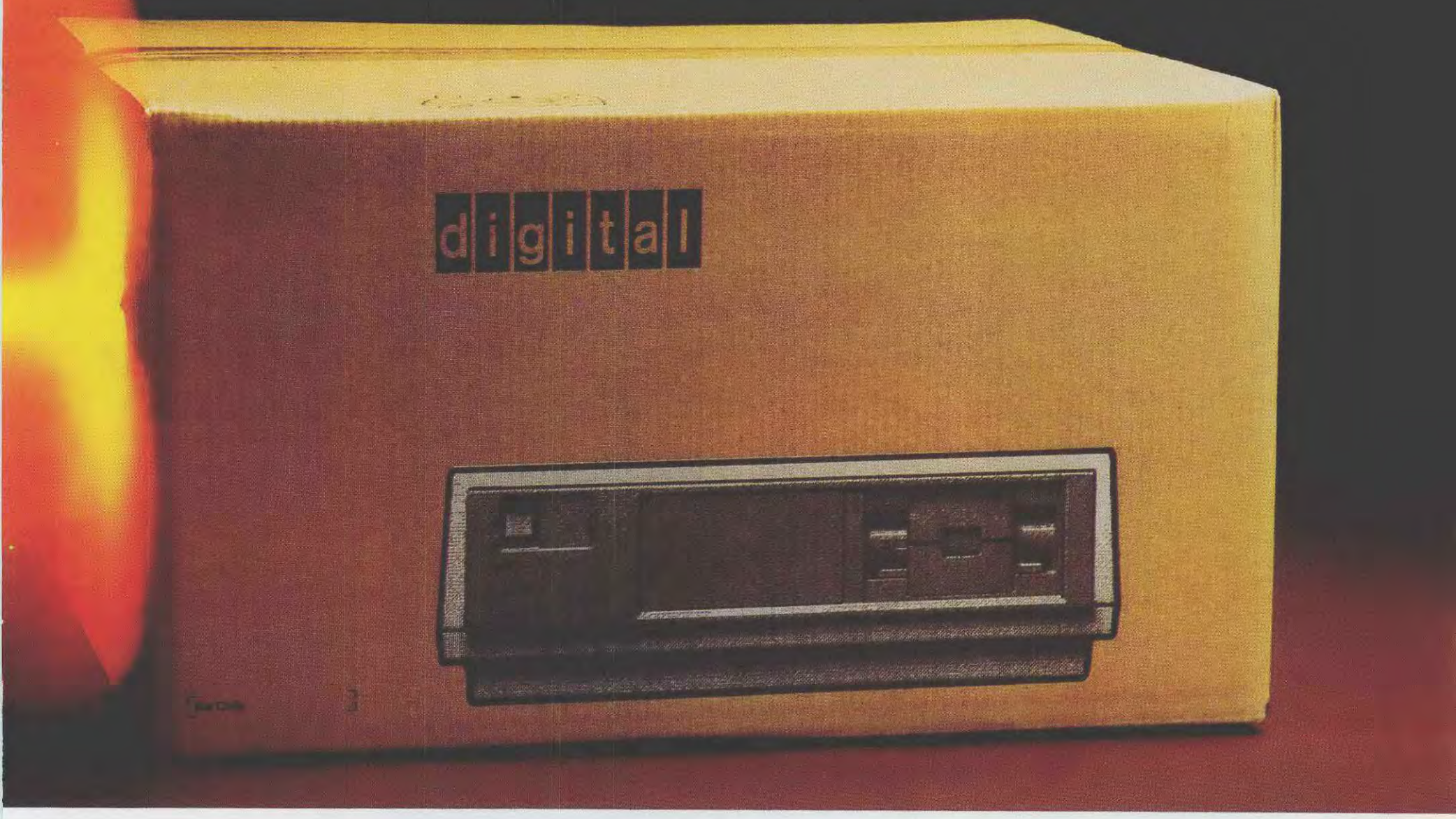
A very good idea as far as shipping is concerned. A very flammable one as far as storage and fire hazards are concerned.

So we're working with Digital's own risk management and distribution teams to put our knowledge of fire hazards to good use. We're testing fire-resistant packaging they developed, which will be called, logically enough, the-box-that-doesn't-burn. Using the latest sprinkler technology and our years of fire research, the tests are rather extensive.

But in the end, we expect Digital's solution to be quite a breakthrough. For one thing, the new boxes will have low combustibility and will be a lot less expensive to manufacture. And because the packaging materials are expected to be FDA approved, there may be other applications outside the high tech industry.

Now, if you think the only thing Digital will end up with is a very effective way to protect their products from the ravages of a catastrophic fire, think again.

ped a package that old a candle to.



You see, when the company starts protecting their computers in the new containers not only will distribution costs of warehousing be dramatically lower, insurance costs will be a lot less too.

Which just goes to prove what we've been saying all along. Arkwright-Boston is not only a company that insures you. It's a company that protects you.

WHY OTHER INSURERS ARE FEELING THE HEAT.

Let's face it. Even a fire-resistant box like the one we're helping Digital create is no guarantee that the company will never suffer losses in a fire.

But if they ever do, one thing is for sure. They'll never get burned by their insurance company. Because Arkwright-Boston would be there to cover them every step of the way.

With blanket fire and extended coverage, boiler and machinery, and DIC. Coverages that Digital has worldwide.

And if you think you wouldn't get the same level of dedication, think again. Because we put the same high standards to work for all our insureds.

But don't take our word for it. Ask French's mustard. American Greetings. Or Morton Thiokol. They're all our clients.

So if the idea of an insurance company with this sort of dedication and creativity intrigues you, call or write us. But do it soon. Because if a disaster hits before we get together, your company could get burned.

Arkwright-Boston Insurance, Marketing Services, 225 Wyman St., Waltham, MA 02154, 1-617-890-9300, Ext. 3295.

The Digital logo is a trademark of the Digital Equipment Corporation, Maynard, Massachusetts.

ARKWRIGHT BOSTON INSURANCE

New CGL forms

Continued from page 12
be a good change.

"The largest problem, however, is the education of everyone," he said. "It is a monumental undertaking."

It also will be expensive. Mr. Hammond said he heard that one insurer is spending $24 million just to educate its underwriters and to retool policy forms.

Properly underwriting the new policy forms also will be more expensive because it will require more research on the part of insurers, and risk managers will have to be ready for these new investigative efforts, the panelists said.

To properly underwrite the new claims-made form, the underwriter is going to have to have more knowledge about previous claims and previous occurrences, Mr. Decaminada said.

The underwriter is going to have to have more contact with the previous underwriter and more data will be needed, he explained. In order for the underwriter to effectively implement "laser beam" exclusions, "it is going to have to be more concerned about what has already happened," he added.

He also questioned whether insurers will be willing to give agents binding authority when the new forms are being used. "Do you think we are going to do that with the new claims-made?" he asked rhetorically.

When a risk manager files a claim under the new claims-made form, the insurer will want to investigate when the policyholder knew about that impending claim, Mr. Hammond warned.

"They are going to ask you where your insurance application is and why it didn't reflect this possible claim so a laser beam endorsement could have been applied," he said. "You will be subject to investigation more."

He also advised risk managers to research their coverage now so that 10 years down the road when an insurer asks for coverage history to settle a claim or write coverage, it will be available.

"It's hard to go back in time, so if you don't have coverage records, start keeping them," he advised.

Because of the separate aggregate limits applied to each coverage part under the new liability forms, it will be necessary for both insurers and policyholders to monitor how much of limits has been depleted, Mr. Hammond said.

"The new policy form will require much more monitoring, checking, communicating—and praying," said William Blick Jr., who is responsible for risk management as the assistant treasurer of The Allen Group Inc., an automotive parts and accessories manufacturer in Melville, N.Y.

For example, when a company is required to file a certificate of insurance with a third party in the course of business, the limits on those certificates will be meaningless, he said. Because the new policies will have aggregate limits on all coverage parts plus an overall aggregate limit, total limits provided by a policy will be constantly reduced as claims come in.

"This will take constant monitoring to stay on top of," he said.

"ISO has embarked on a mission to sell us on the merits of the claims-made form," Mr. Blick said. "If they are successful, we are in for a period of volatility, uncertainty and instability until *everyone* becomes familiar with these changes.

"Great demands will be placed on risk managers, that's for sure. We will have to keep more facts and communicate those facts to get the coverage we want."

Even if a risk manager can compile all the facts and figures requested, Mr. Blick still has concerns that the new CGL forms will serve corporations well.

For example, he wonders if risk managers will have to purchase higher primary limits to appease umbrella liability underwriters who will be more likely to be tapped for coverage when aggregate limits are placed on the primary policy.

And, he asks, will umbrella coverage now cost more?

He also points out that while pollution coverage for both sudden and non-sudden pollution will be available under the new policy forms if the policyholder wants to purchase it, some corporations that don't need this broader coverage will still have to pay the additional price if they want to have any coverage at all.

He predicts risk managers are going to have to allow more time at renewals because it will take longer to underwrite risks under the new claims-made form and because the risk manager may want to consider more alternatives. He'll also have to worry about coverage gaps between policies, he said.

In the end, despite the lower price for the new claims-made form compared with the new occurrence form and despite the tight market, if a risk manager does not believe the new claims-made form is providing the protection he wants, "he should reject it," said Mr. Blick.

"Change your timing at renewals to allow enough to find an insurer who will write the coverage you want," concurs attorney Mr. Anderson. "If enough risk managers do that, there will be no claims-made policy for the majority of the people. Don't take this lying down."

Dermot S. McGlinchey of the law firm of McGlinchey, Stafford, Mintz, Cellini & Lang of New Orleans, the sixth panel member, does not believe efforts put forth by either the insurance industry or risk managers to live with the new claims-made form will prevent coverage disputes in the end.

He believes the courts will still interpret insurance policies to provide compensation for injured parties and will expect insurers to pick up the tab. He said the courts will not deny coverage when a claim is not filed in accordance with the provisions of a claims-made policy when the injured party had no way of knowing at an earlier time about a long-latent injury.

"The American judiciary has made a determination that social requirements demand that the risk of loss should be passed on to the insurance industry, and the same philosophy will stand irregardless of what is done with the CGL form," Mr. McGlinchey concluded.

The CGL session was moderated by Jesse Pagonis, corporate director of insurance for Engelhard Corp. ■

Recall coverage 'crisis' on horizon: Broker

By JERRY GEISEL

NEW ORLEANS—The market for product integrity, impairment and recall insurance is drying up, a broker warns.

"There is insufficient premium to offset catastrophic losses," says Philip Stein, a vp in the San Francisco office of Fred S. James & Co. of California.

In fact, he warns that by 1986, the coverage could become unaffordable.

With coverage becoming more expensive and more difficult to obtain, companies should be prepared to spend some time when placing their coverage.

"Spend as much time as you would on any other placement," Mr. Stein said at a session on "Product Integrity, Impairment, Recall & Protection" at the annual Risk & Insurance Management Society conference held earlier this month in New Orleans.

When companies seek coverage, they should prepare a list of information to give insurers a better understanding of the risk.

According to Mr. Stein, the list should include information on:

- To whom the company sells its products.
- How the products are distributed.
- The company's recall policy.
- The company's previous recall experience.
- The company's product liability claims experience, since there is a correlation between the likelihood of recalls and product liability experience, Mr. Stein said.

Company management should seek face-to-face meetings with underwriters, Mr. Stein advised. During these discussions, the company should explain its quality assurance programs and why it wants to purchase the coverage.

Before they approach the market, companies should decide how much risk they are willing to assume. With coverage becoming more expensive and difficult to obtain, higher retentions are necessary, he said.

Small or medium-sized companies should expect retentions of between $100,000 and $1 million, said Clifford Stromberg, an attorney in the Washington office of Hogan & Hartson.

Mr. Stromberg noted that product recalls have become a fact of life for corporate America. He estimates, for example, that 25% of Fortune 500 companies have recalled products during the last two to three years.

Product recalls are on the rise because of increased consumer expectations, Mr. Stromberg said.

In addition, products are becoming more complex, and so they are more likely to be defective. At the same time, technological advances allow companies to detect product hazards more quickly, he said.

Of the thousands of product recalls, most have been "voluntary," he noted, using the military definition of voluntary.

"You 'volunteer' to recall your products or a government agency will force you to begin a recall," he said.

The rate of response to a recall varies widely, depending on the product. For example, when an auto manufacturer recalls a model to correct a defect, about 50% of the owners will return their cars for the necessary work. By contrast, the response rate for many other consumer products ranges between 8% to 12%, Mr. Stromberg said.

Several government agencies have wide powers in the product integrity area, Mr. Stromberg said. The CPSC, for example, can ban a consumer product if it poses an "unreasonable risk of injury and if

no consumer product standard is feasible."

Products banned by the CPSC include lead-based paint and TRIS, a fire retardant used in children's clothing.

The CPSC can set standards for consumer products, like swimming pools and lawn mowers, if such standards can reduce or prevent an unreasonable risk of injury.

In the case of medical products, the federal Food and Drug Administration can order manufacturers to repair, replace or refund the purchase price to consumers if the agency determines the device presents an unreasonable risk of substantial harm to the public health.

The FDA also can require a drug manufacturer to add precautions or warnings and to notify all physicians of the change.

And, the FDA can require manufacturers to reformulate a drug. For example, the agency recently ordered manufacturers of some painkillers to delete the ingredient phenactin, Mr. Stromberg said.

Finally, the FDA can order the withdrawal of a product that causes cancer in laboratory animals.

Sometimes, however, Congress will interfere with agency actions. In 1977, Congress prevented the FDA from banning saccharine. Instead, Congress imposed a moratorium on banning the use of the product, pending further study.

Currently, Congress is considering whether to require manufacturers to warn consumers if a product contains sulfites, a food preservative, and whether manufacturers should list the amount of sodium in their products, Mr. Stromberg said.

Also, a number of states have passed laws that require product warnings. Florida, for example, has special labeling rules for products that produce radiation, Mr. Stromberg said.

When the government sets labeling standards, such requirements can have the same effect as a product recall or ban.

For example, if sodium labeling were required, some products like soy sauce, which contain an unusually high amount of salt, might become unsalable.

"That is essentially a recall," Mr. Stromberg said.

Baby products and products that may produce radiation have the highest risk of product recall, Mr. Stromberg noted.

Mr. Stromberg advised a company to map out a contingency plan before it is faced with a product recall crisis. "You have to plan ahead. Don't make plans at night when everyone has had too much coffee."

Also speaking at the session was Kevin Kelley, executive vp at Lexington Insurance Co. in Boston. Michelle Hogan, corporate insurance manager at Carl Karcher Enterprises in Anaheim, Calif., was the panel moderator. ■

Reports can be boon for risk managers

By DIANE LYNN KASTIEL

NEW ORLEANS—The annual risk management report can give the risk management department a chance to toot its own horn, one risk manager says.

"Someone once told me that you don't get any credit for saving money, but when you don't save money, everyone pays attention to you," Kathleen G. Carangi, risk manager for IU International Management Corp. in Philadelphia, said at a seminar on risk management reports at the Risk & Insurance Management Society conference in New Orleans.

"Risk management reports are one of the most important areas (risk managers) can address," said Felix Kloman, principal with Risk Planning Group, a division of Tillinghast, Nelson & Warren Inc., in Darien, Conn.

But, he points out, "there also is risk in preparing an annual report," because the annual report increases the visibility of the risk manager and the department.

The potential value of the report makes it worth the risk, however, experts agree.

"Sure, if you fall on your face, the noise is louder," said Suzanne H. Crager, corporate risk manager for Provident National Bank in Philadelphia. "But if you don't fall on your face too often, you also build your credibility and value. Senior management learns who you are, what you do and why.

"Many companies see the risk manager as an insurance buyer. And we are that, but we do much more than just that," she said.

And, the risk management report can help demonstrate that.

If a report is to be effective, the experts said, senior management must read and understand it.

In fact, they said, the first and most important step in preparing a report is to know the audience.

"The most important thing is to put it in a format geared to your senior management," Ms. Carangi said.

The risk manager should use this rule as a guide when deciding things like how long and how formal a report should be and what kind of graphics should be used.

"If you're going to present it to senior management and the board of directors, you have to understand their style," Mr. Kloman said.

Herbert L. Cunningham, vp of administration for Transamerica Corp. in San Francisco, agreed. "Ask yourself, 'Who are these people (that you want to communicate with)? What do they want to hear?'" he said. "For example, if you're communicating with financial people, use a lot of numbers. If you're communicating with the legal counsel, use legal terms."

Mr. Cunningham added: "When your boss says, 'Gee, I really got a great report from Joe yesterday,' go to Joe and ask to see a copy of that report and then follow its format in your own report."

The panel of risk managers and consultants offered several other suggestions, including:

- Take the "KISS"—"Keep It Simple, Stupid"—approach. You can replace "simple" with "short" or "strategic," Mr. Cunningham said. Mr. Kloman said, "The shorter the document, the better the chance it's going to be read and understood."
- Use a "clear, simple, precise statement" to introduce and summarize the report, Mr. Kloman said.

Ms. Crager said she uses a brief policy statement to introduce her reports. "It helps establish the objective of the report. It sets the stage. And, it doesn't hurt to do a little selling of the risk management program here."

- In concert with the KISS approach, convey "the big picture" and leave the details to appendices to the report, Mr. Cunningham said. That way, details won't bog down the report but will be there for those who want them.
- Use graphics, but keep them simple and easy to understand. "Every graphic should have the key idea written at the bottom (of the graphic)," Mr. Kloman said. "Answer the question, 'What is this presenting or trying to prove?'"
- If possible, make a brief oral presentation of the report. The oral presentation should highlight the most important things in the report, said Ms. Crager.

"I have an opportunity to shine before senior management, but I do it as briefly as possible," she said. A brief recap will get management's attention, but a recitation will turn them off, she said.

- Be honest. The report should highlight failures as well as successes.

"Always tell your senior management the bad news," Mr. Cunningham said. "They want you to let them know what the bad news is so they can help. And when you're deep in trouble, sometimes it's hard to see clearly that senior managment can help."

Mr. Kloman added, "I think this is the most important area in the report because senior management doesn't want any surprises."

- Include a section on ongoing activities, Ms. Carangi suggested. Simply listing successes and failures excludes activities that haven't yet succeeded or failed, but that are important to the risk management department.

"Our senior management wanted to know about our accomplishments, and we thought there's a lot of things we're doing now that we think should be mentioned somewhere," Ms. Carangi said.

- Relate everything to the overall objectives the risk management department has set up. Look at current efforts in the context of forecasts made in previous reports, and make new predictions.
- Make things as concrete as possible. Be straightforward in your report and avoid jargon.

"Jargon may make you sound impressive, but if senior management doesn't know the terms, they'll listen to you and then go to someone else and ask, 'What's he really talking about?'" Mr. Cunningham said.

- Unless your corporate policy prohibits it, make your report available to anyone who wants it. Aim for the highest level possible, but distribute it to other levels of management, too.

"You want to communicate wherever you can," Mr. Cunningham said. "You want to spread the gospel of risk management to everyone in your company." ■

Umbrella cover requires consistency: Consultants

By ROBERT A. FINLAYSON

NEW ORLEANS—Consistency of coverage at all levels is the key to an effective excess liability insurance program, risk management experts say.

And, the potential for disasters involving large numbers of people and the increase in million-dollar damage awards make the proper structuring of umbrella and excess liability policies more important than ever, said C.C. "Bud" Griffin, president of consultant Warren, McVeigh & Griffin Inc. in Newport Beach, Calif.

Mr. Griffin and three other risk management experts discussed "How to Structure Umbrella Liability Coverages" at the annual Risk & Insurance Management Society conference held earlier this

month in New Orleans

Mr. Griffin and other members of the panel said all companies with major property/casualty exposures should re-evaluate their excess liability coverage to make sure it is adequate. He said many companies will find their umbrella and excess liability policies are inadequate or poorly designed.

In reviewing umbrella and excess liability policies for his clients, Mr. Griffin said he often finds:

- Poor policy draftmanship, which he said can lead to coverage disputes and litigation.
- Poor coordination between primary, umbrella and excess coverage, causing gaps in coverage.
- Use of "second rate" insurers in excess layers. This, he said, often results from failure of the insurance buyer to tell the broker the type of insurers the buyer is willing to accept on the excess program.
- Inadequate documentation of the excess program. Mr. Griffin said in some cases buyers wait months after coverage is bound to get the policy documentation. If a claim occurs during that time, it may trigger a coverage dispute, he added.

Many of these problems are caused by the fact that umbrella policy forms are not standardized, Mr. Griffin said. He said his firm works with more than 100 umbrella and excess policy forms.

All umbrella and excess policy forms are expected to be revised in the near future, based on changes the Insurance Services Office is making in the commercial general liability contract. Most umbrella policies are based on the CGL form.

However, it isn't known how the umbrella underwriters will structure their new policies, said Donald S. Malecki, president of consulting firm Donald S. Malecki & Associates in Fort Thomas, Ky.

Mr. Malecki said umbrella underwriters are waiting for ISO to finalize the new CGL contracts before issuing their new policy forms.

ISO officials have said that the new CGL contract forms issued by the insurer trade group in October 1984, which would eliminate virtually all coverage for pollution claims and include a retroactive date on claims-made policies, is the final version that will go into effect Jan. 1, 1986 (*BI*, Oct. 29, 1984).

Umbrella writers can be expected to follow the ISO's lead and issue a claims-made umbrella policy form, Mr. Malecki said.

And, he and other panel members advised insurance buyers to keep the primary and umbrella policies consistent with regard to the trigger of coverage: A claims-made primary policy should be covered only by claims-made excess and umbrella policies, and an occurrence primary policy should be covered only by occurrence excess and umbrella policies.

To do otherwise, Mr. Malecki warned, invites disputes between the primary and umbrella insurers over which policy should respond to a long-latent claim.

(A claims-made policy responds to claims that are filed during the time the policy is in force. An occurrence policy, the type most common today, responds if the bodily injury or property damage occurred during the policy period, regardless of when the claim is filed.)

Umbrella underwriters can also be expected to follow the primary insurers' lead in including defense costs within their policy limits. But, Mr. Griffin said this is no cause for panic on the part of insurance buyers, who should just adjust their policy limits to take into account the 20% to 35% reduction in coverage that results from including defense costs within the policy limits.

Panelists said the minimum coverages underlying the umbrella policy should include a comprehensive general liability policy; the broad-form ISO endorsement, which is included in the new CGL policy to be offered Jan. 1, 1986; the ISO business auto policy; and a standard workers compensation/employers liability policy.

The current broad-form endorsement includes coverage for contractual liability; personal and advertising injury; fire legal liability; incidental medical malpractice liability; and host liquor law liability.

Other possible underlying coverages that should be considered, according to panel members, include owned and non-owned aircraft and watercraft liability; employee benefits liability; directors and officers liability; ERISA/fiduciary liability; professional liability; and advertisers/publishers liability.

Panel members said the key points to remember when purchasing umbrella and excess liability policies are:

- Be sure the umbrella and excess policies are as broad as the primary coverage.
- Use as few insurers as possible to avoid policy inconsistencies and gaps in coverage.
- Use only top-rated companies for the excess and umbrella layers. "Be prepared to pay for quality," Mr. Griffin said, adding that umbrella and excess coverage "is the most important coverage for most businesses."
- Check the named-insured-clause to make sure coverage is as broad as the primary policy. Panel members warned that many umbrella and excess underwriters are trying to limit coverage for joint ventures and other non-named insureds.
- Be sure all the policy expiration dates are consistent.

Also on the panel were Pete Ligeros, an attorney with Warren, McVeigh & Griffin Inc., and Sheila P. Roberts, risk manager for Time Inc. in New York. ■

Crisis management can cut losses: Experts

By MICHAEL BRADFORD

NEW ORLEANS—Developing a contingency plan or "crisis management program" is essential to minimize losses from a catastrophe, risk management experts agree.

A company that does not have a workable contingency plan exposes itself to large business interruption losses and may expose its directors and officers to shareholder suits, according to a panel at the Risk & Insurance Management Society conference in New Orleans.

Richard H. Soper, a consultant with Richard H. Soper Inc. in La Jolla, Calif., said a company can also lose its marketing position without a crisis management system. He said no firm should be without "an effective plan to attack down time."

Because of the tightening commercial insurance market, many insurers will tighten the terms of their policies, Mr. Soper explained, and that means policyholders will have increasing exposures.

He defines crisis management as "a technique to reduce the adverse effects of a crisis or loss situation through risk identification, measurement and management accountability, with a primary focus on pre- and post-loss recovery strategic planning."

Mr. Soper said a company setting up a crisis management program first must evaluate the specific hazards it may face.

He said the seven sequential steps for formal adoption of a crisis management program include:

- Drafting a policy statement supported by senior management.
- Creating an executive crisis management committee to formulate guidelines and identify problems.
- Creating a facility crisis management committee responsible for identifying potential loss situations.
- Assigning a subcommittee whose responsibilities include duplicating records and finding offsite storage, locating backup computer facilities and finding alternate inventory sources before a loss.
- Establishing an "emergency brigade" committee composed of personnel with skills in first aid, cardiopulmonary resuscitation and other emergency skills.
- Developing an ongoing training program for the emergency brigade and emergency crisis management committees. The groups would be asked to respond periodically to hypothetical loss situations.
- Establishing a continuous audit and evaluation committee that would be responsible for such duties as updating emergency telephone numbers and non-business numbers of employees. The committee would determine the status of the other committees and make sure someone was accountable for all procedures.

An important element of a crisis management program is a chronological action guide, Mr. Soper says. Such a guide is structured to provide technical information on each risk and outline action to be taken before, during and immediately after an emergency. It is used primarily in training the crisis management committee and emergency brigade, he said.

Kenneth E. Berg, president of the FPE Group in Lafayette, Calif., told the audience that crisis management also is becoming more important for foreign companies.

"For a while it seemed the U.S. had a monopoly on catastrophes. That has changed," he remarked.

The United States is partly to blame for overseas catastrophes, Mr. Berg added, because after World War II, "We exported American technology but didn't bring along the risk management technology."

For example, plants in Germany were built to the same specifications as similar ones in the United States, but not with the same level of fire protection, he said. Heavy fire losses resulted at German plants.

Mr. Berg agreed that risks have to be identified by each individual company that wants to devise a contingency plan, and he said the the process is "difficult and time-consuming."

There are three ways to treat risk, he explained.

"You can eliminate it, which is the best way. For example, you get out of toxic shock liability by not producing tampons anymore. It's becoming a real viable option."

Risk can be reduced through risk management and safety techniques or it can be assumed by self-funding for a crisis. The risk can be transferred by purchasing traditional coverages, Mr. Berg said.

John H. Wiggins, president of J.H. Wiggins Co. in Redondo Beach, Calif., said, "A crisis is a high-consequence, low probability event. So an out-of-sight, out-of-mind kind of behavior prevails."

But risk managers must assume that, as Murphy's Law admonishes, "Anything that can go wrong, will go wrong," he said.

Developing a contingency plan means identifying three potential areas of loss, said Mr. Wiggins.

Direct losses involve property losses, while indirect losses may come from situations like computer failure that keeps a company from meeting its payroll.

Loss can also be suffered through directors and officers liability, he notes. Directors and officers are increasingly becoming the target of lawsuits when they fail to acknowledge or make changes regarding any highly-publicized liability that eventually leads to an accident, he said.

Losses can be minimized, he says, through simulation and mitigation.

"You simulate an event without it actually happening. Then you take what you learned in the simulation and see if you want to incorporate it into your plan."

Mitigation, he explained, is the application of knowledge from the simulation, from studying the overall risk-situation and from "using your imagination."

According to Harry J. Solberg, senior associate with Strategic Decisions Group in Menlo Park, Calif., risk managers must decide which crises to plan for to be adequately prepared for a catastrophe.

He suggested risk managers decide which crises they might reasonably have to deal with and write "worst-case" scenarios for each.

Constance L. Roberts, benefits and insurance manager for Hills Bros. Coffee Inc. in San Francisco, was the panel moderator. ■

The Retreat From Reinsurance Is Underway.

The cash flow reinsurers are leaving the field. They are being driven off by the growing gap between premium income and losses.

North American Re has been around for 75 years. Long enough to know that there are never any short-cuts in reinsurance.

As one of America's leading reinsurers, we know it takes years of experience, financial strength, and sound investments just to survive in this business.

To remain a strong reinsurance company requires close teamwork with our clients and innovative underwriting solutions.

We never intend to retreat from the harsh realities of the reinsurance business.

Instead, we plan to continue our advances to remain at the forefront of the reinsurance industry.

NORTH AMERICAN RE 1910 - 1985

Partners In Risk For 75 Years

NORTH AMERICAN REINSURANCE CORPORATION 100 EAST 46TH STREET, NEW YORK, NEW YORK 10017 (212) 907-8000

Computer vendors show their wares at RIMS

By STEVE TARAVELLA

NEW ORLEANS—Risk management is definitely going high tech.

Entering the exhibition hall at the Risk & Insurance Management Society conference was like walking into a computer show. More than 40 vendors among the more than 120 exhibitors were touting software with capabilities ranging from property/casualty reserve analysis and loss forecasting, to workers compensation claims management and benefit payments administration.

Risk managers ready to do some serious shopping for an automated risk management information system were even treated for the first time to a separate hall where leading vendors—including brokers and insurers—demonstrated their newest products in a quiet, but also somewhat stark, atmosphere.

Risk managers could get hands-on experience often under the tutelage of those who had designed the systems brought by some 16 vendors.

"This is probably the best RIMS (conference) I've seen for getting a handle on what the systems can offer," observed Richard H. Pierpont, vp at Frank B. Hall & Co. Inc. in Briarcliff Manor, N.Y.

The vendors in the computer hall ranged from newcomers to industry veterans.

San Francisco-based DAVID Corp., a 1-year-old software firm, was exhibiting its two products—HealthPlus for benefit processing and CompPlus for work comp administration—just a few feet from where 17-year veteran Corporate Systems of Amarillo, Texas, was demonstrating its new stand-alone microcomputer system.

Stand-alone microcomputer (or personal computer) systems were popular exhibits. And exhibitors agreed there was good reason for the interest in stand-alone systems.

"A lot of the smaller companies can't justify the costs of an on-line system," said Kelley Gaines, a Corporate Systems account manager.

Corporate Systems, which boasts of 36 of the Fortune 100 companies among its clients using its on-line system, introduced the preliminary version of its stand-alone PC system at RIMS. CS has been soliciting opinions of risk managers who've been experimenting with the system, Ms. Gaines said. The software so far is incomplete and unnamed.

The complete claims management system, which will have policy-registering, check-writing and ad-hoc reporting capabilities, will cost about $25,000, according to Ms. Gaines. It will be able to manage up to 7,500 claims.

Users have the option of maintaining the data themselves or contracting with CS to do it for them. Risk managers also will be able to contract for enhancements to the system.

One advantage CS' micro system has over the company's mainframe-based product, called CS On-line, is that it allows the self-insurer to enter an employee location code of up to 12 digits. Location codes are routinely used to designate a claimant's division, city, subsidiary, plant, branch, etc., and usually contain eight to 12 digits.

CS On-line only accepts location codes of four digits, which requires users to modify their numbers for CS's four-digit coding system, Ms. Gaines explained.

CS was also demonstrating one of the latest enhancements to CS On-line, called "data extraction." The program allows users to request specific portions of data while on-line, like the total of paid claims as of a certain date. CS produces the information overnight and enables the user to transfer the data to a floppy disc the following day. Then the data can be manipulated on a stand-alone micro.

This feature was originally developed for Dallas-based Southland Corp., a CS client, and has been released to other CS users over the past few months

M&M Client Information Services, based in Atlanta displayed MAESTRO, its new stand-alone micro risk management information system, which sells for about $30,000, excluding hardware. MAESTRO can accommodate a data base of up to 15,000 claims. The company has already sold five MAESTRO systems, to both self-insurers and companies that purchase commercial insurance.

One company—National Risk Management Inc. in San Ramon Calif.—even offered an IBM Personal Computer free to any business that purchased its workers compensation or general liability claims management system.

NRM was one of the few vendors at RIMS with software specially targeted for public entity risk managers.

Introduced at the conference by Sausalito, Calif.-based Risk Sciences Group Inc. was SIGMA-Micro, a stand-alone PC-based

Continued on next page

Continued from previous page

claims management system. The system is almost identical to SIGMA+, RSG's bread-and-butter mainframe-based product. But, it was really the merits of the mainframe product that RSG was touting at RIMS.

"Micros are fine, but they have a long way to go to be vehicles for the major players," explained Richard F. Denning, executive vp at RSG, one of the leading manufacturers of software with risk management applications (*BI*, Feb. 18).

SIGMA-Micro can manage a data base of only about 5,000 claims

But, independent vendors weren't the only software suppliers vying for attention at RIMS. Several brokers, insurers and a number of accounting firms exhibited new software packages with risk management applications.

Among those companies were Boston-based Liberty Mutual Insurance Co., GAB Business Services Inc. in Parsippany, N.J. and accounting firms Coopers & Lybrand and Ernst & Whinney, both based in New York.

Ernst & Whinney introduced MicroRESCOMP, a software product used to analyze and project loss reserves. It is a stand-alone PC system designed for self-insurers or businesses that spend at least $500,000 annually in property/casualty or benefit premiums. The system costs about $16,000, according to manager Jeffrey J. Miszner.

While Ernst & Whinney hasn't sold any copies of MicroRESCOMP yet, the firm has used the system for about six months to analyze its actuarial clients' loss reserves, Mr. Miszner said.

Coopers & Lybrand's EXHIBITMAKER is a loss forecasting and analytical software product that James A. Hall III, a C&L consultant in New York, described as "an actuary in a box." The software is designed to analyze losses at any business that generates more than $1 million annually in property/casualty premium, and can be used to aid in renewal negotiations with underwriters, Mr. Hall noted.

EXHIBITMAKER currently has about 25 users. About one-fourth are self-insurers; one-fourth are captive managers or similar management companies; and about half are insurers. The product costs $5,000, which includes service and any enhancements.

Liberty Mutual's RISKTRAC runs off a mini-computer at the user's site. This system, geared to insureds, sells for about $40,000, and includes modules for claims management, premium allocation and policy registering.

RISKTRAC does not come with hardware, but Liberty Mutual can lease appropriate hardware to the user or assist the user in obtaining it. Most of RISKTRAC's users operate two terminals off of the mini-computer; one terminal can be used to work with data if the other is tied up in a lengthy function.

Obtaining an applicable mini-computer and two video display terminals would cost about $40,000 more, estimated Milan C. Dahlquist, a Liberty Mutual financial analyst in the company's Dallas office.

About 11 of RISKTRAC's 15 users are Liberty Mutual policyholders; only one is self-insured.

COMTEC, in Farmington Hills, Mich., was one of the few vendors with a system that can be run from a mini-computer. RISKMASTER can be run off a mini using either micros or video display terminals.

New Orleans-based Conway Computer Consultants Inc. also demonstrated a property/casualty claims software system that runs off a mini-computer with PCs: CLAIMS:AMEX. It costs about $70,000 for hardware and software, and carries a $1,500 annual maintenance fee after the first year, said Marketing Director Harold S. Blaum Jr.

The 6-month old system is designed to set reserves and issue checks for businesses that self-insure workers compensation and other property/casualty exposures.

Several products exhibited are available only hand-in-hand with insurance company services.

CIGNA Corp. in Philadelphia displayed the latest in CRIS, CIGNA's Risk Information Services, offered only to its clients.

CIGNA policyholders are automatically eligible for on-line access to CRIS if they generate at least $1 million in premium volume annually in any casualty line or pay at least $100,000 in fees annually to CIGNA's claims-handling subsidiary, ESIS.

About 160 CIGNA clients have Level I equipment that allows them to perform various analytical functions on the menu-driven system. About 320 smaller clients are provided with smaller and somewhat slower computer equipment, explained Larry W. Gibbins, systems manager.

Both the Level I and smaller equipment is provided at no additional fee, but CIGNA policyholders that want a more sophisticated system can purchase CRIS Advanced, the price of which is factored into the policy premium. Besides the increased analytical ability of this system, it also can be hooked up with a plotter to produce full color graphs to illustrate reports. About 26 policyholders have purchased this advanced system.

The Travelers Corp. in Hartford, Conn., exhibited CARMA and SAILOR-ON-LINE, offered only to Travelers policyholders. ■

Study computer capabilities before you buy

By STEVE TARAVELLA

NEW ORLEANS—Make sure you know what you intend to use a risk management information system for before you buy one, experts advise.

According to leaders in the risk management information system field, some risk managers don't really know what to look for when they shop for a system, and subsequently overlook some of the system's most effective uses once it's in place.

Some of the best uses for a risk management information system, according to experts speaking at the Risk & Insurance Management Society conference earlier this month, include allocation of premiums, loss forecasting, claims payment analysis and generating statistical reports.

Some risk managers make the mistake of buying terminals or other hardware before selecting the software, which is really the meat of any risk management information system, they say.

"You ought to have a pretty good idea of what you want to do with it before you get your equipment. The hardware is the last thing you should buy," advised Richard H. Pierpont, vp at Frank B. Hall & Co. Inc.'s services division in Briarcliff Manor, N.Y.

He noted that the two most common information systems—standalone micros and those that run off mainframe computers, which generally require ongoing involvement from the vendor—each have their advantages.

Mainframe operations will generally give the risk manager greater power and speed and enable him to monitor a much larger volume of claims information, Mr. Pierpont pointed out.

These systems are also better suited to handling claims data from several sources, such as insurance companies and third-party administrators, he added.

But micros are considerably less expensive and allow the risk manager to enter all his own data, he noted.

When shopping among risk management information system vendors, a risk manager should seek a system as closely tailored to his or her company's exposures as possible, Mr. Pierpont said.

"The days of standardized products are numbered. All of you should demand customized products," he advised.

Allocating premiums among various divisions, for example, is "an important tool" and "one good reason why you should have a risk management system," according to William E. Kuebler, senior vp at Adjustco Inc., a Frank B. Hall subsidiary located in Tarrytown, New York.

Distributing the cost of risk among various operating units can provide a great incentive for loss control because each loss is assigned to a particular branch or division, Mr. Kuebler explained. Proper allocation rewards good experience and punishes poor experience.

Premium allocation also permits clear comparisons between actual loss experience and projected loss experience, he added.

In addition to allocating premiums by entity, costs can also be allocated by type of exposure, such as general liability vs. workers compensation, and by time period. For example, many risk managers use the loss experience of the previous three years as a basis for allocating premium, Mr. Kuebler noted.

But one particular risk management information system will not meet everyone's cost allocation needs, Mr. Kuebler explained, so some customization should be expected.

"If you really don't know how you want to do it, the better systems are flexible and will help you do it any which way," he said. "In 10 consulting hours, you may be able to add the bell or whistle you need."

Premium allocations aren't easy to swallow by the division managers who are hit with the biggest portions of premium, another speaker noted.

'All of you should demand customized products,' Frank B. Hall's Mr. Pierpont advised.

"Basically, everybody believes a cost allocation system is fair—until they get their loss-sensitive allocation," quipped Richard M. Inserra, director of insurance and risk management at American Can Co. in Greenwich, Conn.

But a risk manager can use his risk management information system to diminish that resistance, experts say, by generating reports that clearly document the reason for the large assessment. Most systems' reporting capabilities allow a risk manager to compare the loss experience of one division with that of several others.

"Just don't send them a bill—that doesn't motivate them properly," Mr. Kuebler noted.

By providing the division managers with statistical proof of that unit's loss experience, "You've got a much better shot at justifying something," agreed Lee Balkum, senior vp at Advanced Risk Management Services, a Corroon & Black Corp. unit in Nashville, Tenn.

Mr. Balkum assured skeptical insurance managers that a RMIS "is not just an expensive way to get new loss runs."

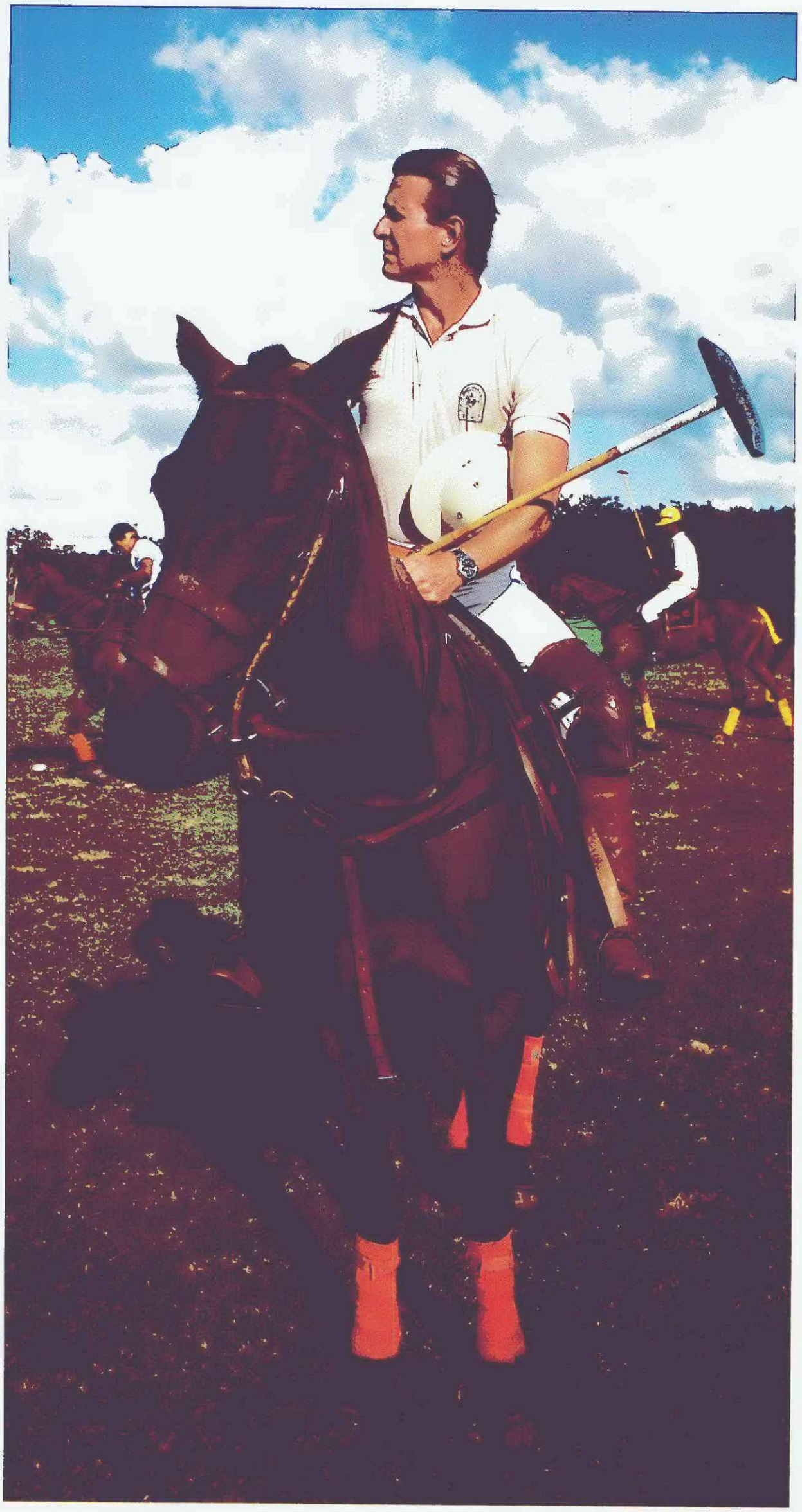
"With a good risk management information system, there is an absolute plethora of funding analysis you can do based upon the data that a system like that is going to capture for you," he said.

Mr. Balkum explained that effective use of an RMIS includes tracking factors such as:

- Loss exposures. To get optimum use of loss-exposure data, the risk manager must remember to consider any division that is no longer operating or a unit that may begin operation in the near future, Mr. Balkum advised.

It is not possible to properly allocate costs or forecast losses without accurate information about operating units' exposures, Mr. Balkum said.

Continued on page 27



Photographed at Casa de Campo Polo Club, La Romana, Dominican Republic.

Matchless insurance services for tough competitors... Frank B. Hall

On the polo field or in the executive suite, today's players are there to win. And part of winning in the business arena means finding ingenious ways to keep your corporate assets well-protected, cost effectively.

Frank B. Hall, one of the world's largest insurance services firms, has been protecting the human and financial assets of corporations around the globe for more than a century. Now our insurance services are more comprehensive and more compatible than ever before.

We're Frank B. Hall, the creative force in our industry. With all forms of business insurance placement. Reinsurance. Self-insurance. E & S lines. Employee benefits consulting. Claims management. Environmental risk management. And 21st century insurance products to meet your every requirement.

For hard-hitting risk management programs that help you reach your goal without worrying about the safety of your corporation, don't go into competition without Frank B. Hall, the high performance insurance services company. Specially built for today's serious players in every industry.

FRANK B. HALL & CO.

The Protection Connection™

info

• **Computer Security Issues and Answers,"** a 24-page publication, is free from the Computer Security Institute. Topics include computer crime protection, society's responsibility for data security, legal aspects, software security and disaster recovery. Send a self-addressed stamped envelope with 73 cents postage to Phyllis St. Martin, Computer Security Institute, 43 Boston Post Road, Northborough, Mass. 01532.

• **Competitive health care proposals** and the effect of pensions and collective bargaining on **retirement income security** are covered by two new research reports by the International Foundation of Employee Benefit Plans: "Competitive Health Care Proposals: Financial Impacts on Employers and Employees" and "Pensions and Collective Bargaining: Toward a Comprehensive Retirement Income Security Policy." Send $5 each for IFEBP members and $9 each for non-members to Publications Department, IFEBP, P.O. Box 69, Brookfield, Wis. 53008-0069.

• A comprehensive directory of operational **preferred provider organizations** is available from the American Assn. of Preferred Provider Organizations. The directory contains detailed information on 143 operational PPOs. Copies are available for $15 from the AAPPO, 4301 Connecticut Ave. N.W., Suite 139, Washington, D.C. 20008.

• Exposure to excessive noise levels in the workplace can produce temporary or permanent **hearing loss.** Find out how to protect your employees from hearing loss and set up a hearing conservation program with a new brochure from the Washington state Department of Labor and Industries' Industrial Safety and Health Division. Copies of "Hearing Conservation Guidelines" are free from the Department of Labor & Industries, Industrial Hygiene Section, P.O. Box 207, Olympia, Wash. 98507.

• Poor employee **health habits** needlessly inflate employee benefit costs. To help fight these inflated costs, Fax Communications Inc. provides a 16-page motivational guide that includes tips on wellness issues, including exercise, stress management, smoking cessation and alcohol and drug abuse. To order a sample copy, send $1 to Fax Communications Inc., Dept. BI, 2215-R Market St., Suite 110, San Francisco, Calif. 94114.

• Two free brochures aimed at chief financial officers, chief executive officers and benefit managers are available from the Health Corp. of America. "Good **Health Care Plans** for the Good Health of Your Organization" features short summaries of the programs and benefits offered by the corporation, and "Own Your Own Plan (The Best and Lasting Solution to Your Total Health Care Benefits Costs)" describes its self-funding plans. To order, write Health Corp. of America, 650 E. Swedesford Road, Wayne, Pa. 19087.

• A free guide offered by the American Council of Life Insurance and the Health Insurance Assn. of America provides information on determining how much money is needed for **retirement, types of investment vehicles and the range of life and health insurance options.** Also included in "Securing Your Retirement Dollars" is a brief overview of estate planning. To order, write Community and Consumer Relations, ACLI/HIAA, 1850 K St. N.W., Washington, D.C. 20006.

•

Have a new report, booklet or promotional brochure you'd like to send to buyers of insurance? Business Insurance will describe material costing less than $25 as an editorial service. Simply send a short description of the material to be offered, along with the cost and a mailing address. to Info for Buyers, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611.

Know computer capabilities

Continued from page 24

The degree of exposure can be presented in terms of payroll, revenue, square footage or some other measurement standard.

• Insurance policies. The risk manager should track not only his company's current policies, but expired policies as well, Mr. Balkum said. He or she should establish a "program year" to best handle varying time periods, such as a policy year vs. the company's fiscal year.

• Assets. The risk management information system should record information on the company's real property and its current value and should monitor goods or inventory in transit, categorized by subsidiary or division.

• Losses. The risk manager should track both paid and incurred losses over a desired period of time, itemized by division "down to the smallest layer to which you are planning to allocate costs," Mr. Balkum advised.

Losses should also be recorded by factors like the line of insurance the loss was covered by, the deductible that applied to the loss, the product involved and the work shift in which a workplace injury occurred.

• Employees. Employees should be monitored by date of hire; most recent physical exam; driving record; access to company cars; job promotions; supervisory personnel; time of shift worked; and salary history.

"Most systems that are going to be around for a long time will either give you access to that data or will capture it for you," Mr. Balkum said.

Tracking losses on a risk management information system may help a risk manager identify either a particular supervisor or a particular division as the cause of a series of losses, he said.

And, a risk management information system can help the risk manager compare the service and cost of claims administrators in different geographic areas, Mr. Balkum pointed out.

For example, Mr. Balkum said a risk manager could compare the rate of claims payment by the claims administrator used by the employer's East Coast operations with that of the adminstrator used at the company's West Coast operations and that of the company's self-administered plan in the Midwest.

"You can do this if you have the data, and a risk management information system will give you that data," Mr. Balkum said.

Claims data can also be manipulated by loss-forecasting modules to predict an operation's losses over a certain period of time.

Ideally five years of claims history is needed to accurately project loss occurrence, though it can be accomplished with just three years of data, estimated Tracey A. Carragher, vp of Alexander & Alexander Inc. in Greenwich, Conn.

Loss forecasting is important because it enables the risk manager to set proper self-insured retention levels and to more accurately reserve for self-funded losses.

But to ensure reliable results when forecasting losses, the risk manager cannot rely soley on claims data, Ms. Carragher said. He must know the company's exposures: If one unit is expected to double in size over the next year, the risk manager must know that and factor that into the loss forecasting.

Ms. Carragher also advised against using industry-wide figures in loss forecasting whenever possible.

"Try to get away from the average and you'll get something really tailored," she explained.

But loss forecasts in some industries just aren't that credible, Ms. Carragher noted, such as in pharmaceuticals and certain chemical manufacturing processes.

Risk managers also should aim to capitalize on the graphic capability of their systems.

Presenting figures graphically "can help you show your management what is going on in the risk management area without showing them a bunch of tables that mean nothing to them," Mr. Balkum noted. ■

Study of needs is first step in RMIS process

By STEVE TARAVELLA

NEW ORLEANS—A thorough study of a company's information and automation needs can identify an appropriate risk management information system, alleviate any fear of computers and help draw management support to the project.

That's the advice given to risk managers considering purchasing a risk management information system by RMIS experts at the Risk & Insurance Management Society conference earlier this month in New Orleans.

Risk managers attending a session on information systems cited numerous obstacles to establishing an RMIS, including the fear of letting go of traditional hard-copy reports; the expense involved; the amount of conversion time involved; jealousy from other department heads; and difficulty in deciding what information will be monitored and what will be done with the information once it's been obtained.

An RMIS study that is persuasive and carefully prepared can bring risk managers one step closer to start-up by getting the support of the chief executive officer, advised Steven H. Kerr, vp at Rollins Burdick Hunter of Illinois Inc. in Chicago.

Mr. Kerr cautioned risk managers not to expect to sell top management on the idea of a risk management information system right away. Support generally comes gradually, he said.

And, a thorough and effective study can't be completed overnight. For example, NCR Corp., which has operations in 130 countries, spent nine months preparing a study of its information system and automation needs, estimated Daniel W. Houston, who is director of risk management and insurance at NCR's headquarters in Dayton, Ohio.

But, a sophisticated study of a company's automation needs will enable the risk manager to determine such things as whether he wants to lease RMIS capabilities, buy a system outright, or develop one in-house; whether a mainframe-oriented, stand-alone minicomputer or time-share arrangement is best; and what functions the company seeks in software products, risk managers were informed.

According to a paper on conducting an RMIS study presented at the RIMS conference, major functions that a risk manager could consider automating include:

- Identifying risks and exposures.
- Evaluating costs, claims management or loss prevention activities.
- Analyzing risk financing alternatives.
- Allocating cost of risk.
- Monitoring a budget or financial planning activities.

The paper was prepared by Mr. Kerr, Mr. Houston and Charles D. Kelly, assistant vp at Rollins Burdick Hunter Co. in Chicago.

They said an RMIS study should answer certain questions top management is likely to have, including questions about:

- Data. What kind of data is it important for the company to collect? How is that information currently collected, and where does it now originate?
- Processes. What do you want to do with the information that you collect? Recall it frequently? Sort it? Compile it? Analyze it? Or just store it?
- Results. Will the information be used annually, quarterly or more regularly? Who receives the information once it's gathered? Could the information be used by other internal departments, such as accounting, legal, real estate planning or management? And, would it be used by outside sources, like insurers, brokers or claims administrators?
- Time requirements. How much manpower is necessary to use the system effectively?

Assessing needs by reviewing these questions in a study "is also likely to provide the risk manager with a thorough description of his department's functions and potentially identify manual processes which can be improved," according to the paper.

Many risk managers even use an RMIS to allocate the administrative costs of running their department among the divisions that use its services, Mr. Houston noted.

Dividing the department's operational expenses among various units within the company can be achieved in a number of ways, but items generally allocated are insurance costs, fronting costs, claims-administration expenses and certain tax payments.

Mr. Houston reported that 10 staff members in NCR's risk management department are surveyed twice annually to determine how much time they spent over the past six months on risk management projects for the various company divisions. He uses that information, which he estimates to be 80% to 85% accurate, to allocate the risk management department's administrative expenses among the company divisions.

The RMIS study should conclude with specific recommendations of action, the experts said. Two likely recommendations that an automation study is likely to yield are implementation of spreadsheet automation and an improved claims management system, they said.

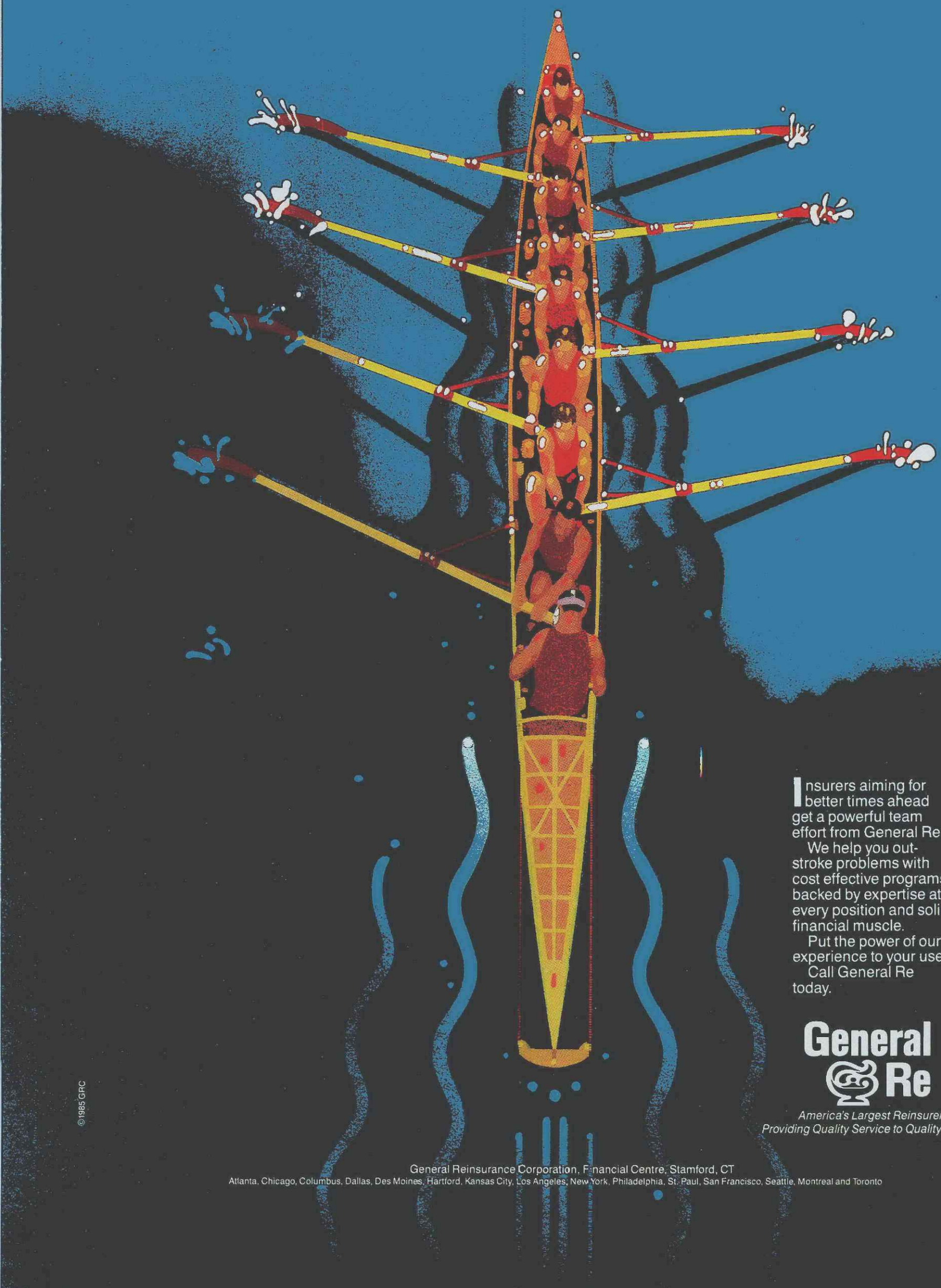
Recommendations also should detail to top management how the RMIS would be implemented and who would be responsible for installation.

They suggest that other departments, like data processing, be brought into the project.

"The risk manager will be most effective as a project supervisor. Additional personnel that could be utilized would include corporate (management information system) personnel, other risk management staff, legal department, financial or treasury department or administration," the paper said.

The risk management department should be willing to assume responsibility, or assign responsibility, for preparing vendor bid specifications, investigating software packages on the market; negotiating a service contract; appointing a system administrator; creating a claims data base; purchasing, installing and testing the system; training personnel to use the RMIS; and developing data management procedures, according to the paper. ■

Pull through with General Re.



Insurers aiming for better times ahead get a powerful team effort from General Re.

We help you outstroke problems with cost effective programs backed by expertise at every position and solid financial muscle.

Put the power of our experience to your use.

Call General Re today.

General Re

America's Largest Reinsurer
Providing Quality Service to Quality Clients

General Reinsurance Corporation, Financial Centre, Stamford, CT
Atlanta, Chicago, Columbus, Dallas, Des Moines, Hartford, Kansas City, Los Angeles, New York, Philadelphia, St. Paul, San Francisco, Seattle, Montreal and Toronto

Information systems will get better, cheaper

By LORRIE GIBSON

NEW ORLEANS—Over the next five years, developments in risk management information systems will all be to the users' advantage, two experts predict.

Systems will be faster, more flexible and cheaper, they say. And, the risk manager who uses a system efficiently will become more visible in his or her corporation, they add.

There is no doubt there will be a continued proliferation of computers in risk management departments, said Richard M. Inserra, director of insurance and risk management for American Can Co. in Greenwich, Conn.

Mr. Inserra, who has implemented a state-of-the-art risk management information system at American Can, was one of three

speakers on "State of the Art and Future of RMIS" at the annual Risk & Insurance Management Society conference held earlier this month in New Orleans.

That there will be more computers in risk management departments "is an easy prediction," admitted Mr. Inserra.

But, he also predicts computer technology will improve so that in the next four to five years risk managers will work with personal computers that are two to 10 times faster than today's computers.

The next generation of PCs also will have larger storage capacity, and optical discs, which are similar to digital laser phonograph records, will replace floppy discs, he said.

Future software also will be easier for risk managers to use. It will make the computers smarter, so the risk manager will not have to feed in as much information and instructions to get answers, he said.

Improved technology also will improve risk management information systems as communication tools, he pointed out.

For example, risk managers will be able to routinely access their insurers' data bases directly rather than waiting for magnetic tapes to be fed into their systems. This will allow a risk manager to update claims information.

The risk manager also will have more immediate access to information from other departments within his or her own corporation via computer, he explained. For example, new systems will let a risk manager tap directly into data stored by the accounting department.

The risk manager, therefore, will have to bother fewer people to get the job done.

Future systems also will allow a risk manager to tap the resources of external sources, like claims administrators, brokers and consultants, he explained.

Overall, Mr. Inserra added, there will be more electronic media communication in general.

For example, risk managers in the future may apply for insurance coverage through a computer rather than manually filling out an insurance application and getting it back to the insurer.

If the insurer and the risk manager's computers can interact, policy applications could be stored on discs that a risk manager could just call up, fill in needed information and send back to insurers, he said.

And, Mr. Inserra said, "Even with new technology, there is no question that prices for risk management information systems will be lower."

Already, American Can has increased its use of its computer system that was installed in 1981.

It is storing claims information for all lines of coverage in its RMIS by plant locations so that all problem areas at a particular site are readily evident.

Information on general liability and workers compensation losses are in the system already, and American Can is adding property loss information.

The system also has allowed managers at various operations to have direct access to loss data whenever they want rather than waiting for periodic reports.

Because of the efficiency of its RMIS, American Can also has been able to begin a work comp bonus program that returns a percentage of an operation's cost allocation to it if loss experience is good.

The program has a good impact on site managers because they can see tangible results, he explained.

But, such a program was not possible before the information system was installed because centralized loss information was not available quickly enough.

The number of risk management departments with computerized information systems has doubled in the last five years and will double again in the next five years, predicted James. G. Perkins, Ph.D., who is vp of M&M Client Information Services, the division of Marsh & McLennan Inc. that develops and sells RMIS software and acts as a consultant on systems.

By 1990, 50% to 70% of the risk management information systems will rely on personal computers instead of mainframe systems, he said, and the new software that is developed will more and more often be developed for use with IBM Personal Computers because they are the best, he said.

And, corporate data processing departments will start to have more of a say about what type of equipment is purchased so computers are compatible corporatewide.

As early as 1986 or 1987 there will be a surge in the functionality of the personal computer so that they can be banded together and more than one person in the risk management department can access a program simultaneously, Mr. Perkins said.

The interaction between microcomputers and mainframe computers will mature and spreadsheet software improvements will make analysis of data better, Mr. Perkins added.

Overall, an efficiently operated RMIS will make the risk management department an information resource center for other corporate departments.

Because a good information system will make it possible to send complete, timely reports to management, others within the organization will learn to rely on the risk management department. And, this will increase the risk manager's visibility within the corporation and open other doors for him or her, Mr. Inserra said.

Also speaking on the panel was Steve Silva, a consultant for Wang Laboratories, a computer hardware vendor. The session was moderated by David G. Oliver, assistant vp for Corroon & Black Corp. ■

IT DIDN'T LOOK LIKE THAT IN THE CATALOGUE.

It didn't look like that when it left the factory, either.

But somewhere along the line, something happened. And all that time, effort and money came to nothing.

Of course, at INA Special Risk Facilities,* we provide cargo insurance for just such occurrences.

But we do more.

We do everything we can to make sure you won't have to use it.

With loss control specialists around the world—and an information network just as vast—to advise you on the most complex shipping problems. Or the simplest.

Whatever you ship. Wherever.

The loss control program we design for you can mean less damage. Lower insurance rates.

And something even more important.

More satisfied customers who place more repeat orders.

After all, safe delivery of your product means as much to your customers as it does to you. And, like you, they stand to lose both time and money when goods arrive damaged.

So write for our comprehensive loss control guide, Ports of the World, CIGNA Corporation, Dept. R. Philadelphia, PA 19103.

Because, what are you risking without adequate loss control?

A lot more than your merchandise.

INA Special Risk Facilities
a CIGNA company

*INA Special Risk Facilities is the marketing organization for products underwritten by the CIGNA Property and Casualty Insurance Companies

CIGNA

SOMETIMES A RISK MANAGER TRIES TO MANAGE WITHOUT US.

No one envies the job of a risk manager.

Because planning for the unknown is nerve-racking. Especially in today's state of the insurance business. And some risk managers have even more to worry about than others. Because they try to manage without GAB.

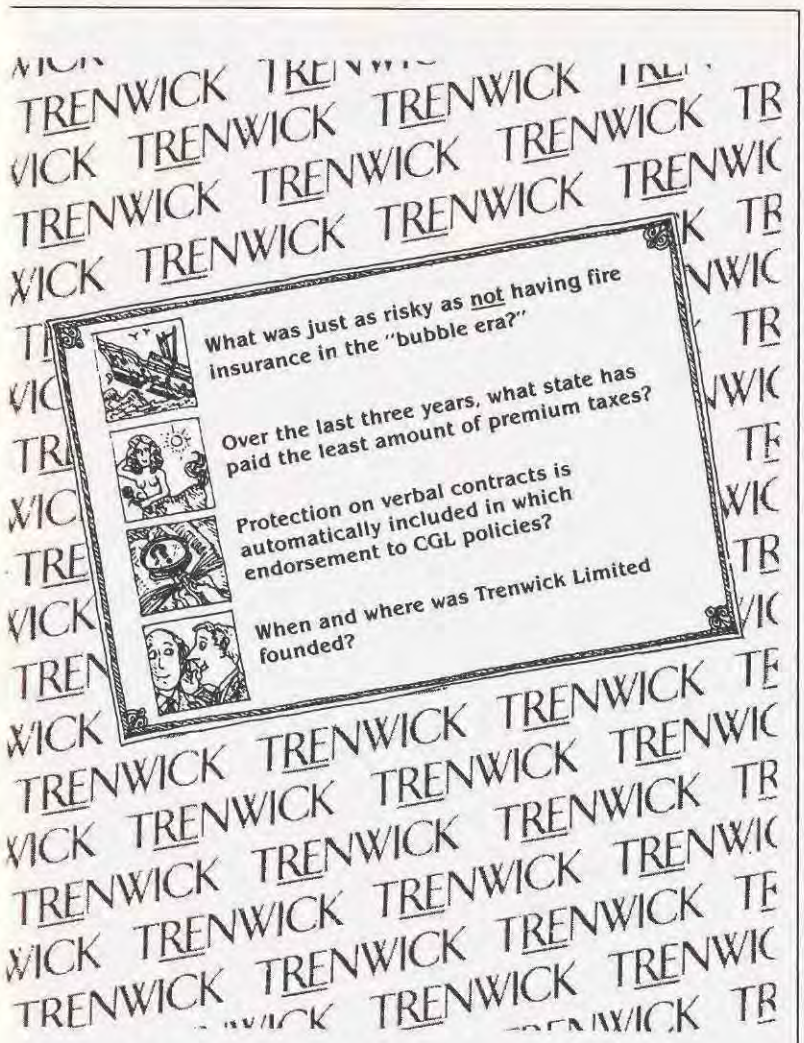
At GAB, we've been helping insurers face the unknown for 100 years. We've helped them successfully manage all kinds of claims from leaky ceilings to the likes of Three Mile Island. And from minor back strain to major chemical exposures.

What's more, we've always made it our policy to be over-attentive to our clients, as well as to our clients' clients. Maybe that's why we've become the number one independent insurance service organization in the country.

So call Paul Dougherty at GAB, 201-993-3790. And have a little less to worry about.

GAB

Because it's your money.



Should risk managers play role in employee benefits?

By LORRIE GIBSON

NEW ORLEANS—True or false: Ninety percent of the money employers spend on health care benefits is used to pay claims; therefore, the responsibility for employee benefits should lie with someone trained in claims processing and funding—namely the risk manager.

True or false: Human resource and personnel departments should handle employee benefits because they care about the employees' welfare, unlike risk managers whose main concern is protecting the corporation's money.

The answer to the above questions definitely depends on whom you talk to.

Ask Larry Babbitt, director of risk management for Jack Eckerd Corp., and he'll tell you that human resources department personnel just are not trained to review claims or develop data, or handle the loss-control issues related to operation of health benefits programs.

Ask Joe Charles, director of employee benefits for Ryder System Inc., and he'll tell you that risk managers should not be handling employee benefits because their typical attitude is "Deny every damn claimyou can."

Robert Haller, second vp for Travelers Insurance Co., says employees are corporate assets to be protected. Therefore, risk managers should handle the financial aspects of employee benefits programs—or at least share the responsibility with the human resources department.

While risk managers may want to jump into the benefit manager role, the truth is that they just don't have the necessary skills, said Thomas Boudreau, a principal at benefit consultant William M. Mercer-Meidinger Inc.

The four men shared these views recently in a spirited debate on the issue of risk managers' responsibilities in the employee benefits area at the Risk & Insurance Management Society conference earlier this month in New Orleans.

All four panelists agreed that rising costs of employee benefits are spurring corporate financial departments to sit up and take notice, and to relay the message that someone had better take the bull by the horns and control expenses.

But whether that someone should be the risk manager or the benefits manager was not so easily decided.

Mr. Babbitt believes risk managers are trained in all the areas relevant to employee benefits programs: plan design, funding, administration, communication, utilization of data and health promotion (or sickness prevention)

"Let me ask you: Who would you rather have controlling funds, dealing with the legal department, processing claims, monitoring subrogation, coordinating benefits—a finance person or a human resources person?" he asked the audience.

"Reviewing claims is a dirty job—we (risk managers) do it for a living," he said. And, because human resources departments are not as well-trained in this area, employees are collecting 5% to 10% more than they should on most medical claims due to errors in coordination of benefits, he added.

In addition, "The health industry has done a lousy job of developing data needed to effectively run a benefits department," he says.

In contrast, risk managers have been gathering claims data for several years now, Mr. Babbitt says.

"All the health industry keeps saying is they have so much data that they don't know where to start," he says.

Risk managers understand the funding of risks, while personnel departments have been "giving the store away for years," he said.

For example, he said human resources departments promise retirees one times their salary in life insurance but then don't fund for it. The corporation then ends up with a large unfunded liability.

Mr. Babbitt said that while risk managers don't need to get involved in pension and retirement programs, they should have a role in administering health, life, disability and dental benefits programs. "Someone with a financial discipline is needed—risk managers have a very definite discipline."

In his closing remarks, Mr. Babbitt urged risk managers to take advantage of the opportunities afforded them in the benefits area. "Stick your nose in," he advised. "Don't wait to be asked.

"You can do it. You must do it. Your company needs you."

Mr. Haller of Travelers concurred with Mr. Babbitt's contention that risk managers should have a say in administering life, health, disability and dental benefit programs.

Risk managers don't need to design benefits or get involved in the communication of them, but the risk manager "should handle all financial aspects of employee bene-

Continued on next page

Continued from previous page

fits—or at least work in cooperation with the human resources department," he says.

It is the risk manager's duty to protect all of a company's assets—which include the plant, equipment and people, Mr. Haller said.

On both the benefits and the property/casualty side, someone has to decide how to reduce risk; what risks to insure or assume; and whether or not to reserve for losses, Mr. Haller said. "All of those duties fall into the realm of a risk manager's responsibilities."

It is his job to know "how many corporate assets are on line overall," he stressed.

He also cited figures from a recent survey, which showed that 25% of risk managers for Fortune 1,000 companies have sole authority for selecting employee benefit suppliers. Of those risk managers surveyed at the top 500 companies, 49% at least partially influenced the purchase of benefits coverages. Of those in the second tier of Fortune 1,000 companies, 60% either solely or in cooperation with others select benefits products.

While the survey shows that risk managers are making great inroads into the benefits area, Mr. Charles of Ryder doesn't believe they belong there. Benefits should be left to the human resources department because it is concerned only about the employee's welfare, he said.

Mr. Charles also reminded the audience that the department that handles benefits has a fiduciary responsibility under the Employee Retirement Income Security Act to "discharge duties in favor of plan participants or beneficiaries." If a claim could be decided either in favor of the employee or the health plan, it has to be decided in favor of the employee, he added.

Because a risk manager also must worry about the corporation's welfare, he or she cannot be expected to look out for the employee's welfare, Mr. Charles said. "You cannot serve two masters," he stressed.

One only has to look at the administration of workers compensation claims by risk management departments to realize employees would suffer if employee benefits were placed under their domain. "All I ever hear from them is that 'You can't trust the employee,' and 'Deny every damn claim you can,'" he said.

"Why does a worker need to go out and hire a stranger (lawyer) to help him file a workers compensation claim?" Mr. Charles asked, referring to disputed comp claims.

"The worker needs someone to look out for him," he continued. "Money is a concern in the human resources department, but not the main concern."

Mr. Charles pointed out that laws pertaining to benefits are changing, which is placing new demands on benefits departments. "It is too much to ask a risk manager to change his or her purpose, goals and attitudes," he said.

In rebutting Mr. Babbitt's comment that a risk manager is more equipped to monitor claims than the traditional benefit manager, Mr. Charles noted that his staff uncovered and stopped $1.5 million in duplicate claims last year and saved another $11,000 through hospital bill auditing—and even more through other claims monitoring.

Mr. Boudreau of Mercer-Meidinger pointed out that over the years benefit plans have been designed without benefit managers considering how much the plans would eventually cost. Because of this, the financial officers of many companies are now looking with displeasure at the cost of benefits and those who called the shots.

But, whether risk managers are the best ones to tap for help in controlling these rising benefit costs is unclear, Mr. Boudreau says.

"The question is not 'Should risk managers be involved in benefits administration?' but 'Do risk managers have the skill and knowledge needed to play a role in benefits?'" he said. "I don't think they do."

Mr. Boudreau said that if risk managers want to take on responsibility for administering employee benefits, they will need:

- A greater knowledge of compensation theory, because benefits are part of overall compensation and not just "fringe" benefits.
- A knowledge of group dynamics and group behavior to design plans properly.
- An understanding of the role demographics can play in benefit design.
- An up-to-date knowledge of legislation that will affect benefits.
- Communication skills.

"There is a great opportunity now for risk managers to get involved in benefits because of the rising costs of providing them," Mr. Boudreau said. "But, first, risk managers will have to learn how to do it and do it effectively." ■

Setting self-insured retention takes study

By MEG FLETCHER

NEW ORLEANS—Despite today's tough reinsurance market, risk managers who do their homework properly can have important input in establishing their companies' self-insured retention levels.

But, if they are not careful, the market will set their self-insured retention levels for them, said George C. Frazier, manager of the corporate risk and insurance department at Pennwalt Corp. in Philadelphia.

Mr. Frazier was the moderator of a four-member panel discussion on establishing risk retention levels held at the Risk & Insurance Management Society conference earlier this month in New Orleans.

The need to establish appropriate risk retention levels is especially important now because reinsurance capacity has shrunk dramatically, said Henry J. Anderson, manager of the broker market unit for the General Reinsurance Corp. in New York.

Mr. Anderson said he conducted an informal survey of people attending the RIMS convention and found that the worldwide reinsurance capacity for a "squeaky clean" casualty risk is currently $135 million to $150 million. And, he said, that capacity may drop to $100 million by July.

However, a high-risk company, like a drug manufacturer, may only be able to find $75 million to $85 million of capacity now, and that will probably shrink, Mr. Anderson said.

Gen Re itself has not reduced its capacity, but it is being more selective about the kind of risks it will accept, he said.

"I don't know what it will be like at year-end. It is changing from day to day," he said.

Mr. Anderson said that the things he considers to be important when deciding whether to underwrite excess coverage are loss potential, requested retention limits, requested coverage limits and loss experience.

Although excess underwriting is more an art than a science, he said, risk managers can help their cause by providing proper information on their companies.

"The information is getting better because the risk management process is getting better," Mr. Anderson said.

There is also more communication now between reinsurers and corporate insurance buyers because corporate insurance buyers have formed captives and they are purchasing their reinsurance directly, he continued.

Statistics on losses and proposed retention levels will help the risk manager deal not only with primary insurers and reinsurers, but also with his or her own company managers both at the top and division levels, the RIMS panelists agreed.

The attitude of a corporation's management officials on how much risk to retain, as well as a company's financial capacity to sustain a loss, will affect the size of the self-insured retention.

And, the type of business that the company does, more than its size, will affect the retentions because losses associated with some activities are not as predictable.

To get top management support for a risk retention proposal, a risk manager must translate insurance "mumbo-jumbo" into language a chief executive officer understands, said Alan G. Page, vp and head of the risk management division at broker Johnson & Higgins in New York.

The risk manager must be able to show the effect of a possible loss on a company's financial performance.

Methods used to determine a desired self-insured retention include rules of thumb, financial models and optimization models, Mr. Page said.

Generally accepted rules of thumb are that net income losses should be no more than:

- 10% of earnings per share and 1% of annual pretax earnings in any one year. A single occurrence should not cause a net income loss of more than 0.2% of the sum of five years' pretax earnings.
- 1% to 5% of working capital in any one year.
- 0.1% of equity per occurrence.
- 0.1% of sales per occurrence.

Determining a self-insured retention level through the use of financial models involves analyzing key financial ratios at specific probable loss levels. This approach allows a risk manager to consider a variety of potential retention levels, according to Mr. Page.

An optimization model is a computerized program set up to show how large a self-insured retention a company could sustain, so that it would pay the least possible amount for insurance coverage without putting itself in financial jeopardy.

However, setting up the model is complex, and it often is difficult to get sufficient data to do it properly, Mr. Page commented.

And, top management's preference on retaining risk is difficult to quantify in the program.

He recommended the use of cost-of-risk surveys done by consultants to see what similar companies are doing. For example, he said, a survey prepared by The Risk Planning Group, a unit of Tillinghast, Nelson & Warren Inc., shows the liability limits and retention levels for companies, and it breaks the information down according to industry and revenue, according to Mr. Page.

The strategy for selecting self-insured retention levels for a corporation and its individual divisions should be to determine how much in losses a company could afford to sustain before it would be cheaper for the company to buy insurance, said William H. Belvin, assistant vp at Johnson & Higgins in New York.

He emphasized that a risk manager should consider the tax treatment of reserves established to pay self-insured losses and insurance premiums when comparing the two possibilities.

The biggest problem a risk manager faces when estimating losses to establish the proper self-insured retention level is gathering data, said Mr. Belvin.

Other things that the risk manager should consider are rates of inflation and other economic trends in the company's industry and outside changes that might affect exposures. Then, Mr. Belvin said, the risk manager should compare his or her estimates to information that is available on similar companies within the same industry.

A risk manager should consider the investment income the company could earn by self-insuring rather than paying premiums, according to Mr. Belvin.

Not only the company itself but each division should have a per occurrence and aggregate retention, he suggested.

Once retention levels have been set, premium costs should be allocated among different divisions, said Thomas O. Lenhart, director of insurance for Rohm & Haas Co. in Philadelphia.

He suggested allocating 50% of the premium on the basis of exposure units, like the number of cars or hotel rooms, and 50% on the basis of incurred losses.

However, Mr. Lenhart warned risk managers to be prepared for complaints from division heads about how fluctuations in insurance costs that are charged to them are affecting their bottom-line performance. ■

Growth predicted for risk retention groups

By JERRY GEISEL

NEW ORLEANS—More employers may turn to the federal Risk Retention Act for help as premiums soar and capacity shrinks in the commercial product liability insurance market, experts say.

The 1981 law, which made it easier for companies to set up risk retention groups—captives that cover their product liability exposures—has remained largely untested.

But, with the market tightening, the act "could become one of the most important relief valves in the future," said Jack Groleau, a vp with Bayly, Martin & Fay International Inc. in Los Angeles.

Mr. Groleau traced the history of the Risk Retention Act while participating on a panel discussing the "Product Liability Risk Retention Act of 1981 Revisited" at the Risk & Insurance Management Society conference this month.

Congress passed the act, Mr. Groleau noted, in response to soaring insurance rates during the product liability "crisis" of the mid-1970s. Legislators wanted to give manufacturers new alternatives to fund their product liability exposures.

The act allows manufacturers to set up risk retention groups to self-insure their product liability risks with minimal interference from state regulators.

Risk retention groups that meet the insurance capitalization requirements of at least one state can then operate throughout the United States without having to be licensed in every state. Administrative costs thereby can be reduced because groups do not have to obtain rate or form approvals from 49 states or use a fronting insurer to issue policies.

Under the act, companies and associations also can purchase comprehensive general liability coverage, including product liability coverage, on a group basis. That provision pre-empts state laws that generally prohibit group insurance purchases.

Allowing for establishment of "purchasing groups" was viewed as especially valuable to small companies. By buying insurance as part of a large group, these companies would have more buying clout and thus could obtain better rates and policy forms than if they purchased insurance individually.

But employers so far have only barely tapped either section of the act. Only a handful of purchasing groups have been established, including one set up in 1982 by the National Assn. of Wholesaler-Distributors, a 45,000-member trade association based in Washington.

One risk retention group—HOW Insurance Co.—owned by the 11,000-member Home Owners Warranty Corp.—has been licensed in the United States.

A few small risk retention groups also are believed to be operating in the Cayman Islands. However, a sunset provision in the Risk Retention Act that became effective last Jan. 1 bars new groups from being established offshore.

Employers haven't turned to the Risk Retention Act because, until recently, product liability insurance was available at highly competitive prices in the commercial market, a lawyer on the panel said.

"It is quite rational that groups were not formed while the market was so soft," said Michael Mullen, an attorney with Crowell & Moring, a Washington law firm.

But now, inquiries from employers about the Risk Retention Act are starting to come in, he said.

Employers may have been reluctant to set up risk retention groups because insurance commissioners had viewed them as an infringement on their powers as state insurance regulators, Mr. Mullen said.

For example, Delaware-based HOW Insurance Co. in 1982 had to go to court after then-Insurance Commissioner David Elliott refused to recognize HOW as a bona-fide risk retention group. HOW later obtained a federal court ruling (*BI*, Oct. 17, 1983) that established it as a risk retention group.

Since that decision, insurance commissioners' attitudes toward risk retention groups have mellowed, and state regulators have stopped interfering with their operations, added Mr. Mullen, who played the lead role in drafting the Risk Retention Act in 1980 when he was a counsel to the Senate Commerce Committee.

Mr. Groleau believes future risk retention groups will most likely be attracted to Vermont. Under the Vermont amendment, enacted in 1983, a risk retention group that wants to be domiciled in Vermont only has to meet the general requirements for "industrial insureds" rather than the tougher rules for association captives.

As an industrial insured, a risk retention group only has to put up $500,000 in capital and surplus to be chartered in Vermont, compared with $750,000 in capital and surplus required of association captives.

An industrial insured also is allowed to invest its assets more freely than an association captive and is governed by less-restrictive financial reporting requirements.

Mr. Groleau offered guidelines to employers that may establish risk retention groups:

- Obtain detailed loss records from each employer that wants to join the group.
- Base rates on individual company experience.
- Hire an efficient administrator who also is a good money manager and will wisely invest the group's assets.

Also speaking at the session was Robert H. Joyce, a partner in the Chicago law firm of Seyfarth, Shaw, Fairweather & Geraldson. The session was moderated Elaine Folsom, risk manager at Bergen Brunswig Corp. in Orange, Calif. ■

EIL market could rebound, panelists say

By ROBERT A. FINLAYSON

NEW ORLEANS—The market for environmental impairment liability insurance is at its lowest ebb since its inception five years ago, but EIL experts are optimistic that the market will eventually rebound.

Not only are EIL underwriters now more confident in their ability to properly assess pollution risks, but there's the possibility that at least two insurers that have dropped out of the market could again begin writing EIL coverage, according to a panel of pollution liability experts.

Speaking at a session at the annual Risk & Insurance Management Society conference held in New Orleans earlier this month, panel members told a standing-room-only crowd that EIL underwriters have learned some painful and expensive lessons over the past five years and that the pioneers in the EIL field have suffered from adverse selection of risks.

But most panel members sounded optimistic about the future of the EIL insurance market, saying that growing interest in pollution liability coverage and improved underwriting knowledge may translate into a greater availability of EIL coverage.

Despite this optimism, risk managers must realize that coverage for past waste disposal practices may never be available, the experts said. And, panel members added, continued expansion of the Superfund Act and other pollution liability laws will act as a destabilizing force on the EIL market.

Most of the panel members said that while it is easy to blame the tightening reinsurance market for the demise of the EIL market, a substantial portion of that blame rests with the court system and with Congress.

"The law is in such flux and the liability standards are changing so rapidly there is a great deal of uncertanty over the rights and obligations of the parties to the (EIL) contract," explained Robert S. Faron, a Washington attorney who advises risk managers and insurers on Superfund enforcement cases.

Mr. Faron, a member of the firm of Brown, Roady, Bonvillian & Gold, said the Superfund cleanup program is just getting off the ground and yet "Congress and the administration have legislative agendas that would greatly expand the current Superfund cleanup liabilities."

Other panel members suggested adverse risk selection as the major cause behind the collapse of the EIL market.

"Surprisingly enough, the loss experience—if you measure it on premiums received and claims paid —is pretty good," pointed out Richard W. Sears, Jr., president of Thomas E. Sears Inc., an insurance and reinsurance brokerage in Boston.

"However," he added, "there are outstanding losses that are unresolved. Some of them could be very serious."

Mr. Sears said in his opinion "when you draw the line at the end of the day, be it for any individual (EIL) interest or the group in aggragate, it will clearly be in the negative."

He said this is because premiums collected are substantially inadequate for the limits that have been offered.

"Unhappily, in the early stages, the (EIL) facilities were dramatically adversely selected against, and they've got total losses on each and every one of their portfolios of business, whether they know it or not," he said.

Mr. Sears insisted that all of the EIL underwriters "will admit to the fact that they were operating blind."

"They had no experience base from which to operate," he explained

Many potential EIL insurance buyers were discouraged from purchasing EIL insurance because courts have ruled that many pollution incidents are covered by comprehensive general liability policies.

"I think there were many (potential EIL) buyers who sat back and said: Why should I buy this speciality product. After all we've got the court system working in our favor," Mr. Sears said.

Further, panel members explained, a misinterpretation on the part of buyers of what EIL insurance is designed to cover also hurt marketing efforts by EIL underwriters.

Charles G. North, EIL underwriter with underwriting manager Shand, Morahan & Co. Inc in Evanston, Ill., said that EIL policies are primarily a contract of third-party liability, not first-party property damage or cleanup coverage.

Shand ceased writing environmental impairment liability coverage as of Jan. 1, 1985, but was a major market for EIL coverage for five years.

"Here is perhaps the widest disparity between what the insurance buyer expects in the way of coverage and what the insurance market can afford to provide," said Mr. North.

"It might be different if there were 100 markets for EIL and most of them had been collecting EIL premiums for the past 20 years," he added.

Mr. North pointed out that the insurance industry can't afford to pay the cleanup bill for the nation's thousands of hazardous waste dumps.

Cleanup coverage was included in most EIL policy forms to help the underwriter control losses, Mr.

Continued on facing page

Continued from facing page
North explained. Such coverage, according to Mr. North, gives the underwriter input into how a third-party claim is contained or mitigated.

"It was not intended to allow a policyholder to bring claim against his insurer," he said.

Mr. North said it is the fear of such on-site cleanup claims that caused reinsurers to recoil from EIL risks.

He said that reinsurers participating on EIL risks are "not only charging dearly for their reinsurance capacity, but are asking more and more questions, sometimes on individual risk files."

The result, according to Mr

North, is that EIL underwriters will in turn have to require more and more information before agreeing to bind coverage.

But panel members said that insurance buyers now have a better understanding of EIL coverage and, in spite of court intepretations of CGL policies, buyers are looking to obtain EIL coverage for future pollution risks.

Mr. Sears said he thinks the concept of the Pollution Liability Insurance Assn.—a pool of major insurers underwriting pollution risks on one policy form—is "one in which we will see further support."

PLIA is a pool of 49 property/casualty insurers that writes EIL coverage on a policy form drafted by the Insurance Services Office.

James C. Morrow, another panelist and a vp with Nationwide Mutual Insurance Co. in Columbus, Ohio, also said he thinks the EIL market will rebound.

"You can underwrite pollution insurance and you can make a profit at it," said Mr. Morrow, who is chairman of PLIA's board.

"You have to do a good job of underwriting and there are a lot of rules you have to follow," he explained.

Mr. Morrow noted that PLIA has made a profit every year during the past five years it has been in business.

"I think the market will come back, but I think we have to get away from the idea that the people that come back into the market are going to pick up anything that's happened in the past," Mr. Morrow concluded. He said that risk managers should forget about obtaining coverage for past pollution practices.

"The only thing that we're going to do is give you a market for your exposures in the future, and we're going to charge you for it," Mr. Morrow said.

PLIA currently offers EIL coverage limits of $9.5 million per occurrence and $9.5 million aggregate.

Mr. Morrow said that PLIA will offer pollution coverage to transporters next year. This is because all pollution coverage is being eliminated from the standard business automobile policy as a result of the Insurance Services Office's new policy form, which is set to take effect Jan. 1, 1986.

R. Malcolm Aickin, director of ERAS (International) Ltd., based in London, also predicts that additional EIL markets will develop in the not too distant future. He told *Business Insurance* that ERAS, a London-based EIL pool of 15 insurers that shut down early last year, may reopen again.

ERAS was once a major EIL market insuring some of the largest U.S. pollution risks.

Mr. Aickin said he would like to be able to offer limits of $20 million per occurrence/$20 million annual aggregate when ERAS reopens, but he said the limits would more likely be around $10 million/$10 million.

When ERAS opens its doors for business, Mr. Aickin said he expects to be be "inundated" with requests for policy quotes.

Stewart Smith Inc. is also expected to re-enter the EIL market next month, according to panel members. Smith, which had offered limits of $15 million/$15 million, is currently negotiating its reinsurance treaty and is expected to have limits of $3 million/$3 million available by mid-May, panel members said.

But, even if the market expands, some companies may find it difficult to obtain EIL coverage, panelists noted.

Those companies that have suffered a major environmental liability loss or are connected with a Superfund site should consider forming a group captive to share in each others losses, maintained Mr. Sears.

Such a captive is likely the only way these companies will be able to purchase coverage for their pollution exposures, past or present, Mr. Sears added.

When questioned by members of the audience about reinsurance support for such a group captive, Mr. Sears said that reinsurance would likely be available if the capital base of the captive were adequate.

"If the financial requirements or requisites are there, then, yes, you'll find a reinsurer probably prepared to do something on an excess-of-loss basis," Mr. Sears maintained.

Currently, only two stand-alone EIL markets exist: American International Group Inc. and Swett & Crawford. AIG is the only EIL market that will offer coverage for large, high-exposure risks, such as chemical companies. AIG has limits of $10 million per occurrence and $10 million annual aggregate. Swett & Crawford only writes smaller risks and has limits of $6 million/$6 million.

Three other EIL markets are also available, but only for clients that have other business with those markets. These include Hartford Insurance Group, Travelers Indemnity Co. and PLIA, which insures clients of its member companies.

Also on the RIMS conference panel were Lynne M. Miller, president of environmental consultant Risk Science International, based in Washington; Ron deNoville, director of environmental polluton claims services at Crawford Risk Management Services in Atlanta; and Martin Katzman, professor of economics at the University of Texas at Dallas. ■

New president says RIMS will be heard

By JERRY GEISEL

NEW ORLEANS—The Risk & Insurance Management Society's voice is going to be heard loud and clear in the years to come, according to the man now at RIMS' helm.

"We have been doing more in governmental affairs in the last three to five years than ever before, but we must do more," said P. Richard Hackenburg, who was elected president of RIMS this month at the organization's annual conference.

"We will take a more vocal stance on issues. We have to be more proactive. We must do more lobbying."

RIMS already has increased its presence in Washington by retaining James McIntyre, director of the Office of Management and Budget during the Carter administration and now a Washington attorney, to represent RIMS on various legislative and regulatory issues.

RIMS also will open a Washington office in a few years, pledges Mr. Hackenburg, who also is staff vp and assistant treasurer-risk management and realty services at Allegheny International Inc. in Pittsburgh.

"We will have a Washington office. It is vital," Mr. Hackenburg said, noting the tremendous impact the regulatory agencies and Congress can have on risk management programs.

For example, Congress last year enacted the Deficit Reduction Act of 1984, which contains a provision that prohibits employers from using pretax dollars to fund self-insured reserves. Companies are allowed to take tax deductions at the time losses are paid, thus reducing the tax advantages of self-funding corporate property/casualty programs.

That provision overturned a 9th U.S. Circuit Court of Appeals decision in October 1983 that allowed companies to take tax deductions for reserves to pay workers compensation claims as long as they could predict losses with reasonable accuracy.

Mr. Hackenburg said he supports legislation that would permit employers to take tax deductions for self-insured reserves. "Self-insurance is a vital tool in risk financing and it should be available on a tax-favored basis," he said.

Legislation drafted by a broad coalition of risk management interests—known as the Loss Reserve Deduction Committee—is expected to be introduced in Congress this year.

Under the proposed legislation, companies would be able to take tax deductions for contributions to self-insured reserves and for premiums paid to captive insurance companies. A similar bill died in a House committee last year.

Mr. Hackenburg acknowledges that chances for passage of such a far-reaching proposal are remote. "Realistically, the political climate makes such a change difficult," he said.

The proposal could mean lost revenue for the Treasury because employers could use pretax dollars to fund reserves. But, Mr. Hackenburg pointed out that with commercial insurance premiums on the rise, the Treasury Department actually could gain revenue since tax deductions for contributions for self-insured reserves might be less than the deductions companies take for insurance premiums.

"Risk managers must change the perception that this (loss-reserve deduction legislation) is a revenue loser. With insurance premiums rising, it might even be revenue enhancement," he said.

Businesses can deduct insurance premiums as a business expense

RIMS also plans to become more involved in the congressional battle to enact a federal product liability law, Mr. Hackenburg said. S. 100—introduced by Sen. Robert Kasten, R-Wis.—is scheduled to be voted on May 16 by the Senate Commerce Committee.


Mr. Hackenburg

"We have a strong interest in S. 100 and want to influence its passage," Mr. Hackenburg said.

Mr. Hackenburg also expects RIMS to take an active role when Congress reviews the federal Superfund law. The 5-year-old Superfund statute, which established a $1.6 billion fund to clean up the nation's abandoned hazardous-waste dumps, expires this year. Measures to extend the law are pending in both the House and the Senate.

Mr. Hackenburg said that RIMS also intends to increase its visibility outside of Washington. Across the border, for example, RIMS wants to work more with Canadian risk managers to assist them on legislative issues, he said.

RIMS also will lobby at the state level throughout the United States to assure fair—but not overly restrictive—regulation of insurers

Mr. Hackenburg says communication in a 77-chapter organization can be challenging. He notes that RIMS has spent the last three years working to improve communication between the national organization and its local affiliates.

At the same time, RIMS wants to work more closely with other trade groups on issues affecting risk management.

Commenting on another internal matter, Mr. Hackenburg said he is aware that some RIMS members have complained that the organization's annual conference has become too large. Some have suggested that two separate conferences—one concentrating on risk management and one on employee benefit issues—be held annually.

RIMS is studying the idea; however, Mr. Hackenburg says he has reservations about holding two conferences. Many risk managers have employee benefit responsibilities, while many benefit managers also are involved in risk management, he said. Therefore, managers with dual risk and employee benefit responsibilities may prefer seeing both issues discussed at one conference, he said.

Mr. Hackenburg agrees that RIMS must become more involved in the employee benefit area. "It is an area with much potential," he said.

Risk managers will face new challenges as capacity tightens and rates increase in the commercial property/casualty insurance market, Mr. Hackenburg says.

But, he added that risk managers should view the tighter market as an opportunity. "This is the time for risk managers to shine and prove their abilities," he says. "This is a very important time for risk managers. They have the ability to improve their corporate bottom line," Mr. Hackenburg says.

Just as RIMS wants to increase its visibility, risk managers themselves need to speak out more on issues affecting them and their profession, Mr. Hackenburg said. "Risk managers should not only think of themselves. They should make themselves heard on state, federal and provincial levels."

As an organization, RIMS has become more professional and better staffed, Mr. Hackenburg maintains. RIMS now is much more likely to take a more precise aim—or "rifle shot approach"—at issues, he noted.

"We are building on each year," he says, noting that 1985 will be a growth year for the organization and a year in which RIMS can increase its influence and power.

Mr. Hackenburg also hopes that a strategic plan to help RIMS prepare for the future will be presented and adopted by the society's executive board in October.

"It is a plan on which to build," he says. ■

International buyers escaping big price hikes

By ROBERT A. FINLAYSON

'I know if I increase the premium on an account by 10%, it's going to go to AIU (American International Underwriters Inc.),' quips Kenneth Gorelick, regional manager of the international department of Continental Insurance Co.

NEW ORLEANS—Although rates for domestic property/casualty insurance are rocketing skyward, buyers with international exposures won't have to worry about large premium increases this year, experts say.

"I know if I increase the premium on an account by 10%, it's going to go to AIU (American International Underwriters Inc.)," quipped Kenneth Gorelick, regional manager of the international department of Continental Insurance Co. in Los Angeles.

Mr. Gorelick served on a panel of international underwriters and brokers that discussed international insurance trends at the Risk & Insurance Management Society conference in New Orleans.

Vincent J. Masucci, president of American International Underwriters Inc., agreed with Mr. Gorelick that prices for international property/casualty policies are not likely to increase much this year.

Both panelists cited competition between major U.S. international insurers and local foreign insurers as the primary reason for the stability in international rates.

The panelists also said international insurers have not had to swallow the large losses experienced by their domestic counterparts.

"International insurance," Mr. Masucci explained, "continues to be a very profitable line of business."

However, there may be a gray lining to this silver cloud.

Both underwriters warned that the losses stemming from the toxic chemical accident in Bhopal, India, last December could have a substantial impact on international property/casualty coverages, particularly if third-party damage suits arising from the accident are tried in the United States.

International property/casualty insurance prices are based on the cost of potential damage awards in the nation in which the insured operates, the panelists said. They noted that third-party damage awards made by foreign courts usually are substantially less than those made by U.S. courts.

However, if the outcome of the Bhopal case establishes a precedent for foreign defendants to sue for liability claims in the United States, international underwriters will be forced to reprice their products based on the size of U.S. damage awards, they explained.

Even if Bhopal cases are not tried in the United States, defense costs resulting from attempts by parties involved to get the case heard by the U.S. courts will have an impact on international insurance prices, Mr. Masucci said.

Despite the overall softness of the international property/casualty market, Mr. Gorelick said the market for certain types of coverage—including earthquake coverage for some areas of the Far East and political risk coverage for some Latin American countries—will tighten.

Earthquake coverage is available ...rldwide, but capacity is limited, ...r. Masucci said. "And, like an al...vance, we must use it judi...ously."

Mr. Gorelick noted that buyers ...nsurance can expect to see in...ases in the costs of both excess ...bility coverage and difference-...conditions coverage—largely as ...sult of the hardening domestic ...urance market.

One of the major trends in the international insurance arena, according to Mr. Masucci, is the increased use of local insurers by U.S.-based companies. This stems from the fact that North American manufacturers investing overseas are becoming involved in joint ventures with local investors in the countries in which they operate. These investors often want to insure their risks locally, Mr. Masucci said.

He said that there are certain tax advantages to insuring locally. In some foreign countries, claim payments by a U.S.-based insurer for losses at facilities in those countries become taxable income.

Mr. Masucci said there is a very real possibility that on a large property loss, the aftertax claim payment would be insufficient to rebuild the insured's facility.

Mr. Masucci also said a growing number of foreign countries are requiring that more insurance premium dollars be spent in the country in which the insured's facility is operating.

"Most countries require that some of the risk be retained either by a local government entity or a local insurer," Mr. Masucci said, adding that he expects this trend to continue.

Paul J. Frease, a vp with broker Johnson & Higgins in Los Angeles, agreed with Mr. Masucci. In most foreign countries—with the exception of those in Europe—U.S.-based companies are required to insure some of their property/casualty coverage through a local insurer.

For example, Mr. Frease said that the Brazilian government won't allow a U.S.-based company with operations in Brazil to take a tax deduction for its insurance premiums unless the company is insured locally.

Mr. Frease said that most companies operating overseas historically insured their property/casualty risks in the United States because it was cheaper and easier than using local insurers. Now, he said, it may be cheaper to use local foreign insurers in conjunction with a master difference-in-conditions policy.

Mr. Frease also maintained that using a local foreign insurer will provide increased visibility should an accident ever occur at the company's facility. The local insurer, he explained, may be able to mitigate the concerns of the local population and government about the availability of assistance for those injured in an accident.

Also on the panel were David Thayer, managing director of Marsh & McLennan Inc. in Seattle; and Laura L. Hinckley, director of risk management for Avery International in Pasadena, Calif. ■

Communication vital to global program

By MEG FLETCHER

NEW ORLEANS—Communication is the biggest problem risk managers face in consolidating and coordinating an international insurance program for a multinational company, experts say.

They face not only language barriers in the foreign countries, but social and political barriers as well, experts said.

And, they may need strong communication skills in dealing with corporate managers, insurers and brokers at home, too.

Techniques for overcoming those barriers were discussed at a seminar that included lively participation from members of the international audience at the Risk & Insurance Management Society conference held earlier this month in New Orleans.

A risk manager must get good information from headquarters and overseas operations themselves before deciding to what degree to coordinate and consolidate an international insurance program.

For example, a risk manager must know management's financial goals and management philosophy toward its overseas operations, panelists said.

Consolidation of overseas coverage usually results in cost savings because of economies of scale, said panelist Michael J. Linde, vp of broker Johnson & Higgins in New York.

And, it can result in a more-efficient, centralized loss-control program, panelists said.

But, dealing with one broker and one insurer may mean severing ties with a good broker who lacks capacity, Mr. Linde said.

"It is a difficult call to make," Mr. Linde said.

The problem of communication is 10 times greater when dealing with foreign subsidiaries, said Stephen W. Scammell, director of risk management for GAF Corp. in Wayne, N.J. His experience with overseas insurance operations came from working for Becton, Dickinson & Co. of Paramus, N.J., and Hoechst AG's U.S. subsidiary in Somerville, N.J.

In poorer countries like Mexico and Brazil, the risk manager may encounter a lot of hostility to the idea of sending more money back to the U.S. parent as a result of coordinating and consolidating the insurance program, Mr. Scammell said.

"It is not that you can't work with this, but it is something that you must work with," Mr. Scammell said.

Personnel overseas may have radically different perceptions about things like loss control. For example, Mr. Scammell said that one manager at a Mexican facility told him that a hard hat was considered more valuable than an employee.

And, there are many differences in insurance terminology used by people schooled in "British English" and those schooled in "American English," said S.H. Groot, director of Kamerbeek Assurantiemakelaars BV in the Netherlands.

"Critical in the communication link is a (local) broker who has the willingness to communicate back to the U.S.," according to Mr. Scammell.

Any international program is a three-way partnership involving the client, the broker and the insurer, said panelist William F. Crowley, senior vp at CIGNA Worldwide Inc.

In addition to communication, a risk manager must consider his and his staff's knowledge and expertise. If a risk manager has a good property/casualty background, he or she can learn the international risk management in a few years, Mr. Scammell said.

And, he said, the risk manager and staff must be sensitive to cultural differences in the foreign countries.

A risk manager must also consider the degree of authority he or she has to implement the program, panelists agreed.

"Candor is crucial," Mr. Crowley said. For example, it can be embarrassing if, after an international insurance plan has been devised by the broker and underwriter, the risk manager discovers that he or she has direct control in the United States but only a consultant's role overseas, he explained.

Risk managers may find their authority increasing along with the general trend toward centralization of risk management operations among U.S.-based international firms. But, most multinational companies still give their local affiliates considerable decision-making authority, according to a study by RIMS.

And, the degree to which operations are centralized does not increase directly as the company expands its global operations said panel moderator Edith F. Lichota, senior vp in the risk management division of Irving Trust Co. in New York.

When a company has limited international operations, it is generally centralized, she said. As it grows into an emerging multinational corporation it tends toward decentralization.

But, when it grows into a truly global company, its operations tend to be again centralized, she said.

Other factors that have an impact on the design of an international insurance program include the size of the company, its type of ownership, the mix of countries involved and the exchange rate, Mr. Crowley said.

Ownership of the overseas operations can affect program design and its acceptance by foreign operations, Mr. Crowley said. For example, if an overseas operation is a joint venture with lots of local money invested, the views of the local investors may have to be considered.

Market conditions and local regulations in individual countries—and the mix of countries—can be especially important.

Most international insurance programs currently popular are master programs in which the insurer issues a broad contract that spreads the risk. Premiums and losses are generally paid in the currency of the local country, Mr. Crowley explained. Local policies then can be reinsured through the master plan.

A risk manager seeking an insurer and broker for a coordinated international insurance program should look for good claims handling and loss control facilities, Mr. Crowley added.

"The broker should have a strong presence in those areas that you have operations," said Mr. Linde of J&H.

But, he cautioned risk managers to beware of "the brother-in-law syndrome" in which the insurance is provided by a relative of the local operation's management. That can make it nearly impossible to place the coverage elsewhere later, he said.

A good broker should be able to generate the kind of information the risk manager needs, including information on local regulations restricting insurers, compulsory coverages and exposures, including product liability.

Once a program has been designed, it takes cooperation, coordination, communication and commitment to make it work, Mr. Crowley said.

"I've never seen a program implemented without problems," he added.

"The start-up of any new program is a pain," Ms. Lichota agreed. "You can blunt the pain if people out there understand what is going on so they will deal with the problems."

A risk manager seeking to implement a new program should begin working with his or her broker a full year before the target date and let the heads of overseas operations know about the plan as soon as possible, Mr. Linde said. It is especially important to alert overseas managers that they should avoid long-term insurance agreements.

Finally, Mr. Scammell reminded risk managers that even the best international program must be audited and monitored to keep it current.

And, Mr. Crowley said, "No program is going to make a bad risk a good risk. It may make a good risk a better risk." ■

Exclusive remedy doctrine eroding, comp panel warns

By DIANE LYNN KASTIEL

NEW ORLEANS—The idea that workers compensation insurance protects employers against workplace injury-related lawsuits is "one of the world's greatest lies, right up there with 'the check's in the mail' and 'this won't hurt a bit,'" says one risk manager.

Raymond Le Blanc, corporate risk manager-workers compensation of Sohio Petroleum Co. in Cleveland, spoke on a panel on the erosion of the exclusive-remedy concept in workers comp at the annual Risk & Insurance Management Society conference here.

The panelists said that the idea of workers comp as the only remedy available to an injured employee is being challenged in the courts—and the challengers are winning.

Court rulings in many states are expanding injured workers' legal recourse and employers' liability, said Russell P. Herrold Sr. of the Columbus, Ohio, law firm of Vorys, Sater, Seymour and Pease.

The panelists, all from Ohio, concentrated on Ohio laws and court decisions. They said laws and decisions differ from state to state, but the exclusive remedy doctrine is under fire elsewhere, too.

The panelists focused on a decision last Dec. 31 by the Ohio Supreme Court that receiving workers compensation benefits does not preclude an employee from suing his or her employer for "intentional tort," which the court defined as an act committed with the intent to injure another or with the belief that such an injury is likely to occur (*BI*, Feb. 25).

The latter part of this definition is more threatening, said Craig Zimpler, vp of Gates, McDonald & Co. in Columbus.

The court also ruled that an employer who is liable for intentional tort cannot offset the award with workers compensation payments made to the injured worker.

Although a 1982 Ohio Supreme Court decision started the erosion of the exclusivity concept by ruling that workers comp was not the sole remedy for an intentional tort, that ruling did not define intentional tort or address the question of offsetting an award, Mr. Zimpler said.

The Dec. 31 decision greatly increases employer liability, he said.

"The actions we are talking about today allow benefits in addition to workers compensation (awards) and undermine exclusive remedy," he said.

"In many cases, the dual capacity option appears to produce good results, but, more often than not, it makes confusion and circumvents exclusive remedy protection."

The concept of dual capacity allows an employee to sue his or her employer for awards in addition to workers comp benefits if the employer acted toward an employee in a capacity other than as an employer, such as if the employer also manufactured machinery that injured the employee.

To cope with the the erosion of the exclusive remedy concept, Mr. Zimpler suggested risk managers:

- Meet with legal counsel and insurers to make sure the company is covered as fully as possible.
- Look defensively at your work environment. Merely notifying employees of a potential danger may be used by an employee to claim the employer knew of the danger, and thus committed an intentional tort.
- Realize any workplace injury or illness may be cause for a suit.
- Contest all questionable Occupational Safety and Health Administration citations. Accepting even a small penalty can be interpreted in court as proof of intentional tort.
- Aggressively monitor on-site visits by Industrial Commission Safety and Hygiene personnel and carefully evaluate recommendations for safety measures.
- Thoroughly examine employee and union complaints or recommendations about the safety of workplace conditions.
- Investigate workplace injuries fully. Take statements from witnesses and injured employees, photograph the accident site and obtain any medical records possible.
- Have aggressive loss control and safety programs. Train employees in procedures and precautions and document such training.

The panel was moderated by Anthony J. Ten-Barge, risk management administrator for NCR Corp., in Dayton, Ohio. ■

Giveaways draw RIMS-goers to booths

By MICHAEL BRADFORD

NEW ORLEANS—This year's Risk & Insurance Management Society conference will be remembered as more than just a week's worth of seminars.

The six-day gathering, held earlier this month in New Orleans, blended a festive air with the no-nonsense meeting of risk managers, employee benefits personnel and other insurance professionals.

It included a dose of Mardi Gras, complete with marching bands, Creole cooking and jazz during a week that heard plenty of talk of Bourbon Street at the early morning sessions.

In the Rivergate Exhibition Center, more than 200 booths displayed the new products and services available to risk management professionals. And true to the spirit of Mardi Gras, they lured the crowds with trinkets and toys.

Just like the Krewe of Rex, who tosses beads and doubloons to the throngs on Fat Tuesday during Mardi Gras, exhibitors offered a host of novel playthings to introduce their newest offerings.

The most in-demand item at the RIMS exhibition hall this year was a sturdy wooden yardstick, equipped with a leather strap for easy toting. It doubled as a walking cane or form of protection for late nights in the French Quarter.

The yardstick was a present from Health Economics Corp. in Dallas. The health care management firm works with employers to lower their health costs through such programs as pre-certification, concurrent patient review and employee health education measures.

Carolyn Palmer, marketing coordinator of the 18-month-old company, said HEC has been successful largely because of the employee education program.

"We are very strong in employee education because we believe the employee has to know why he is doing something and then how to do it," she said.

HEC educates a firm's employees with weekly inserts in payroll envelopes that stress the need for controlling health care costs.

Employees at HEC's 42 clients also see posters in the workplace and letters from management on cost containment.

Although the company is still fairly young, it is adding new clients rapidly, Ms. Palmer said.

And, if the popularity of the yardsticks is any measure of how it will do in the future, HEC can rest easy. RIMS-goers snatched up more than 3,000 of the souvenirs.

Rosalie Hersh of PCC, a company that describes itself as "prevailing hospital charge analysts" from Burbank, Calif., monitored what was probably the most distracting display in the hall.

Her company reviews hospital bills to determine their accuracy and fairness for clients, which are insurers and employers. Management, she explained, wanted something more eye-catching than the usual video programs or computer displays common at exhibitions.

What they came up with was a bigger-than-life poster of a model, nude from the waist up.

The dark-haired model, who Ms. Hersh said currently is filming a movie in India, was turned seductively to one side so that not quite every detail was revealed.

Below her was the company's motto: "We don't take it all off. Just 30 to 60 percent."

Ms. Hersh said the 17-year-old company recommends that clients only pay "fair and reasonable" charges. She said 1,600 clients had total savings of $41 million last year by using the company's services, which include hospital bill audits, reviews of pharmacy charges and a program that monitors charges for supplies that patients take home from the hospital.

"We needed something dynamic," she said of the curvaceous eye-catcher behind her. The booth also offered bottles of spicy Louisiana hot sauce with a label that read, "We're the hottest thing in health care cost containment."

And, the exhibit also featured a fish bowl to hold business cards for a drawing. The prize in the drawing was a poster of the model. The fish bowl was overflowing.

And, everyone is a winner in this drawing. PCC will send a poster to everyone who left a card.

The exhibitor taking up the most space in the hall was perennial big-display builder CIGNA Corp.

The company's two putting greens gave linksmen a chance to try their skills on not-so-easy shots.

When the ball was placed on a tee, it activated the first insurance-related marketing message. If the shot was made, applause rang from the overhead speakers, and the second recording helped get the CIGNA message across.

An errant shot into one of two bunkers brought a chorus of electronically activated boos.

Each golfer heard two short messages. In all, there were 60 separate messages related to four CIGNA divisions: special risks, group insurance, group pension and the international division.

Every golfer was given a CIGNA towel to attach to the golf bag left at home, and a hole-in-one brought a more sophisticated prize.

Putters that made the shot in one stroke were given a greens kit full of useful items, including a divot repair tool, ball markers and other golf paraphernalia.

Carol Wendel of CIGNA's marketing department said the display was aimed more at reaching people in "more remote areas" who aren't familiar with CIGNA's offerings.

Each golfer filled out a scorecard, marking areas of interest, such as asset management and coverages like group medical, general liability, travel accident and aircraft.

CIGNA's marketing department will mail participants information on the areas of interest they indicated on the scorecards.

There were dozens of less-grand temptations to lure visitors. A collector of ballpoint pens could have carried away a suitcase full of the motto-stamped souvenirs.

Photo: One of the Usuals

Katie Cox of Health Economics Corp. gives a promotional yardstick to James W. Gatherer Jr. of Shirmer Engineering Corp.

PCS, which markets prescription drug plans and a group legal plan called LawPhone, offered risk managers help to calm their shattered nerves in the face of worsening news about conditions in the property/casualty insurance market. A sensory button on a plastic card, when held for 10 seconds, signaled by its color if the user was stressed, tense, normal or calm. And, tips to ease tension were printed on the back of the card.

Consultant Tillinghast, Nelson & Warren handed out pointers to attendees—little chrome pocket-size pointers that can be extended for use when risk managers are describing a chart or graph.

Industrial Risk Insurers from Hartford, Conn., took a Band-Aid approach to the affair. Visitors to their booth pocketed travel-sized holders filled with adhesive bandages.

A spokesman for IRI said 1985 was going to be a year of "getting back to basics" for the insurer and loss control specialist. "We're going to refocus on loss prevention engineering," he said.

"We're going to go from being too broad to focusing on our traditional products and making sure we understand them. We'll continue to do what we do and do it well," he said.

Some exhibitors ignored fancy lures and concentrated on getting their messages across through knowledgeable representatives and the usual information packets.

Ogden Risk Management Control Services in Somerville, Mass., was at its second RIMS exhibition.

Its graphic backdrop focused on risk control services in the areas of employee health, public safety, fire safety, political risk and others.

The 18-month-old subsidiary of Ogden Corp. also offers risk control analyses, creates preventive systems and implements risk control plans.

Blackmon-Mooring-Steamatic Inc., a Fort Worth, Texas, firm that specializes in restoring damaged property, also touted services without using elaborate giveaways.

The company is trying to combat the philosophy that "everything can be replaced," said a spokeswoman for the firm.

She explained that Blackmon-Mooring has developed new procedures for controlling corrosion that can be performed on-site.

And, the company has a mobile unit that travels to job sites and uses a freeze-drying method to restore documents, books and valuable papers damaged by smoke or water.

The company offers other post-catastrophe services, like damage appraisal, odor removal, exterior building restoration and demolition.

Probably nowhere but in New Orleans could the RIMS exhibition have felt more at home, with its tons of trinkets, gadgetry and logo-laden toys.

But, New Orleans provided one unexpected challenge to the exhibitors: They had to give their pitches loudly or be drowned out by the jazz bands that kept strolling up the aisles. ■

Several safeguards needed when protecting computers

By MEG FLETCHER

NEW ORLEANS—Buying insurance is the last—but not the least—step in managing the risks created by electronic data processing equipment, experts say.

A risk manager should implement three loss-control measures to protect the computer equipment and data before buying insurance coverage, experts say. Those loss-control measures are protecting the equipment from fire and other natural perils, formulating a contingency plan and guaranteeing data security.

Protecting data processing equipment was the topic of a panel discussion during the annual Risk & Insurance Management Society conference earlier this month in New Orleans.

To prevent fire damage, computer equipment should be housed in a fire-resistant building of reinforced concrete, said Charles F. Leamer, senior engineering officer at Arkwright-Boston Insurance in Greenwich, Conn.

The building should have a noncombustible, raised floor, and fire-resistant cables should be used for computer connections, he said.

The two most commonly used fire suppression systems used for computer equipment are Halon gas and water sprinklers, he noted.

Halon gas, which extinguishes a fire by eliminating oxygen from the air, is often used to protect a central processing unit and mass storage system. The gas is used to avoid water damage.

Sprinklers generally are used to protect a tape library. Sprinklers may also be used to protect printers, tape storage within a computer room and the storage of supplies, depending on the amount of combustible materials like paper and cleaning solvents that are allowed to accumulate.

National Westminster Bank USA in New York uses both Halon gas and water sprinklers to protect its mainframe computer. It also has rolls of plastic sheeting available to cover equipment immediately to prevent unnecessary water damage, said panelist Gerard T. Burns, a bank vp.

Contingency planning also helps safeguard equipment and data, said Randall Cooper, vp at Risk Planning Group in Darien, Conn., a division of Tillinghast, Nelson and Warren Inc.

Contingency planning should be done with the help of an ongoing committee comprised of representatives from security, data processing and those in the company who use the computer. In the event of a serious loss, he said, "Your user groups need to know what they are not going to get."

The contingency plan should identify alternate sites or facilities that can be used if there is a loss in the computer room. It also must provide a detailed chain of command, in case managers are absent or injured.

And, the plan should be tested at least once or twice a year, Mr. Cooper said.

Suggestions for ensuring data security include frequently changing passwords needed to gain access to the computer system, requiring two people to authorize massive manipulation of data and limiting access to personal computers, phone lines and cables that feed into the mainframe computer.

In obtaining insurance coverage for the data processing equipment at his bank, Mr. Burns included personal computers on-line with the mainframe computer in the main coverage for the computer system. But, other personal computers were considered building contents, and insurance coverage for them was much cheaper, he said.

Equipment to be covered should be described as specifically as possible, but the phrase "not limited to" should be used to ensure that most losses will be covered, said session moderator Carolyn Simpson, vp of National Westminster Bank. Crucial telephone lines should also be covered under the policy, she said.

Data processing equipment also must be protected against changes in temperature and humidity, loss of physical access to the equipment and interruption of power.

All data processing coverages should be integrated with other policies, like general property boiler and machinery coverages, Ms. Simpson said. ■

Study policies to avoid coverage conflicts

By DOUGLAS McLEOD

NEW ORLEANS—Losses that trigger one or more multi-layered insurance programs can lead to conflicts over coverage of claims and defense costs, a panel of experts warns.

Conflicts between primary and excess policies or between insurers on two separate lines of coverage can lead to mountainous litigation over apportionment of insurance proceeds, and can cause courts to split on how to resolve such conflicts.

Risk managers should thus be aware of differences in the various policies covering a given risk and should understand how those policies may respond in case of a loss, the panel told an audience at the Risk & Insurance Management Society conference in New Orleans earlier this month.

Unpleasant surprises often confront policyholders that expect to be covered as additional insureds under another party's policy, notes James Robertson, president of Insurance Litigation Consultants of Costa Mesa, Calif.

"There is a great danger of conflict and of policies not performing as policyholders expect," Mr. Robertson said.

"The chances are seven out of nine that when you are named on someone else's policy as an additional insured, it will not perform as you expect it to."

The problem, he explained, arises when the policy on which a company is named as an additional insured also provides that the insurance will serve as excess over other available insurance.

While the insured may expect the other party's policy to serve as primary insurance, the result may be the opposite: The insured's own policy could be tapped first with the additional insurance available only as excess.

Other conflicts can arise when a policyholder maintains a large self-insured retention that essentially serves as primary coverage, Mr. Robertson added.

An insured with a deductible in a primary policy can rely on the primary insurer to defend and settle claims before the deductible is exhausted, even though coverage of the costs of defense and settlement isn't triggered until the deductible is paid out, he explained.

But, with a self-insured retention the policyholder acts as a primary insurer, defending and settling claims within the retention.

This can create problems when a self-insurer and its excess insurers don't agree on their respective duties, he said.

"Very often, what is included in the retention is not defined in the excess policy," Mr. Robertson said, noting that claims may not be defined the same way in an excess policy as they are for purposes of the retention.

Umbrella policy language also varies among insurers, he added.

"Those forms are not identical and do not mean the same thing in any situation you find," Mr. Robertson said, adding that he has seen about 500 different umbrella forms in the last 20 years.

Excess insurance written on a "following form basis," which Mr. Robertson says are "the most dangerous words in the insurance business," can cause headaches if policyholders do not understand which form is being followed.

These forms can be designed in three ways, he noted. They can follow:

- The terms of the first umbrella layer.
- The immediately preceding excess layer.
- The underlying primary insurance policy.

Coverage of defense costs is likewise handled in different ways by different excess insurers, and risk managers should be sure their various excess layers are consistent on this point, Mr. Robertson suggested.

Defense costs may be:

- Totally excluded.
- Included within policy limits.
- Covered in addition to policy limits, which are then available for judgments and settlements.

Courts are divided on whether a primary insurer has a continuing duty to defend a policyholder after its limits are exhausted, added Stephen A. Cozen of the Philadelphia firm of Cozen, Begier & O'Connor.

Several federal and state courts have found that an insurer's duty to defend is not contingent on the duty to pay judgments and settlements, and continues even after policy limits are exhausted. Other courts, however, have found that the defense obligation continues only as long as the obligation to indemnify continues, he explained.

Mr. Cozen said some courts that have ruled there is no continuing duty to defend have also barred insurers from paying limits to relieve themselves of the defense obligation.

Excess insurers are generally not obligated to provide a defense for a policyholder if the primary insurer has a defense duty, Mr. Cozen added, explaining that once the primary insurer assumes the defense of claims, that obligation will include even claims that pierce excess layers of coverage.

However, exceptions to this have been made by courts in several states, including Montana, Minnesota and New Mexico, which have held that the excess insurer's defense duty is equal to the primary insurer's in cases where damages would pierce the excess layer, Mr. Cozen said.

In jurisdictions where a primary insurer is relieved of a continuing duty to defend by exhaustion of its policy limits, the excess insurer must then step in to provide a defense, he added.

Courts have also allowed excess insurers to recoup losses from primary insurers if the primary insurer breaches its duty to settle claims that later produce jury verdicts that penetrate the excess layer, he said.

Where two or more insurers have a defense duty, most courts have apportioned defense costs on the same basis that indemnification is divided, he said. Some courts, however, have ruled that defense costs must be divided equally among insurers participating in a given layer of coverage.

The apportionment of indemnity payments among several insurers can also become a complex job where concurrent coverage exists, Mr. Cozen said.

Concurrency results when there are two or more policies covering the same risk. Deciding the order in which multiple policies provide coverage becomes a problem when the policies all contain "other insurance" clauses, Mr. Cozen noted.

"Other insurance" clauses come in three varieties, he explained:

- Pro-rata clauses, which limit the insurer's liability to a pro-rata share of the loss based on its limits.
- Excess clauses, which provide that a policy is excess of other available insurance.
- Escape clauses, which provide that a policy will offer indemnity only if other insurance is not available.

Where two or more policies have contradictory "other insurance" clauses, courts have to decide the order in which coverage applies. Using a "clause-matching" approach, courts have generally ruled policies with excess or escape clauses are excess over policies with pro-rata clauses, he said.

In cases where policies have the same excess clause, courts generally treat the clauses as "mutually repugnant" and ignore them, he said, noting that in these cases coverage is often prorated.

While courts have established that primary insurers owe excess insurers a "good-faith duty" to try to settle claims within the primary policy limits, one court has found that self-insurers owe this same duty to their excess insurers, warned Bradford Rich, president and chief executive officer of Albany-Atlas Group.

In a 1979 California state court decision, Spink Corp., an engineering company, was found to owe a "reciprocal" good-faith duty to its primary and excess professional liability insurers.

Spink carried a $100,000 primary professional liability policy with a $15,000 deductible with American Motorists Insurance Co. and a $1 million excess policy with Transit Casualty Co. Both policies contained a settlement clause allowing Spink the right to refuse settlement offers, Mr. Rich said.

In a wrongful death action following a construction site accident, Spink refused a $300,000 settlement offer, and a jury later returned a verdict of $632,000, according to Mr. Rich.

Transit then sued Spink and American for breaching their good-faith duty to accept a reasonable settlement offer, and won damages of $460,000.

An appeals court later upheld the award, finding that there was "triangular reciprocity" among Spink, American and Transit, each of which owed the others a good-faith duty to negotiate a reasonable settlement where damages are likely to involve all three, Mr. Rich explained.

The session was moderated by Michael R. Keating, risk manager at Commercial Shearing Inc. in Youngstown, Ohio. ■

Help available for part-time risk managers

By MICHAEL BRADFORD

NEW ORLEANS—Part-time risk managers sometimes find that carrying out all of their duties amounts to a full-time job.

Smaller companies have risk management needs just like larger companies, but their size and budget sometimes restrict them from having a full-time risk management staff member, according to Leonard Friedman, president of LRF/RM Inc. in Great Neck, N.Y., a firm that acts as a risk manager for smaller companies.

Companies without a full-time risk manager often have their president, treasurer or another financial officer take on risk management as part of their duties, Mr. Friedman said.

The amount of time spent on risk management duties can range from 2% to more than 50% of a part-timer's week, noted Mr. Friedman, a member of a panel on part-time risk management at the Risk & Insurance Management Society conference in New Orleans.

Part-time risk managers are often faced with deciding whether they should learn the ropes themselves and work long hours, or look for help outside their companies, panelists said.

Mr. Friedman said part-time risk managers can do any of the following:

- Learn as much as possible about their jobs and become knowledgeable insurance buyers.
- Hire a consultant to design a risk management program.
- Use a "multi-client" risk management firm to administer the risk management program.

Employees who suddenly find themselves cast into the risk manager's role must handle their new duties at the same time they are juggling their other responsibilities, Mr. Friedman said. They can learn the ropes most quickly by reading various trade publications and industry news magazines, he said.

Joining the Risk & Insurance Management Society will put the new risk manager in closer contact with more than 2,000 other risk managers, he added.

Mr. Friedman also recommended that part-time risk managers take risk management courses and attend seminars.

If the part-time risk manager decides to find outside help, independent consultants are available to design risk management programs.

Companies should refrain from hiring insurance brokers or people who also act as "consultants," and thus might stand to gain financially from advice they provide, he said.

Another option for the part-time risk manager is to hire a multi-client risk management firm, which usually works on an annual retainer.

"We take a company that doesn't want to become an expert in-house and do it for them," Mr. Friedman said.

A multi-client manager will take over all the full-time risk management and insurance duties, he explained.

This type manager will provide a detailed analysis of a corporation's exposure to risk, evaluating each risk and determining if it can be eliminated, reduced, retained or insured, said Mr. Friedman. A risk and insurance management program is then designed.

Insurance files are maintained by the multi-client manager and the client is given a summary manual that "spells out in layman's terms" the company's coverages and unprotected exposures.

The manual spells out reasons why there is no coverage for some exposures, noted Mr. Friedman, adding that the manual is updated continually.

Another panelist, Jay Shapiro, president of The JLS Group Inc. in New York, explained the type of consulting and brokerage services his company provides to firms with part-time risk managers.

JLS conducts a detailed survey that asks questions aimed at uncovering all exposures. The survey takes two days for the company to complete and six to eight days for JLS to analyze, said Mr. Shapiro.

A report is then delivered to the client "in our board room. This takes the client away from everyday distractions," he said. The six- to eight-hour report is delivered in several sections. It covers:

- A critique of current insurance compared against exposures uncovered in the survey.
- Suggestions for mitigating, eliminating or transferring exposures.
- Other insurance that might be needed.
- What services are necessary to improve the current risk management and insurance program.

When the report is completed, specifications are sent to insurance companies for coverage quotations. When the coverage is placed, a report comparing costs and coverages is sent to the client.

A risk and insurance administration manual is provided to each client, explained Mr. Shapiro, that contains a summary of claims-reporting procedures and details of the insurance program implemented.

He noted the program includes a "formal program of communication" through reports that contain written agendas for meetings of clients with JLS personnel to discuss any new matters pertaining to the risk management program.

Leland H. Vanslyke, another panel member who is controller and part-time risk manager with Crookham & Co. in Caldwell, Idaho, advised other part-time risk managers to "get very close with a broker or insurance agent" to tap his or her expertise.

"If it hadn't been for one broker who took me aside and explained things. . .I would have been in very deep trouble. Also, it helps to get very close with your legal counsel."

Mr. Vanslyke explained that other risk managers can often provide much-needed expertise. He said he belongs to the 30-member Boise, Idaho, chapter of RIMS, "where everybody looks after everybody else. Since I'm a part-timer, they keep me abreast of what's going on."

The biggest problem with being a part-timer, said Mr. Vanslyke, is time itself. He says the 30% of his work week spent on risk management is not enough.

"The other problem is that it is hard to explain to my management some of the problems of risk management. For example, if I asked them if they knew what a claims-made policy was, they wouldn't know what I was talking about."

For this reason, Mr. Vanslyke said one of his first moves as a risk manager was to equip himself with a glossary of risk management and insurance terminology.

Acting as panel moderator at the session was Eliot E. Cohen, risk manager for Fisher Bros. in New York. ■

'100 best' companies share concern for workers: Authors

By MICHAEL BRADFORD

NEW ORLEANS—It takes more than a healthy bottom line to make a company a good employer, according to the authors of "The 100 Best Companies to Work for in America."

Milton Moskowitz and Robert Levering explained how they ranked America's companies during a luncheon address at the recent Risk & Insurance Management Society conference in New Orleans. The third author, Michael Katz, did not attend the luncheon.

"It didn't matter how well you did on Wall Street, if you chewed up people on the way," Mr. Levering said.

Mr. Levering said the rankings were put together after he and Mr. Moskowitz talked with employees on all rungs of the corporate ladder at hundreds of companies. "To make the list, people had to tell us over and over how good it was to work there," he noted.

After gathering data for the book, the authors established a set of criteria that companies had to meet in order to be ranked. Mr. Moskowitz explained.

To be listed in the ranking, he said, a company had to:

- Make employees feel they are part of a team. "At JCPenney, no one is called an employee everyone is an associate."
- Promote from within. "Atlantic Richfield posts every job available in great detail," so employees get first preference.
- Allow employees a part of profits, as in profit-sharing plans offered by Apple Computer Inc. and Tandem Computer Inc.
- Make a valiant effort to avoid layoffs during financial downturns. Companies cited for notable no-layoff policies are Delta Air Lines Inc., International Business Machines Corp. and Exxon Corp.
- Try to reduce distinctions of rank between management and employees. "At People Express, every worker is a manager of some kind," said Mr. Moskowitz.
- Offer extraordinary benefits. For example, Time Inc. offers employees a free cab ride home when they work overtime, and Merle Norman Cosmetics provides employees with 25-cent lunches, free movies and birthday cakes.
- Be equally good to work for in all its locations.

While the book included diverse companies—the Los Angeles Dodgers baseball team, three oil companies, department stores and computer manufacturers—some industries are not represented.

There are no accounting or law firms, and "that's not because we didn't try to find them," Mr. Moskowitz said.

Northwestern Mutual Life Insurance Co. in Milwaukee, ranked ninth, is the only insurer.

The insurer is noted for its "four-star employee cafeteria," the book says. Sweet rolls and doughnuts are made daily at the company, and lunches feature two hot entrees, salads and sandwiches. And it's all free.

The company also offers flexible working hours, a benefit that is especially attractive to working parents. In addition, new job definitions have helped reduce the burden of heavy paper work at Northwestern Mutual.

E.I. Du Pont DeNemours & Co. Inc., based in Wilmington, Del., is the only chemical company among the book's 100. An "obsessive safety program," has kept accidents to a minimum at all locations, Mr. Moskowitz commented.

"They have a manic safety campaign," he said. "If there is an accident anywhere in the world, a report has to be on the (chief executive officer's) desk the next morning. Du Pont's policy carries to every corner of the company."

The book also says Du Pont has a published policy that it will offer employee benefits as good or better than its competitors offer. For example, workers receive their full salary for up to six months if they miss work for injuries or illnesses that are not job-related.

Doing the book provided some interesting insights into several companies, Mr. Moskowitz said.

As the book was being compiled, some companies mistakenly took it for a "vanity" publishing effort and contacted the writers to find out how much it would cost to participate, he said.

He said Amway Corp. wanted to see any material written on the company before it was published. "We knew right away it was not a good company to work for."

A public relations worker at CBS Inc. "grilled me for half an hour," Mr. Moskowitz said, to find out what might be written about the network. "CBS didn't make the book, but not because of that. I know a lot of people that work there, and they are not a good candidate."

The New York Times did not want to included, noted Mr. Moskowitz. "They said they already had enough job applications."

Several companies that were included in the book will be dropped in an new updated version, he said, including Hospital Corp. of America. The hospital-owner/management firm was listed in the book as one of the fastest-growing U.S. industries.

HCA was cited for its employee benefit called the "Aerobic Challenge." Under the program, workers are paid for completing physical exercises like swimming (96 cents per mile) and racquetball (48 cents an hour) in an effort to encourage them to keep in shape.

One worker earned $800 from the program, the book notes.

Other benefits include a discounted stock purchase plan, according to the book.

But Mr. Moskowitz said HCA will not appear in the updated rankings because it is an example of "a terrific headquarters facility that could not guarantee all the hospitals it manages are as good."

Ralston Purina Co. in St. Louis will also be absent from the new list because it has become "a big, faceless food conglomerate. It is getting rid of the folksy image that we thought was nice," Mr. Moskowitz said.

However, Federal Express Corp. will dash into the new edition, along with Steel Case Inc., Fisher-Price Toys, Northrop Corp., Recreational Equipment Inc. and Remington Products Inc. ■

Risk managers and brokers square off at RIMS seminar

By MICHAEL BRADFORD

NEW ORLEANS—Some risk managers and brokers may be rethinking their relationships with each other after unloading some of their complaints during a lively seminar at the Risk & Insurance Management Society conference.

The seminar, "The Risk Manager/Broker Relationship Under Scrutiny," saw risk managers challenging brokers to "wake up and start servicing, not selling," as one risk manager said. Brokers, in turn, said clients should more clearly outline what services they expect.

Benjamin M. Eisenstadt, a senior account executive with the brokerage Tomenson Saunders Whitehead Ltd. in Toronto, said there are "good, mediocre and poor brokers. As a risk manager, one of the important things you have to do is make a decision as to the broker you will deal with and monitor his capability."

He also pointed out: "There are good, mediocre and poor risk managers. But risk managers are in control of the situation. If you don't like what your broker is doing, you can do something about it.

"We as brokers have to grin and bear it when we are dealing with a poor risk manager."

Mr. Eisenstadt said if he is given a clear mandate by a risk manager, both can work to fulfill it.

But, he cautioned risk managers that, "If you're letting me get away with not doing my job, then you're not doing your job."

Mr. Eisenstadt reminded risk managers they can fire a broker whose work is sub-par.

However, one risk manager in the audience took issue with Mr. Eisenstadt's remarks about switching brokers. "You know the whole (relationship) depends on continuity," the risk manager remarked. "We can't have this divisiveness. You can't say, 'If you don't like the broker, fire him.' That's crap."

The risk manager added, "You keep saying 'set parameters.' We don't want to have to deal with brokers anymore than we have to because of this problem. I'm saying brokers are going to have to wake up and start servicing, not selling."

Mr. Eisenstadt commented that brokers want to deal with risk managers that have the authority to make decisions.

A risk manager in the audience challenged that statement also.

"I have that authority," she said. "But the broker didn't want me to have it. He constantly went over my head to the president."

Mr. Eisenstadt said that in addition to dealing with a risk manager who has the authority to make decisions and will give him a clear mandate, he also prefers those that "have all-inclusive skills and know what they are talking about."

He said he also prefers accounts with risk managers who "are not afraid to rock the boat and make changes and are not stale, having been on the same job for too long."

He added, "I try and define my role right up front with the client. What do you want me to do? Get quotes? Settle claims? Do you want line-by-line calculations?"

When asked what he thinks brokers offer that a risk manager can't find elsewhere, Mr. Eisenstadt said: "The thing we do best is provide expertise in the marketplace. You can't find the time to sit down and deal with 20 markets. Even in a soft market, it's a skill."

A broker practice that annoys panelist Eliott Cohen, risk manager for Fisher Bros. in New York, is "when my account is used for a training school."

New employees sometimes are assigned to his account, he said, until they are ready "to move on to bigger and better things."

"I have no objection to working with a rookie, but please don't overdo it," he said.

J.A. Hardy, moderator of the panel and insurance manager for Carling O'Keefe Ltd. in Toronto, said, "There is a communication problem, but we're here to try and solve the problem. And the problem is the insurance market, not the broker."

He said risk managers and brokers must redefine their expectations of each other. "I think we have to communicate better without getting on each other's backs."

He added, "I think we will see more payment on a fee basis, and brokers will perform on the basis of what they are paid to do." ■

IRS rules threaten cash-flow plans: Panel

By DOUGLAS McLEOD

NEW ORLEANS—Companies with retrospectively rated insurance programs or other cash-flow plans should review the design of the plans to avoid trouble with the Internal Revenue Service, a panel of experts advises.

Premium deductions and other tax advantages of cash-flow programs, qualified self-insurance and captive insurance companies have been under attack by the IRS and Congress, and many of these advantages have been removed, the panel told an audience at the Risk & Insurance Management Society's annual conference, held earlier this month in New Orleans.

Companies that hope to take premium deductions for insured retrospectively rated plans should be careful about the plans' design, said James V. Davis, chairman of Corroon & Black Advanced Risk Management Services in Nashville.

'Get the minimum up to where there is a finite probability that you will leave some money on the table and get the maximum down to where there is a finite probability that the underwriter will be accepting some shifting of risk,' Mr. Davis says.

In order to qualify for favorable tax treatment, policyholders must be able to demonstrate that the plans provide for some shifting and distribution of risk.

If premiums are paid under a retro plan only as losses occur, the IRS may question whether the plan is really insurance and whether tax deductions are appropriate.

Mr. Davis advised companies considering or reviewing a retro plan to make sure there is a relatively narrow spread between the minimum and maximum premiums payable under the program.

In the past, many retro plans called for a relatively small percentage of the standard premium as a minimum premium, while maximum premiums—the most an insurer could charge regardless of losses—were set as high as 150% of the standard premium.

Narrowing the gap between the minimum and maximum could increase the cost of the program for policyholders and increase the risk borne by insurers, and by doing so improve the chances that the program will be viewed favorably by the IRS, Mr. Davis explained.

"Get the minimum up to where there is a finite probability that you will leave some money on the table and get the maximum down to where there is a finite probability that the underwriter will be accepting some shifting of risk," he said

Mr. Davis cited one retro plan that has increased the minimum to 75% and lowered the maximum to 118% of the standard premium.

He said in addition to bearing the risk of losses coming in below the minimum premium, policyholders will pay more for getting the underwriter to reduce the maximum.

"That's where your negotiating skills are going to come into play."

Mr. Davis also recommended that retro plans include a fixed premium payment schedule instead of providing for payment of premiums in line with loss payments.

This feature would again support the policyholder's contention that the retro plan is insurance for which premiums may be deducted.

Mr. Davis said he knows of five retro plans for which the IRS disallowed deductions in the fourth quarter of last year. Some of these were structured in ways that led the IRS to conclude that the plans didn't really represent an insurance contract, he suggested.

One disallowed plan was maintained by a Midwestern company and had a $20 million standard premium, $10 million in expected losses, a minimum premium of $120,000 and a maximum premium of $22 million, Mr. Davis said.

"Now, if you can demonstrate to me where the insurance is in that, we'll have at it," he said.

Edward A. Tepper, manager with accountant Ernst & Whinney in New York, said his firm recently redesigned a cash-flow program for a client whose deductions of the standard premium had been disallowed by the IRS.

"It was not an easy negotiation," Mr. Tepper said, explaining that discussions with the insurer took about four months.

Under the disallowed plan, the policyholder's premium payments were equal to its losses and were paid when the losses were paid, according to Mr. Tepper.

The retrospective rating feature of the plan was adjusted on a three-year cumulative basis, he added.

"Our actuaries concluded that they have a zero percent chance of coming in under the minimum or over the maximum," Mr. Tepper observed, noting that such an arrangement would not be considered insurance by the IRS.

The client made several changes to this plan, including:

- Raising the minimum premium and reducing the maximum.
- Shifting the plan period to a single year from a cumulative three-year period.
- Disassociating premiums from loss payments by establishing a fixed premium payment schedule that does not follow losses in either timing or amount of payments.

The result has been a greater likelihood that a tax deduction will be allowed, Mr. Tepper said.

Narrowing the gap between minimum and maximum premiums has resulted in an estimated 10% chance that losses will come in under the minimum or over the maximum, he noted.

Though the policyholder is paying more for the retro plan, an increase in its tax savings has produced a net reduction in costs, he added.

The present value premium for the new plan increased to $7.25 million from $6.76 million, Mr. Tepper said. However, the tax benefit from the plan increased to $4.05 million from $3.11 million, producing a net cost of $3.2 million, down from $3.65 million.

The tax benefits of captive insurance companies were drastically cut back by the Deficit Reduction Act of 1984, added Joseph Smetana, president of AIG Risk Management, a unit of American International Group.

DEFRA changed Section 121 of the Internal Revenue Code to redefine income earned by a controlled foreign corporation—like a Bermuda captive—from insuring U.S.-based risks as U.S. source income, which cannot be offset by excess foreign tax credits.

Previously, this income was considered foreign source Subpart F income, which could be offset by foreign tax credits generated in high-tax foreign jurisdictions, Mr. Smetana noted.

The new law also changed Section 137 of the code to redefine a controlled foreign corporation's income from insuring related foreign risks as currently taxable Subpart F income. Before, this income was not taxable until repatriated to the United States, he observed.

DEFRA also amended Section 845 of the code, Mr. Smetana added, which now allows the IRS to deny tax benefits arising from reinsurance transactions with related or unrelated reinsurers where the transactions are deemed to have "a significant tax avoidance effect."

This change could create problems for AIG's guaranteed-cost net present value program, in which premiums are discounted to reflect future investment income and are ceded to offshore reinsurers, where the investment income can accumulate tax-free, Mr. Smetana said.

"The future use of that could possibly be hindered" if the IRS decides the reinsurance has a "significant tax avoidance effect" and taxes the investment income as if it were earned onshore, he said.

Another problem arising from the change to Section 845 could involve excise taxes on premiums ceded to offshore captives through fronting companies, Mr. Tepper added.

Despite the use of the fronting company, the IRS may attempt to use Section 845 to characterize the flow of premiums to the captive as direct insurance rather than reinsurance, and assess the 4% excise tax due on direct premiums rather than the 1% excise tax due on reinsurance premiums, he said.

P. Bruce Wright, an attorney with the New York firm of LeBoeuf, Lamb, Leiby & MacRae, added that the IRS has issued a private letter ruling imposing the higher excise tax in a similar situation.

The company involved in that ruling ceded premiums through a fronting insurer to an offshore captive, which then retroceded some of the premium to commercial reinsurers, Mr. Wright said.

The IRS ruled that the real reinsurance transaction was between the captive and the retrocessionaire and imposed the 4% excise tax on premiums paid through the fronting company, he said.

Also speaking at the session was Robert W. Esenberg, risk management administrator of the city of Virginia Beach, Va. The panel's moderator was Arthur Bostwick, risk manager of Stone Container Corp. in Chicago. ■

Hardening market affecting property coverages

By DIANE LYNN KASTIEL

NEW ORLEANS—The recent turn in the property/casualty insurance market will affect almost all types of property insurance, experts agree.

"After years of experiencing a soft and very competitive market, we're all witnessing an unprecedented change in the market," said Robert O. Parry, risk and insurance manager for Newfoundland & Labrador Hydro in St. John's, Newfoundland.

Mr. Parry was on a panel that discussed new developments and changes in various lines of property insurance at the annual Risk & Insurance Management Society conference held earlier this month in New Orleans.

One line of property insurance in which change can be seen is the boiler and machinery insurance market, Mr. Parry said. Rates are increasing, "and this will mean, as risk managers, we will have to pay more attention to boiler and machinery insurance."

In particular, boiler breakdown risks are becoming more complicated and harder to pinpoint because boiler and machinery technology is becoming more advanced and more complicated, he said.

He also warned risk managers to be careful when including boiler and machinery coverage in an all-risk insurance policy because all-risk policies that cover boiler and machinery risks often contain exclusions that traditional boiler and machinery policies do not contain.

And, all-risk property coverage also is in flux in the current market, said John Johnstone, managing director at Marsh & McLennan Ltd. in Toronto.

"Some of the policies you enjoy now will be subjected to pressure in limiting coverages," he said.

An all-risk policy provides comprehensive coverage for all property risks except those specifically excluded from the policy, he explained. However, the interpretation of the exclusions is likely to become stricter in the tightening market, Mr. Johnstone said.

Specifically, risk managers should expect problems with claims caused by faulty workmanship or design, mechanical breakdown and structural problems, he said.

For example, if a claim is caused by faulty workmanship, insurers will be willing to pay for damage caused by the defective item but not for damage to the defective item itself, he said.

Another line of property insurance that is tightening is the earthquake insurance market.

"Carriers are aware of the catastrophic potential (of earthquakes) and, as the market is changing and getting harder, they'll be less willing to take that risk," explained Bruce Berger, regional property manager for Harbor Insurance Co. in Los Angeles, a Continental Corp. subsidiary.

A capacity shortage probably will result in higher premiums and deductibles, he said.

"The pricing of such insurance will depend entirely on supply and demand and nothing more," Mr. Berger said.

Rates for earthquake insurance are influenced by such things as the locations of the buildings to be covered, the number of buildings to be covered and the desired coverage limits, he said.

But, despite the the grim outlook, Mr. Berger encouraged risk managers to examine their earthquake risks seriously and warned them not to be complacent.

"The entire United States is riddled with faults, (except) Florida," he said. "And I think it's only a matter of time before one is discovered there.

"And I wouldn't take the attitude that the federal government is going to pick up the chips," Mr. Berger continued. "The ability of the federal government to pay is not what it used to be."

The highly protected risk insurance market also has experienced changes, said Justin Curren, regional vp and sales manager for Allendale Insurance Co. in Atlanta.

"Over the past five years I can't think of anything in the insurance market that has become more blurred and more fuzzy than HPR insurance," Mr. Curren said.

The main factors that contributed to the current state of the market are the proliferation of HPR insurers and the expanding definition of "highly protected risks."

"The term changed from 'highly protected risk' to 'good risk' to 'Gee, I think I can make a buck on that risk,'" Mr. Curren said.

According to Mr. Curren's definition, highly protected risk insurance usually is bought for assets worth at least $50 million and is usually purchased by manufacturers with multiple locations.

However, he said many other types of companies are buying highly protected risk insurance.

"Increasingly, they can be just about anything from bakeries to stadiums and convention centers," he said.

"Many, many corporations have been into HPR who were not showing the characteristics of good prevention and good attitude," Mr. Curren said. However, risk managers can expect this situation to change as insurers become more selective in writing HPR policies in a hardening market, he said.

"It's going to be a difficult time to be a risk manager," he said. "At the same time it's going to be difficult for the insurance companies to reposition themselves to weed out those who blurred the clear picture of the coverage."

Mr. Curren said insurers look for several items when they consider an application for HPR coverage, including:

- The policyholder's interest in loss control and safety.

"Good housekeeping is important," he said, "from keeping the smoking where it belongs to teaching forklift drivers how to come around a corner."

- A good sprinkler system and an adquate water supply.
- Regular inspections—sometimes as often as three times a year—from outside inspectors.
- Appropriate, safe building construction.
- Good maintenance of buildings and equipment.
- Protection of any special hazards.
- Protection against windstorm, fire, flood, earthquake and collapse.

Illinois comp bill

Continued from page 2

sation reform bill passed in 1983 (*BI*, July 9, 1984).

A hearing on this year's bill, which was introduced April 10, is expected to be set this week in the House Labor & Commerce Committee, Rep. Giorgi said. Another of the bill's five sponsors—State Rep. Bruce A. Farley, D-Chicago—chairs that committee.

Rep. Giorgi said he introduced the bill because "of the insulting way the insurance companies have gouged and overcharged employers" on workers compensation rates in the past.

This year, the workers compensation insurance rates filed by the National Council on Compensation Insurance decreased slightly—by an average 0.5%.

But even though the average rates dropped, employers are paying higher premiums because insurers are not using scheduled credits or returning dividends for good loss experience as much as they did in past, according to Bill Clark, a regional vp in St. Louis for the NCCI, the national workers compensation ratemaking and research organization based in New York.

He explained that increased underwriting losses in 1983 forced insurers to stop deviating as much from the filed rates.

According to A.M. Best, workers compensation insurers in Illinois reported $551.7 million in paid losses in 1983 and $588.5 million in incurred losses. This resulted in an 84% loss ratio for 1983, up from 69.9% in 1983.

The increased underwriting losses in 1983 coincide with the first year Illinois instituted competitive rating for workers compensation risks.

Under competitive rating, workers compensation insurers in Illinois calculate and file their own rates, rather than use rates filed by the NCCI.

During 1983, employers saved about $100 million because the new competition among insurers increased their use of scheduled credits, dividends plans and other deviations from filed rates, according to a study by the Illinois Insurance Department (*BI*, April 4, 1984, Nov. 19, 1984).

The 25 largest workers compensation insurers in Illinois still are underwriting their risks, but market share has been redistributed since competitive rating began, said an insurance department spokesman.

Savings to employers in 1984 due to competitive rating, however, may not be as good as in 1983 because insurer losses have been higher, some predict. The NCCI predicts an aggregate loss ratio for workers compensation insurers in Illinois of 99.8% in 1984 and a 136% aggregate combined loss ratio.

"But even though (premiums) are going up, we'd be against a state fund," said Bill Dart, legislative affairs director with the Illinois Manufacturers' Assn. "If government can't make the streets safe, how can it run a complicated insurance business," he said.

Other employer representatives had similar arguments against a state fund.

"We've always been opposed to a state fund. Government should do what it is intended to do and it shouldn't be in private business," said Steven Rosenbaum, manager of workers compensation and unemployment insurance programs for the Illinois Chamber of Commerce.

The legislators who are calling for a state fund don't understand that the situation in Illinois is not the fault of insurers but the result of overall market conditions, said William S. Sirola, regional manager of the Insurance Information Institute.

Although workers compensation rates are rising, employers reaped the benefits of a soft market a few years ago and were warned that rates would rise again, Mr. Sirola said.

Rep. Giorgi's bill was drafted by the Illinois AFL-CIO. Labor has traditionally supported state funds because they believe they have more say in workers compensation issues in states that have funds.

Rich Walsh, lobbyist for the Illinois AFL-CIO, said state budget crunches during the past three years prevented the bill from passing. According to a provision in the bill, $10 million would be borrowed from the state to start up the fund. The money then would be repaid over a five-year period.

"I think (the bill) has a better chance than in the past," Mr. Walsh noted.

However, the substantial changes in the state's workers compensation act during the past two years—changes in the benefits structure and in the make-up and operations of the Illinois Industrial Commission—could stall passage again.

"There is some feeling on the part of both parties (business and labor) to leave that work for awhile before making any other changes," Mr. Walsh said. ■

Hawaii comp bill

Continued from page 2

and that they will continue their efforts in the next legislative session, slated to begin in January 1986.

Provisions in H.B. 463, most of which will become effective when the governor signs the bill, include:

- The creation of a competitive state fund—a state operated insurance company—by July 15, 1986. The bill, however, did not appropriate any money for such a fund, deferring this decision to next year's Legislature.

In the interim, a panel of four senators and four state representatives will meet to determine procedures for implementing a state fund, if the Legislature appropriates start-up costs next year.

- A change in the waiting period before collecting benefits from a workplace injury. The new law will require an injured worker to wait three calendar days from the date of an injury before collecting indemnity benefits. The current law has a waiting period of only two days, and also allows workers to collect benefits retroactively for those two days if the injury persists for more than five days. That retroactive provision is eliminated in the new bill.
- A strengthening of fraud penalties for any person who makes a false statement or representation to obtain, or to avoid paying, benefits. Fines were increased to $2,500 from $1,000, and injured workers found guilty of fraud will lose their benefits.
- The drafting of medical guidelines and frequency of treatment guidelines by the Department of Labor, which also will have the authority to review workers compensation providers.
- A requirement that workers compensation insurers offer employers an optional deductible of from $100 to $500 per claim in their insurance policy, which presumably would lower premiums.

"The omnibus bill. . .will reduce costs somewhat," said Edwin Shimizu, director of goverment affairs for the Hawaii Chamber of Commerce.

However, employers and insurers are not completely satisfied with the bill.

Mr. Shimizu and others contend that the Legislature failed to address one of the main reasons why costs are so high in Hawaii.

That issue is the wording of the current law that deals with the way workers compensation arbitrators and the courts interpret the compensability of an injury or illness.

Currently the law requires a "preponderance" of evidence, rather than just "substantial" evidence, to disprove the compensability of a workplace injury. Employers and insurers would like this wording changed, giving them a better chance under law to prove that a particular claim is not compensable.

Such a change was recommended by Haldi Associates Inc., the New York-based economics and managment consulting firm that was commissioned by the Legislature to study the workers compensation system and make recommendations (*BI*, April 4, 1983).

However, the consultant's recommendation on the issue of disproving compensability was only one of several that didn't make it into the final bill.

"I think the Legislature ducked the issue in this bill," said Jim Stickles, vp with the Alliance for American Insurers in its San Francisco office.

He said the creation of a state fund—another insurer—in Hawaii may make things worse. Hawaii is not a big market now, and the largest market share for a single insurer is only 20%. Mr. Stickles said he doesn't believe the state will be able to earn enough premium to successfully operate an insurance company.

Another major problem in Hawaii is the frequency of workers compensation claims, and another insurer won't help solve this problem, Mr. Stickles said.

This will continue to be one of the issues employers and insurers will address between now and the next legislative session.

In addition, employers and insurers are expecting labor to come back and ask for additional benefits. ■

CBS Inc. promotes D'Oca to vp of risk management

comings & goings: buyers

Dennis D'Oca, 44, has been promoted to vp of risk management for CBS Inc. in New York. In this newly created position, Mr. D'Oca is responsible for directing and advising the broadcasting company on general insurance matters, including safety, environmental and loss-control programs. He also will formulate and administer the company's worldwide general insurance program. Mr. D'Oca reports to Louis Rauchenberger, vp and treasurer.


Mr. D'Orca

Previously, Mr. D'Oca was director of risk management for CBS Inc. Mr. D'Oca received a bachelor of business administration degree from Hofstra University in Hempstead, N.Y., in 1962 and received an associate degree in risk management from The College of Insurance in 1975. Mr. D'Oca is also a member of the board of directors of the New York Chapter of the Risk & Insurance Management Society Inc.

* * *

Timothy F. Collins, 47, has been promoted to vp of The Equitable Life Assurance Society of the United States in New York City. In this newly created position, Mr. Collins is responsible for all functions of the company's benefit plans department, including the design and purchase of benefits plans for Equitable and its subsidiaries. Mr. Collins reports to Alexander A. Stanich, Equitable's vp of employee relations.

Previously, Mr. Collins was assistant vp for the company. Mr. Collins received a bachelor of science degree in marketing from Fordham University in New York in 1965.


Mr. Ross

* * *

Alex G. Ross, 44, will become the new manager of benefits for Chevron Corp. on July 1, replacing **Charles H. Mackdanz**. Mr. Mackdanz will be promoted to vp of human resources for Chevron U.S.A., a wholly owned subsidiary of Chevron Corp. Mr. Ross will be responsible for the planning, design and administration of benefit programs for Chevron Corp. and its subsidiaries, including the review and approval of benefit programs developed by the company's overseas subsidiaries. He reports to Louis Fernandez, vp of human resources for Chevron Corp.

Previously, Mr. Ross served as a consultant for Chevron Corp.'s organization department. Mr. Ross received a bachelor of science degree in chemical engineering from Massachusetts Institute of Technology in 1961 and a master of science degree in chemical engineering from MIT in 1962.

* * *

James M. Rizzo, 46, has been promoted to vp of benefits and compensation for USLIFE Corp. in New York. In this newly created position, Mr. Rizzo is responsible for the design, implementation and administration of corporatewide benefit plans and cost-containment programs at USLIFE. Mr. Rizzo reports to Christopher S. Ruisi, the life insurance company's senior vp of human resources.

Mr. Rizzo will retain the responsibilities of his previous position as second vp of benefits and compensation. Mr. Rizzo received a bachelor of arts degre in economics from Brooklyn College in 1960. He also holds the Chartered Life Underwriter designation and is a Fellow of the Life Management Institute.

•

Business Insurance would like to report on staff changes in your company's risk management, insurance, safety or employee benefits department.

Just drop a note to Diane Kastiel, Associate Editor, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611, or call 312-649-5393. Please send a photograph with your announcement.

Kemper Re gets $50 million in new capital

Continued from page 2

Kemper writes on both occurrence and claims-made forms, Mr. Mathis said, although it prefers to use a claims-made form.

Kemper will continue to write business primarily in the working layers rather than the high excess layers, he said.

At the end of 1984, about 95% of Kemper Re's business was treaty reinsurance and 5% was facultative.

About 80% of the business was excess of loss, while 20% was pro rata.

Although Kemper Re began underwriting more facultative risks in mid-1984, Mr. Mathis says the proportion of facultative business will not increase significantly. "At this stage, I don't envision we will get more than 10% facultative. . . .," he says.

Of the company's total book of business, approximately 15% to 20% is written through Kemper international subsidiaries or as international business in the United States. Mr. Mathis also does not expect this to change.

"We've had steady growth on the international side," he said. "I don't expect it to go dramatically upwards because of the capital increase."

However, since rates and terms for U.S. business have improved more quickly than for international risks, Kemper Re would prefer to use its new capital to write U.S. business, he explained.

Mr. Mathis says the market environment often dictates the lines of business on which Kemper Re will concentrate.

Following Hurricane Betsy and other large property losses in the 1960s and early 1970s, terms for property business improved in the mid-1970s and Kemper Re increased its property volume, Mr. Mathis says.

As more companies entered the property sector and terms became less attractive, Kemper began writing more casualty business, he added.

'The wounds in the insurance and reinsurance industry have been pretty deep. The downside cycle has been long. To that extent the recovery will be extended also,' says David B. Mathis, president of Kemper Reinsurance Co.

In recent years, marine and aviation reinsurance terms have not been attractive and the percentage of the company's business in these lines is "miniscule," Mr. Mathis said.

Mr. Mathis emphasized that Kemper Re expects to use its new capital to both develop new business and expand business with existing clients.

"To the extent we write new business, it will be at improved market terms," he said, pointing out that it is not attempting to undercut the existing market.

Mr. Mathis said the addition of capital by Kemper Re, and possibly by other reinsurers, would not expand capacity and blunt the turn in the market.

"I doubt it," Mr. Mathis said. "I don't think our share offering would have been successful if that was the view. Capacity demands right now far outstretch available capacity," he added.

Mr. Mathis said he foresees the reinsurance market tightening further in 1986 and remaining tight until at least 1987.

"The wounds in the insurance and reinsurance industry have been pretty deep," he says. "The downside cycle has been long. To that extent the recovery will be extended also."

He said it was uncertain whether reinsurers will again post an underwriting profit, though he added that an underwriting profit is Kemper Re's goal.

Mr. Mathis noted that he was surprised at how quickly the market turned.

"I did not predict as quick a turnaround," he said. "It was a pleasant surprise."

The turn in the market is what triggered Kemper to add the $50 million on capital to Kemper Re, he said.

The need for more capital was presented to management three or four months ago, when it was realized the change was for real and "not a hiccup or short start," he said.

Although Kemper had considered increasing the reinsurance unit's capital previously, those studies were rather cursory because the market did not warrant additional capacity, he said.

"It (the decision to invest $50 million) was a reaction to the opportunity," he added. ■

Survey shows hospital costs rose 4.5% in '84

CHICAGO—Hospital costs nationwide rose only 4.5% in 1984, the lowest rate of increase since 1963 and less than half the 1983 increase of 10.2%, according to the American Hospital Assn.

And, the National Hospital Panel Survey showed hospitals admitted about 1.5 million fewer patients in 1984 than in 1983. However, there was an increase of about 1 million outpatient visits during the same period.

In addition, lengths of stay declined 5.1% to an average of 6.7 days in 1984 from an average of 7 days in 1983. And, hospital occupancy dropped to 66.6%, the lowest reported since the AHA began conducting the survey in 1963.

To adjust to the declining occupancy rates, hospitals nationwide closed about 11,000 beds in 1984, the first time the number of beds has declined for a full calendar year since 1963.

And, hospitals cut staff by about 73,000 in 1984.

The AHA said that a variety of factors had a significant effect on hospitals in 1984, including federal implementation of Medicare prospective payment, changes in state Medicaid programs, a moderate inflation rate and increased emphasis on cost containment in employee group health care plans.

"The nation's hospitals have made significant operational changes to adjust to declining revenues and the lessening demand for traditional services," said Alex McMahon, AHA president. ■

3 men indicted

Continued from page 1

American Centennial Insurance Co. of Peapack, N.J. The premiums were related to reinsurance of Associated Electric & Gas Insurance Services Ltd., a utility industry captive insurer (*BI*, Oct. 29, 1984).

• Charles N. Caputo and Leonard L. Martino, both Pittsburgh attorneys and former Pennsylvania state senators.

The two men—charged with conspiracy, obstruction of justice and perjury—are accused of lying to a grand jury of their knowledge of money Mr. Caputo allegedly received to influence the licensing of American Diversified Insurance Co. in Pennsylvania.

ADIC is one of the companies that was used by the FBI in the sting operation, according to Robert E. Welsh Jr., assistant U.S. attorney in Philadelphia.

No information about ADIC appears in Best's Insurance Reports, and no other details about the company's operations were available last week.

Mr. Caputo and Mr. Martino are also accused in the indictment of lying to a grand jury about Mr. Caputo's solicitation of money to secure the help of two U.S. congressmen in arranging a furlough from Allenwood Federal Prison Camp for John V. Goepfert.

Mr. Goepfert, who was sentenced in 1982 to 10 years in prison for defrauding the Sasse Syndicate at Lloyd's of London, cooperated with the FBI in setting up its undercover operation and has since had his sentence reduced to five years.

According to an Illinois Insurance Department report, Mr. Goepfert was also involved in producing a large book of high-risk direct and reinsurance business that led to the collapse of Kenilworth Insurance Co., though his prison sentence was unrelated to the Kenilworth insolvency (*BI*, Dec. 6, 1982).

The sting operation—dubbed Operation Gallstone because one of the agents involved suffered from that ailment—started with an investigation of Casualty & Indemnity Co. Ltd., which was incorporated in Belize, Central America, and was operated from a Philadelphia office by Mr. Goepfert and others.

Between 1979 and 1980, C&I issued a number of fraudulent construction bonds and financial guarantees backed by counterfeit certificates of deposit of two offshore banks, according to a 1980 indictment naming Mr. Goepfert and five others involved in the C&I fraud.

As part of the scheme, C&I deposited the phony CDs in various banks across the country and appointed "trustees," to whom C&I directed those looking to verify the existence of the assets, the indictment says.

After insurance policies were written using the CDs as collateral, the certificates were withdrawn and redeposited in other banks to be used as collateral for new C&I policies, according to the indictment.

After the convictions of Mr. Goepfert and Alex Feinman, another C&I employee, the FBI enlisted their help in Operation Gallstone, in which agents represented themselves as having offshore corporations that they wanted to develop into insurance operations like C&I, according to Mr. Welsh.

The agents purportedly sought to buy phony bonds and certificates of deposit to "capitalize" the companies, he said.

Mr. Welsh would not comment on whether any of these offshore companies were actually incorporated or where they were domiciled, though he said one company was represented as being incorporated in Bermuda.

Mr. Goepfert directed FBI agents to individuals who he said could provide counterfeit securities and then vouched for the undercover agents when contacted by the fake securities dealers, Mr. Welsh explained.

"We enlisted his aid to give us criminal credibility," Mr. Welsh explained.

One individual named by Mr. Goepfert, Mr. Welsh said, was Leonard Sloane, who sold about $12 million in counterfeit securities to undercover agents between October 1981 and June 1982.

Mr. Sloane was sentenced to five years probation by a federal judge in June 1983 for interstate transportation of counterfeit securities and also received a two-year prison sentence from a Florida state court judge on related charges, according to the U.S. attorney's office.

Mr. Sloane subsequently pointed the FBI to four other fake securities dealers, three of whom pleaded guilty and were sentenced to prison or probation, Mr. Welsh said. The fourth is currently in jail in Zurich, Switzerland.

In all, the undercover operation netted nearly $500 million in fraudulent securities, the U.S. attorney's office said.

While the purpose of Operation Gallstone was to investigate fake securities dealers, the indictments of Messrs. Mazzella, Caputo and Martino—as well as several others—are unrelated to fraudulent securities sales, Mr. Welsh said.

Mr. Welsh would not comment on how the three men were drawn into the sting operation.

The indictment accuses Mr. Mazzella of diverting reinsurance premiums due to Colonial from American Centennial. The premiums were for reinsurance of AEGIS, the utility captive.

Reinsurance premiums on the AEGIS casualty program were to flow from American Centennial to Colonial through American Centennial's reinsurance broker, The Placers Inc. of Parsippany, N.J.

However, the indictment charges that Mr. Mazzella informed employees of Placers that premium payments should be sent to him and that he would forward payments to Colonial.

Instead, the indictment charges, Mr. Mazzella deposited AEGIS premium checks in a savings account at Astoria Federal Savings & Loan in Greenvale, N.Y. This account had been opened in Colonial's name with signature cards bearing the forged signatures of two Colonial officers, the indictment says.

In January 1981, Mr. Mazzella told Catherine R. Fetterman, Colonial's secretary/treasurer, that the AEGIS policies had been canceled when in fact they had not, the indictment says.

In all, Mr. Mazzella diverted $2.4 million in AEGIS premiums between August 1978 and June 1982, says the indictment.

Jeffrey Miller, a former federal prosecutor who is representing Mr. Mazzella, said Mr. Mazzella will enter a not guilty plea at his arraignment on Thursday.

"There is a substantial question as to whether he committed a crime," said Mr. Miller, who is now with the Philadelphia firm of Nasuti & Miller.

Mr. Mazzella retained the AEGIS premiums in an "investment account," and since he owned 100% of Colonial, it made little difference whether the money was paid to the company, Mr. Miller said.

He added that American Centennial, which has sued Placers' owner, John A. Kraeutler, and several other parties over the AEGIS business, has not accused Mr. Mazzella of attempting to defraud it.

However, Mr. Mazzella paid American Centennial $500,000 to settle reinsurance claims of substantially more than that amount before Colonial entered liquidation, sources say.

In another indictment unrelated to the fraudulent securities sales, Mr. Caputo and Mr. Martino are charged with lying to a grand jury last February about their knowledge that Mr. Caputo asked for and accepted $5,000 from an undercover FBI agent.

Mr. Caputo had suggested that money was to be used for campaign contributions to Pennsylvania state officials to influence the licensing of American Diversified Insurance Co., the indictment says.

The $5,000, wrapped in a newspaper, was handed to Mr. Caputo on Sept. 7, 1982, at a Marriott Hotel near Harrisburg, the indictment says.

Mr. Caputo and Mr. Martino are also charged with lying to the grand jury about their knowledge that Mr. Caputo suggested placing fraudulent assets on ADIC's balance sheet to make it appear more financially secure.

At the same Sept. 7 meeting, the indictment says, Mr. Caputo suggested to an FBI agent that $80C,000 that had been listed in ADIC's financial statement as escrow for taxes be shown instead as part of the capital account.

The indictment also charges that the two men lied about knowing of Mr. Caputo's request to an FBI agent for money to be used as campaign contributions to a congressman from Pittsburgh in return for a letter to the superintendent of Allenwood Federal Prison recommending a furlough for Mr. Goepfert.

Mr. Caputo is also charged with lying about his suggestion to an FBI agent that a similar contribution be made to a congressman from Philadelphia.

Mr. Welsh said he has "no evidence" that Mssrs. Caputo and Martino ever passed along any money to government officials, and he declined to comment on which congressmen might have been approached.

A spokesman for U.S. Rep. William J. Coyne, D-Pa., confirmed that the congressman wrote a letter to Allenwood on Mr. Goepfert's behalf. The spokesman also denied that Rep. Coyne received any money in return for writing the letter.

Mr. Caputo, Mr. Martino and their lawyers could not be reached for comment. ■

Cambridge files for liquidation

HAMILTON, Bermuda—Cambridge Reinsurance Ltd., unable to cover its liabilities, is not paying claims and is under the control of provisional liquidators appointed by the Bermuda Supreme Court.

Cambridge directors, including an executive of owner National Sea Products of Nova Scotia, petitioned April 22 for a winding-up order and appointment of liquidators.

Their action followed the results of an actuarial study by J&H Ltd. in Bermuda, which was running off Cambridge's business.

No claims will be paid until after a "statement of affairs" is filed with the court by May 31. Claims have not been paid since March 1.

Cambridge's assets were $36.8 million, including $12 million in capital and surplus, in 1982.

The provisional liquidators are David Lines of Cooper & Lines in Bermuda and Gerry Weiss of Cork Gully in London, a division of Coopers & Lybrand.

Cambridge stopped underwriting reinsurance a year ago and has been running off its treaty reinsurance business (*BI*, April 15).

"The liquidation came as a shock to me—a very big surprise," said Bermuda Financial Secretary Mansfield Brock. "I was assured they had sufficient assets to cover their indebtedness." He said last week he had been unable to contact officials of National Sea Products.

Also, Horizon Insurance Co. Ltd., a Bermuda subsidiary of Cargill Inc. in Minneapolis, said April 23 it has stopped writing U.S.-origin treaty reinsurance. Another Cargill unit, First Horizon Insurance Co. of Minneapolis, will be offered the business at renewal.

Horizon Ltd. will concentrate on direct market placements of special programs, like Reiss Organization business, and related risks, said Horizon President Ron Peschon.

The change "recognizes that the U.S. office is better positioned to serve the third-party treaty needs of U.S. customers," he said.

About $8 million to $9 million of Horizon's $24 million in 1985 premiums will be lost due to the decision, a company spokesman said.

Horizon will review international treaty business for renewal, but it is not now seeking such new business, he added. ■

Photo: Index/Stone International, Inc.

POSITIONING

From start to finish, gaining a clear-cut position is as crucial a skill in business as it is in racing. Exploding from the gate with one thing in mind ... getting ahead and staying ahead.

Business Insurance newsmagazine maintains a clear-cut, highly-defined position within the commercial insurance marketplace. By serving corporate consumers of insurance, benefits and related services, *BI* is the only newsmagazine edited solely for this specific echelon.

Each week, more than 123,000 executives rely on *BI* to provide a precise, distinct editorial package. They expect in-depth and incisive news coverage as stories evolve, they anticipate reports on market trends and they depend on *BI's* analysis and forecast of happenings that will affect the marketplace. All of this properly positions *BI*.

Advertising in the industry's leading newsmagazine lets you post your products and services within this authoritative editorial framework. *BI* offers you a clear-cut choice. Tailor your message and place your advertising in a vehicle which will lead you to the right people ... our readers ... your customers and prospects.

After all, in this very competitive race of commercial insurance, jockeying for position among the buyers is no easy task. When the stakes are high place your advertising in a sure winner ... ***Business Insurance.***

business insurance

A publication of Crain Communications Inc.

The game plan that works.

New York: 220 East 42nd Street, NY 10017 (212)210-0133 **Chicago:** 740 Rush Street, IL 60611 (312)649-5276 **Los Angeles:** 6404 Wilshire Blvd., CA 90048 (213)651-3710

Plan termination could shock pension system

Continued from page 1

But Mr. Kline of the United Steel Workers said Wheeling-Pittsburgh has said that it intends to discuss termination of the plans with the union.

Some believe a termination of the Wheeling-Pittsburgh plan and other steel industry plans may be inevitable.

"In order for some steel companies to survive foreign competition, they need leaner compensation scales and to shed liabilities," a Washington labor law attorney said.

If other steel companies follow suit, the PBGC could be saddled with billions of dollars in additional liabilities. "We are talking about billions in promised benefits," the attorney said.

"If all those plans failed at once, it could blow out the PBGC," said Richard Fay, an attorney in the Washington office of Reed, Smith, Shaw & McClay, a Pittsburgh-based law firm.

"The life of the PBGC will be pretty short if it has to take on all these claims," said Sylvester Schieber, director of The Wyatt Co.'s research and information center in Washington.

Currently, the PBGC has a $462 million deficit. That means that unless the agency gains additional revenue, it will eventually run out of money to pay guaranteed benefits to participants in plans it already has taken over.

To fund that deficit, the PBGC has since 1981 asked Congress to raise the annual insurance premium employers with pension plans pay the agency.

This year, the agency is asking that the premium be increased to $7.50 per plan participant from $2.60. So far this session, only the Senate Budget Committee has approved the premium hike; several other congressional committees with jurisdiction over pension issues have yet to act.

But even an increase in premiums to $7.50 per participant won't bail out the agency if it is swamped with more large claims. The $7.50 premium assumes that claims incurred by the PBGC will average $185 million a year during the next 15 years, said Kevin Putt, PBGC assistant executive director.

Premium calculations do not include reserves to pay for massive claims because there is no way to predict an extraordinary event, Mr. Putt said. "We don't know how many potential claims are hovering out there," he added.

Back in 1982, an internal PBGC study warned that the agency could be swamped with $4.4 billion in claims if 34 financially troubled companies collapsed and terminated their pension plans (*BI*, April 19, 1982).

But, there is resistance among employers to a premium increase, said John Erlenborn, a former congressman who is now an attorney with the firm of Seyfarth Shaw Fairweather & Geraldson.

Mr. Erlenborn fears that without a premium increase the agency could run out of money and the Treasury Department then will have to bail out pension plans that collapse.

When that happens, the Treasury Department—in exchange for benefit guarantees—might impose new restrictions on pension plans.

"That would be the end of the private pension plan system as we know it," Mr. Erlenborn said.

Others worry that a round of premium hikes to save the PBGC would lead to the demise of the defined benefit plan system.

As premiums are increased, more employers might consider switching from defined benefit plans to defined contribution plans, which are not covered under the PBGC program, said Wyatt's Mr. Schieber.

This erosion of the premium base would require the PBGC to seek additional premium increases, which, in turn, would cause more employers to terminate their defined benefit plans.

Some believe that the answer is to require employers to fund their pension liabilities more quickly. Currently, benefit improvements have to be funded over a 30-year period.

Lloyd Kaye, a principal with benefit consultant William M. Mercer-Meidinger Inc. in New York, for example, suggests 15-year funding of liabilities to reduce the PBGC's exposure to large claims.

"Faster funding always should have been the goal," he said.

But Mr. Kaye points out that the Treasury Department probably would object to faster funding because it would lose tax revenues as companies would make bigger pension contributions over a shorter period of time. Corporate contributions to pension plans are tax-deductible.

One of the reasons that the Wheeling-Pittsburgh plans are so underfunded is that the company received funding waivers from the Internal Revenue Service. Those waivers, granted when a company is in financial difficulty, allow employers to defer contributions to their pension programs.

In addition, Wheeling-Pittsburgh, like other steel companies, has high pension benefit costs because of a high number of retirees and vested employees. It is not uncommon for a steel company to have 50% to 60% of its employees vested, said Mr. Fay of Reed, Smith, Shaw & McClay.

Under the Wheeling plans covering members of the United Steel Workers, participants vest after 10 years of service. A participant—regardless of his or her age—can retire with a full unreduced benefit after 30 years of service under a "30 and out" provision.

Two formulas are offered to compute benefits, said Mr. Kline. The formula that produces the largest benefit is used. Under one formula, the benefit is $19.50 per month per year of service.

Under the other formula, a worker's average monthly salary over a five-year period is first computed. This result is multipiled by years of service times 1.1% for the first 30 years of service (and 1.2% for years of service over 30 years). The, amount is then increased by 5%.

Mr. Kaye said both the union and the employer are responsible for agreeing to a benefit structure that no longer is affordable.

"The steel industry has one of the most generous benefit programs of all blue-collar industries," said Mr. Fay. "There was a perception that these workers were an elite and should receive the most generous benefits," said Mr. Fay. "But now people have to realize that benefits are out of line."

"Unions sought bigger benefits, but left it to the company to fund. Both parties have been irresponsible," Mr. Kaye said.

But Mr. Kline of the steelworkers union says all benefits have been negotiated. "The union is not in the business of managing the company," he said. ■

the professional marketplace

RATES AND CLOSING TIME:

Rates: Display classified is $73.26 per column inch, minimum of one inch. Straight classified is $6.50 per line, minimum of 5 lines. Count 34 characters per line (include each space and punctuation as a character). Additional $13.00 charge for blind box ads. Responses to blind box ads must fit into business size envelope. Reponses are forwarded daily.

Closing: Published every Monday. Copy must be in written form by noon Tuesday, 6 days preceding publishing date. No verbal phone copy accepted. Prepayment required. Mail ads to Beverly Kluxdal, Classified Advertising, 740 N. Rush St., Chicago, IL 60611. For more information call 312-649-5340.

Business Insurance

Circulation Breakdown*

Commercial Consumers

Administrative:
CEO's presidents and owners 2,513
Vice-presidents, general managers and other administrative personnel ... 2,573

Financial:
Chief financial officers and vice-presidents of finance 2,168
Secretaries, treasurers, controllers and other financial personnel 7,167

Risk/employee benefits:
Vice-presidents, directors, managers, and other related department personnel of; insurance, risk, employee benefits, personnel, compensation, pension, safety, security, industrial relations, human resources and employee/labor relations 8,206

Sub-total 22,627

Associations 1,081
Government, unions and educational systems 944

Commercial Consumers Sub-total 24,652

Insurance agents and brokers 9,524
Insurance companies 5,867
Financial institutions 556
Actuaries, attorneys, adjusters, appraisers and consultants 3,265
Others allied to the field, ... 1,143

TOTAL 45,007

* Source: Business/Occupational breakdown of qualified circulation, Nov. 5, 1984 issue, as submitted to BPA for Dec. 1984, BPA Publisher's Statement.

WANTED
WE NEED PERSON WITH NATIONAL BROKERAGE BACKGROUND TO ASSUME MANAGEMENT OF SMALL P & C AGENCY IN GOOD AREA OF HOUSTON, TX. SHOULD BE ABLE TO BRING BUSINESS AND CLIENTS WITH HIM. OWNERSHIP OF FIRM IS OUT OF CITY. CONSIDER MERGER WITH LOCAL FIRM WITH GROWTH AND BOTTOM LINE PROFIT THE OBJECTIVE. SEND RESUME TO:
Box 1700, Business Insurance
740 Rush St., Chicago, IL 60611

PRESIDENT
Midwest based casualty reinsurer seeks highly motivated individual with proven leadership ability to lead management team. Substantial salary plus relocation expenses. For confidential consideration, please send your resume and salary requirements to:
Box 1701, Business Insurance
740 Rush Street, Chicago, IL 60611.

SR. V. P.—MARKETING
(Corporate)

We have been retained by a top-20 size national broker to locate an executive to head Marketing/Risk Analysis functions on a national basis. This could be a step-up opportunity for a local or regional marketing officer that has responsibilities for at least $10-$15 Million in revenues and aspires to have a national impact on a progressive organization.

Candidates should have strong marketing contacts in admitted and non-admitted markets, and be familiar with the integration of captives into risk funding programs.

Position reports direct to a dynamic, innovative Chairman. As part of his key executive team, you will have ample opportunity for career fulfillment. Located in an excellent medium sized city.

Contact Richard Shoemaker, IR SEARCH, 7844 Madison Avenue, Suite 106, Fair Oaks, CA 95628, (916) 965-5511.

IR SEARCH is a member of the IR GROUP which offers a number of services through its member companies: Insurance Resources Consultants, IR Risk Management, IR Search, and IR/Pryor & Associates. If you are a successful executive, you can feel secure in discussing your career goals with fellow insurance professionals who are actively involved in the leading edge of our industry.

MARKETING MANAGER(s)
Two key positions calling for individuals with a solid background in the underwriting and placement of commercial casualty accounts in the $50,000+ range. TEXAS AND LOUISIANA openings. Starting salaries begin at $50K $65,000. Contact Jim Gilbert at INSURANCE RECRUITERS Inc. 6060 N. Central #470, Dallas, Tx. 75206. Telephone 214/361-9323.

REGIONAL SALES MANAGER
Texas broker seeks person with a proven background in the management of large commercial sales force. You will be responsible for several branch offices and will be working with the sales managers of those facilities. Some travel. Will be instrumental in establishing production goals and budgets. This is a "big" position for an established broker of good national reputation. Starting salary is "extremely flexible" with a lucrative bonus incentive. Please contact Jim Gilbert at INSURANCE RECRUITERS, Inc. 6060 N. Central, #470, Dallas, Tx. 214/361-9323.

PROPERTY/CASUALTY CLAIMS PERSON
We are: An expanding, 100 plus employee, downtown New York City based, regional brokerage firm with a sense of humor.
You are: A successful claims person, cross-trained in property/casualty claims with an emphasis on first party with at least five years experience looking to become assistant manager of a winning claims department.
Send resume, telephone number and information to Box 1694, Business Insurance 760 Rush St., Chicago, IL 60611.

UNDERWRITING MANAGER
National Insurance Brokerage Firm, looking for property/casualty underwriting manager. Insurance background should include a minimum of 10 years experience in commercial carrier underwriting and industry marketing. Excellent compensation package. Send resume in confidence to Joel Ganze, 4605 Lankershim Blvd., Suite 500, North Hollywood, CA 91602.

PROPERTY/CASUALTY UNDERWRITER
National Insurance Brokerage Firm, seeking commercial property/casualty underwriter with at least 3-5 years carrier experience. Excellent compensation package, commensurate with experience for career oriented person. Send resume in confidence to Joel Ganze at 4605 Lankershim Blvd., Suite 500, North Hollywood, CA 91602.

RISK MANAGER/ FINANCE ANALYST
Administrative analyst responsible for managing liability and property damage insurance program and evaluating coverages. Also assists with budget and financial planning. BA in Accounting, Business Administration or related with experience in insurance, budgeting and financial reporting systems. Salary $20,000-27,000; fully paid benefits. Respond by 5/18/85 to CITY OF KALAMAZOO, HUMAN RESOURCES, 241 W. SOUTH, KALAMAZOO, MI 49007 M/F/H/V

BROKERAGE JOINT OPERATION

Well established commerical lines insurance broker with full office staff and large office space to house combined operation. We have a modern office in a prestigious building in midtown Manhattan. Would like to discuss a joint operation with a similar brokerage office. Need volume of $500,000 to $1,000,000 in commissions for joint operation to make sense.

Box 1699
Business Insurance
740 N. Rush St.
Chicago, IL 60611

For a
Concise
and
Logical
Approach
to
Risk
Management
Recruiting

LOGIC
Associates, Inc.
170 Broadway
New York, N.Y. 10038
(212) 227-8000

Assure yourself top quality employees—Advertise your openings in the Business Insurance Classifieds.

Ideal Mutual

Continued from page 2

The agreement was cited by New York Insurance Superintendent James P. Corcoran when he petitioned the New York Supreme Court for an order granting him, as Ideal Mutual's liquidator, "all right and title to any and all proceeds of reinsurance agreements or treaties" payable to either Ideal or Optimum.

Mr. Corcoran said in court papers that "certain of the reinsurers under the aforesaid treaties and agreements have indicated their intention to withhold payment due and owing thereunder to the estate of Ideal Mutual due to the inconsistent claim to a portion thereof made by the rehabilitator of Optimum Illinois."

The Illinois Insurance Department, in turn, has asked the U.S. District Court for the Southern District of New York for approval of a preliminary injunction preventing the New York Insurance Department from pursuing the order.

It has also asked that the issue be put to arbitration, in accordance with the original pooling agreement, which also states that any dispute "including the interpretation, application or effect thereof, or any part thereof, shall be referred to a board of arbitration consisting of three arbitrators."

"Our position is whatever dispute there is under the agreement, that's for the arbitrators to decide," said George Berger, a member of the New York law firm of Phillips, Nizer, Benjamin, Krim & Ballon, which is representing the Illinois department in the dispute.

Jack Trailer, chief operating officer in the Illinois department's office of the special deputy, said most of the business of the two companies was ceded to reinsurers "and we think we should be entitled to some share of the reinsurance proceeds." The New York department , he added, "says we're not entitled to any of it."

A New York Insurance Department spokesman said the disagreement between the two departments stems from their attempt to "look after their responsibilities" to the companies in their jurisdictions.

Mr. Trailer said the Illinois Insurance Department is still waiting for the New York department to complete a statement on Ideal Mutual's financial condition as of December 1984. The statement is expected shortly, he said. Until then, it will not be known how much reinsurance is payable to Ideal and Optimum, Mr. Trailer continued, noting that the dispute between the two departments is premature at this time.

The New York department, Mr. Trailer said, has already communicated to Ideal's and Optimum's reinsurers that it expects to receive any reinsurance payments, he said. Illinois has responded, he said, by letting the reinsurers know that it has an interest in it as well.

Ideal's and Optimum's reinsurers included Kemper Reinsurance Co., confirms Anne A. Sharp, a Kemper Re vp in Chicago.

Kemper Re wrote a 75% share of a $750,000 excess-of-loss treaty that covered business written jointly by Ideal and Optimum. The two companies retained a total of $250,000 per risk, she said.

The other 25% of the treaty was written by a variety of companies, she said.

"I don't think the reinsurers care who they pay as long as they don't have to pay twice," she said.

Ms. Sharp added that none of the claims made on the Ideal-Optimum reinsurance written by Kemper has reached the stage yet where a decision must be made as to which receives the payments. She added that if the dispute is not resolved, Kemper Re would be willing to pay any funds into an escrow account.

The situation, she added, has arisen out of a contractual agreement the reinsurers are not party to. "We've really tried to stay more or less out of the middle of that," she said.

Following the first $750,000 treaty, a second treaty covered an additional $1 million in excess of $1 million, Ms. Sharp said. That treaty was led by New York-based Excess & Casualty Reinsurance Assn., the North American Co. for Property & Casualty Insurance in Greenwich, Conn., and Prudential Reinsurance Co. in Newark, N.J., each with a 20% share. A variety of other companies filled out the treaty, she said.

Leaders of the third layer, which had limits of $3 million excess of $2 million, were Pru Re, with a 28% share, ECRA with 20% and North American with 15%, she said.

Ralph C. Hemp, president of North American, would not comment on the Ideal/Optimum reinsurance. Officials of the other two companies could not be reached for comment.

In the meantime, another dispute between the Illinois and New York departments has apparently been resolved.

Mr. Trailer said that at one point, personnel from the Illinois Insurance Department were told they were not welcome at Ideal Mutual's New York headquarters, which is now being operated under the direction of the New York Insurance Department's liquidation bureau.

But Mr. Trailer said Illinois department personnel were working at Ideal headquarters last week after the two departments worked out their problems.

"At least our people are there, and having an involvment," Mr. Trailer said.

Meanwhile, a spokesman for Glenview, Ill.-based Dart & Kraft Inc. said last week that under an agreement the company has reached with the Illinois department, liabilities under policies written by Optimum for Dart & Kraft will be transferred to another insurer.

He said liabilities stemming from Dart & Kraft's workers compensation, auto liability and general liability coverages would be included in the transfer. The spokesman could not comment on the size of the liabilities.

The agreement, he said, is subject to approval by the director of the Illinois department and a Cook County circuit court.

The spokesman said Dart & Kraft has also discussed with the New York Insurance Department the possibility of a parallel agreement covering the policies written by Ideal for the company. However, no decision has been made, he said.

A predecessor company of Dart & Kraft's founded Idea Mutual in 1944. Ideal became an independent insurer in 1972. ■

4th asbestos firm files for bankruptcy

CHICAGO—Forty-Eight Insulations Inc. has become the fourth asbestos producer to file for reorganization because of an overwhelming number of asbestos claims.

The Aurora, Ill.-based company, a subsidiary of Foster-Wheeler Corp. of Livingston, N.J., filed under Chapter 11 of the Federal Bankruptcy Act on April 19 in U.S. Bankruptcy Court in Chicago.

Harold Kennedy, Foster-Wheeler's senior vp and general counsel, said last week that Forty-Eight Insulations has virtually no other debt except for that associated with asbestos claims. He could not estimate what the company's potential liability was.

Mr. Kennedy also said that Forty-Eight Insulations has been named in virtually every asbestos lawsuit filed.

There are currently about 26,000 asbestos suits pending. ■

Jewel liability

Continued from page 1
about half indicated they regularly shopped at Jewel, the area's dominant food chain.

Crain's Chicago Business is a sister publication of *Business Insurance*.

The largest epidemic of salmonella food poisoning involving pasteurized milk in U.S. history caused Jewel earlier this month to pull and dump all milk and many other dairy products from its 217 Jewel and Eisner stores in four Midwestern states—Illinois, Indiana, Iowa and Michigan. It also voluntarily shut down its Hillfarm Dairy in Melrose Park where the milk was processed.

Neither Jewel nor American Stores has product recall or product integrity insurance, according to insurance industry sources.

Jewel spokesmen said the chain has taken the following steps to restore consumer confidence:

- A public relations firm—Burson-Marsteller Public Relations—was hired to improve the company's image.
- A publicity campaign was launched last week in newspapers and television stations featuring Jewel President James H. Henson emphasizing that shelves are now stocked with dairy products from Dean Foods Co.
- A company-sponsored, toll-free number was established for salmonella victims to request claims information, which is also available from individual stores.
- Adjustors from GAB Business Services Inc. were hired and brought into Jewel's offices to handle salmonella claims, said Jewel attorney Fredric J. Grossman of Clausen, Miller, Gorman, Caffrey & Witous P.C. of Chicago.

Jewel had previously self-administered some claims, said Myron Soltau, executive vp of Scott Wetzel Services Inc. Wetzel handles claims for Jewel's parent American Stores.

Before claims will be paid, claimants are being asked to sign a form releasing Jewel from further liability. However, not all those requesting payment of medical claims have signed those releases, Mr. Grossman said.

"They (Jewel) are trying to settle every case," Mr. Grossman said last week.

Mr. Grossman told a meeting of plaintiffs' attorneys that the minimum documentation required to settle claims is an affidavit that an alleged victim consumed a Jewel product, verification that the victim was infected with salmonella and an indication of what injuries were sustained.

"Each case must be determined on its individual merits or demerits," Mr. Grossman told plaintiffs' attorneys. About 75 people attended the meeting, which was called by a Cook County Circuit Court judge to explore the feasibility of coordinating the cases filed by victims of the bacterial epidemic.

"Jewel is not rolling over and playing dead," commented one observer at the meeting.

Jewel faces liability from more than 92 lawsuits, some of which are class-action suits. Sixty-eight suits have been filed in Cook County and 24 in courts in outlying Chicago suburbs.

One class-action lawsuit filed in Chicago seeks punitive damages of $100 million, or 1% of the net worth of Jewel. The money, the largest amount sought in a suit against Jewel, would be used to establish a trust fund, which would be used for "the public good," said plaintiffs' attorney Nicholas Motherway of the Chicago law firm of Motherway & Glenn. None of it would go to the plaintiffs, he said.

The suit charges Jewel with wilful misconduct in selling Hillfarm milk. It was filed in the name of a Chicago father and his two young children, who all drank Hillfarm brand milk. The suit also seeks the standard "in excess of $15,000" in compensatory damages for the trio, in addition to the punitive damages.

The *Crain's Chicago Business* survey also showed that 60% of regular Jewel shoppers surveyed believed the company was negligent or somewhat negligent in the way it processed milk. Non-Jewel shoppers and those who shop at the stores periodically were even more critical. Sixty-three percent of those shoppers said Jewel was at least partly to blame for the salmonella outbreak.

Chicago-area public relations experts contacted by *Crain's Chicago Business* said American Stores' actions since the Jewel takeover left Jewel ill-prepared to cope with the crisis. The in-house public relations staff, for instance, had been dismantled and Jewel's former public relations director had to be rehired as a special consultant, according to the *CCB* report.

One of the lawsuits also names the manufacturers of the milk cartons—Potlach Corp. of San Francisco and Ex-Cell-O Corp. of Troy, Mich.—as defendants.

Jewel also faces liability from a lawsuit seeking an unspecified amount of damages in connection with the improper dumping of the tainted milk into storm sewers that flowed into streams and ponds in Chicago and eight outlying communities.

The lawsuit, alleging violations of the Illinois Environmental Protection Act, was filed earlier this month in Cook County Circuit Court on behalf of Attorney General Neil F. Hartigan.

"We don't feel that any short- or long-run damage has been done," said Terry Gainer, assistant deputy inspector general for the Illinois Department of Public Health.

A Jewel spokesman said the milk was improperly dumped at only seven of the 217 Jewel chain stores.

Meanwhile, state public health officials are continuing to investigate the mysterious salmonella outbreak at the highly automated Jewel processing plant in Melrose Park. Officials have ruled out the possibility that a single infected worker could have caused the epidemic, he said.

The state health department's failure to close the plant earlier than it did has prompted hearings by the Illinois House. The dairy was not closed by Jewel until April 9, more than a week after the the first cases of salmonella were reported.

In addition, the state's health director was fired when he went on vacation during the epidemic. He was replaced last week. ■

update

EIL coverage rules relaxed

Continued from page 2
Under EPA regulations, certain companies that handle hazardous waste are required to demonstrate that they have the financial resources to pay for property damage and personal injury claims resulting from those waste operations. One method of demonstrating this responsibility is to obtain EIL insurance.

Failure to meet financial responsibility requirements can be considered grounds to close down a company's hazardous-waste disposal operation.

The burden of proof is on the company to prove it has made a good-faith effort to secure EIL insurance, according to EPA officials. Unsubstantiated good-faith claims "will merit enforcement action," according to the EPA memorandum.

NYIE raises capital requirement

NEW YORK—The minimum capital and surplus required of syndicates that join the New York Insurance Exchange after July 1 and plan to write either property/casualty or life insurance will increase to $5 million from $3.55 million.

In additon, the minimum capital and surplus requirement has been raised to $10 million from $6.55 million for new syndicates that plan to write all lines.

The new requirement was approved in a constitutional amendment voted on April 8 by the exchange's syndicates and broker members (*BI*, March 18).

The amendment also raises the minimum policyholder surplus for continued operations to $3 million from $2.2 million for syndicates that join after July 1 and plan to write either property/casualty or life insurance. And, syndicates that plan to write all lines must now maintain a minimum policyholder surplus of $6 million, compared with the previous limit of $3.3 million.

India rejects Union Carbide offer

DANBURY, Conn.—Union Carbide Corp. Chairman Warren M. Anderson said last week that the Indian government had rejected the company's proposal to aid victims of the toxic gas leak at its Bhopal, India, plant, but would not reveal details of the offer.

Published reports have indicated that the company had offered $100 million to $200 million in aid.

In addition, Union Carbide has offered to provide $5 million in interim emergency relief in response to a request made by U.S. District Court Judge John F. Keenan at a preliminary hearing (*BI*, April 22).

Judge Keenan had also requested that disaster victims' attorneys choose by April 23 two lawyers to serve on a three-man executive committee that will coordinate litigation in the case. The third member would be a representative of the Indian government's law firm, Minneapolis-based Robins, Zelle, Larson & Kaplan.

However, attorneys failed to meet the deadline so late last week Judge Keenan named attorneys F. Lee Bailey and Stanley M. Chesely to the committee.

Home sells life insurers

NEW YORK—The Home Group Inc. is selling two life insurance units to Harcourt Brace Jovanovich Inc. for $130 million, said a Home spokesman.

The Home had been trying to sell the two companies, Federal Home Life Insurance Co. and PHF Life Insurance Co., both based in Battle Creek, Mich., for some time, the spokesman said.

The spokesman said The Home's decision to sell the two units is unrelated to plans by its parent, City Investing Co., to distribute all The Home Group's common stock to its stockholders (*BI*, April 8).

A&A results up for first quarter

NEW YORK—Alexander & Alexander Services Inc. generated $10.7 million in net income during the first quarter of 1985, a 24.4% increase over the $8.6 million generated during the first quarter of 1984.

Operating revenues were $148.7 million for the first quarter, up 9.4% from $135.9 million for the first quarter of 1984. Figures for 1984 were restated to reflect the discontinuance of A&A's insurance underwriting operations (*BI*, March 11).

The company attributed the improvement in results to changes in the insurance marketplace and to an increase in new-business production.

Manville plan to be reviewed

NEW YORK—Several creditor groups in the Manville Corp. reorganization proceedings have agreed to discuss details of a reorganization plan proposed by the representative of future claimants in the bankruptcy.

The plan, developed by Leon Silverman, calls for creation of a trust fund for asbestos victims consisting of 90% of Manville stock, $100 million in cash and approximately $600 million in insurance coverage, a source confirmed last week.

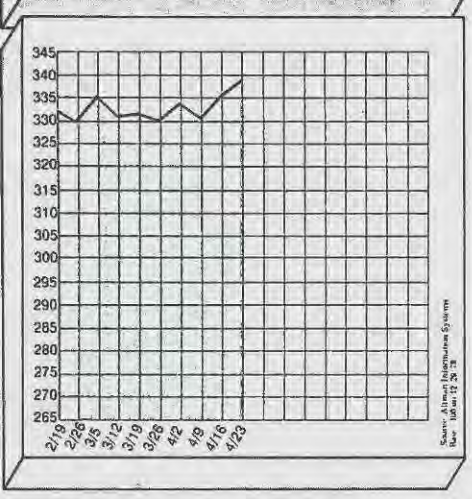
The plan, which also contemplates a claims facility for handling asbestos claims, combines elements of two other reorganization plans previously proposed.

The source emphasized that the creditors committees that will be discussing the plan, which include those representing plaintiffs with asbestos-related diseases, Manville's co-defendants in asbestos litigation and commercial creditors, have not agreed to endorse the plan but only that it is a basis for discussion for coming up with a reorganization plan.

"It's very preliminary," the source added.

So far, neither Manville nor members of the shareholders committee in the reorganization have seen the plan. However, Manville says that from what it knows of the plan, it is hostile to Manville's interests.

BI Insurance Index



The *Business Insurance* index of insurance industry stocks continued to climb, reaching a record high for the second consecutive week. The *Business Insurance* stock index closed at 338.2 points on April 23, an increase of 2.7 points from the record high of 335.5 points set April 16. A total of 25 stocks were up, 19 stocks were down, and 14 stocks were unchanged. The biggest gains during the trading period were posted by Baldwin & Lyons Inc. and American Indemnity Financial Corp., both up 11.3%; CIGNA Corp., up 6.7%; SRI Corp., up 6.2%; and Frank B. Hall & Co. Inc., up 6.1%. The largest losses were posted by Mission Insurance Group Inc., down 6.5%; Alexander & Alexander Services, down 4.5%; Reed Stenhouse Cos. Ltd., down 3.4%; General Reinsurance Corp., down 2.9%; and Washington National Corp., down 2.8%. The *Business Insurance* index rose 0.8% during the trading period. The *BI* index outperformed the Standard & Poor's 500 index, which rose 0.4%, and the Dow Jones 30 Industrials, which rose 0.7% during the same trading period.

British Issues

23 APR Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence pence
Comml Union	223	N/M	16.9	7.6	231—221
Genl Accident	572	96.9	28.6	5.0	585—572
Gdn Royal Exch	685	19.9	37.1	5.4	685—665
Royal	582	N/M	33.9	5.8	588—582
Sun Alliance	470	22.6	21.1	4.7	472—462
Brokers					
CE Heath	573	9.8	30.0	5.2	588—593
Hogg Robinson	275	15.7	11.6	4.2	275—270
JH Minet	237	16.3	8.0	3.4	250—237
Sedg Grp	355	15.6	14.3	4.0	364—355
Stew Wrightson	567	14.9	25.7	4.5	567—557
Willis Faber	633	21.7	18.6	2.9	635—622

Source: Philip Olsen/Alan Clifton, Insurance Industry Specialists Kitcat & Aitken Stockbrokers, London

Insurers use annual reports to predict better days ahead

By JAMES M. BURCKE

"RETURNING TO Underwriting Profits."

That's the title of USF&G Corp.'s 1984 annual report—and that's the promise many property/casualty insurers are making to their shareholders in their annual reports.

Although many insurers' annual reports are stressing the end of cut-throat competition that has plagued commercial lines for the past six years, USF&G's report stresses dedication to the company's "sound" underwriting from its opening page:

"In 1984, USF&G took major steps towards a return to underwriting profits. We renewed our corporate objectives of supporting independent agents and helping their businesses prosper by providing tools, services and financial support. We instituted cost-control programs; raised prices and reinforced underwriting standards; improved communications throughout our branch system; strengthened our executive leadership; and completed a new education, training and data processing complex.

"These specific actions have positioned USF&G to reverse the trend of underwriting results that have plagued us and the insurance industry for an unprecedented six years. By emphasizing a strengthening of the underwriting basics that historically have produced a superior book of business for USF&G, the company's future looks more promising than in recent years."

Although USF&G highlights the turn in the commercial property/casualty market in perhaps greater detail than other companies, many insurers are telling their shareholders that the tide has turned, especially in letters to shareholders from chief executives. Here are some excerpts:

General Re Corp.

"No significant segment of our book of business came through 1984 unscathed. Medical malpractice occurrence-basis business was a particularly vexing problem. . .but there were other problems. Almost every property/casualty reinsurance line of business produced unsatisifactory results and each and every one of these is now undergoing immense scrutiny.

"The reunderwriting and repricing efforts which were the order of the day all through 1984 have resulted in substantially better terms, and a second push now under way will produce even better terms. As a result we expect that underwriting results will be substantially improved in 1985, with the prospects for 1986 being even better. . . .

"Conditions in the property/casualty insurance industry during 1984 must be described as deplorable. Frequency and severity of losses increased at a rate that far exceeded the levels of premium increases in virtually all lines. This continued deterioration of experience, coupled with court decisions which established new precedents and which expanded concepts of damages, necessitated most companies' strengthening of reserves with respect to prior years. The result is a disasterous underwriting year for the industry, and severe capacity and surplus problems for many companies. . . .

"Our goal for 1985 is to reprice numerous segments of our existing business and to write additional amounts of reinsurance on terms consistent with our pre-eminent objective—underwriting profit."

—Frank W. Munson, chairman and chief executive officer, and Ronald E. Ferguson, president and chief operating officer

The Travelers Corp.

"Clearly the most important challenge facing the insurance industry in 1984 was arresting the rapid deterioration of the commercial casualty-property business climate. Several years of overcapacity, destructive price-cutting and the continuing emergence of toxic substance claims culminated in the largest underwriting losses in history, exceeding investment income and reducing the capital base. . . .

"During the last half of the year, market conditions did improve. Substantial price increases and more stringent underwriting requirements are now being applied in both the direct and the reinsurance markets. While these corrections are gaining force, additional price increases will be necessary to return earnings in this business to acceptable level."

—Edward H. Budd, chairman and chief executive officer

American International Group Inc.

"First of all, we have stuck by our conviction that achieving an underwriting profit is the only way to succeed. The acceptance of underwriting losses as long as they were offset by investment income became a popular rationalization. . . .We never embraced that concept and stated often in our reports that we knew such a strategy could not succeed. To set aside time-tested underwriting standards was to abdicate control of the business, a course we rejected out of hand.

"We maintained our underwriting philosophy and, although always not successful, we stayed the course where we perceived opportunity to make an underwriting profit. Toward the end of the cycle as rate erosion accelerated, we did not aggressively seek to expand, but in fact chose not to renew policies in many classes of business even though this strategy temporarily impacted premium growth. . . .

"In short, we have planned and worked hard in preparation for this day. Our objective is to be better prepared than anyone else to deal with the new environment. Our plan is detailed and well-rehearsed. We're ready and look ahead with confidence."

—M.R. Greenberg, president and chief executive officer

Kemper Corp.

"Property-casualty operations were a major sore spot in 1984. . . .Bad weather played a part in the adverse results, but senseless competition, in particluar in commercial lines, is primarily to blame. It has caused more havoc than any hurricane or ice storm.

"Fortunately, the disease seems to be generating its own cure, although at high cost. Industry results hit an all-time low in 1984 and many companies found themselves in financial distress. This began to change the market situation in mid-1984.

"Our strategy has been to sacrifice market share if need be to maintain a strong surplus position. At the same time, we have cut expenses significantly and strengthened our relationships with our professional insurance producers. All this makes me confident of a significant turnaround for our property-casualty companies in 1985."

—Joseph E. Luecke, chairman, president and chief executive officer

Lincoln National Corp.

"While reinsurance earnings appear to have stabilized, we are disappointed that an expected recovery in earnings did not materialize in 1984. The last five years have been very difficult for the reinsurance industry due to intense price competition. We have been aggressively increasing our profit goals in our pricing and expect that this will improve future profitability, although it may have an adverse effect on our market share.

"The property-casualty industry had its worst year ever, posting its first net loss since 1906. Earnings in this business unit reflected these industrywide problems, although our combined ratios of 116.4% were about three points better than the expected industry average. Our response has been to increase rates aggressively and strengthen underwriting standards. We expect to increase rates further in 1985, and there are clear signs that others in the market are doing likewise. This should produce significant earnings improvement in 1985, with further improvement in subsequent years."

—Ian M. Rolland, president

Chubb Corp.

"The property and casualty group experienced its worst underwriting year since the San Francisco earthquake and fire of 1906. Our report to you a year ago suggested that the worst of the business cycle was over. We were wrong. We had not appreciated in full measure the slope of the decline in commercial coverage rate levels relative to exposure nor the rate of judicial inflation of loss costs in the liability sector. In effect, we were blind-sided from two directions at once. We should not have been, but we were. . . .

"Prices for commercial coverages are now rising, in many cases rapidly. But the gap between premium income and loss outgo is substantial for the industry. We are confident that we can close the gap for our own underpriced contracts and that, by the second half of 1985. . . produce an underwriting profit."

—Henry U. Harder, chairman and president

BI Industry Stock Report

April 23, 1985 **4/17/85 thru 4/23/85**

		Price	% Chg.	P/E	$ Div.	% Yld.	High	Low	Vol.(000)
Brokers									
Alexander & Alexander Svcs	NYSE	29.13	-4.5	0.0	1.00	3.4	30.50	29.13	545.4
Baldwin & Lyons Inc	OTC	59.00	11.3	12.6	0.80	4.4	59.00*	53.00	0.3
Corroon & Black Corp	NYSE	45.00	1.4	0.0	1.00	2.2	45.00*	43.25	135.1
Crump E H Cos Inc	OTC	27.25	4.8	20.5	0.44	1.6	27.25*	27.00	92.0
Emett & Chandler Cos Inc	OTC	16.25	1.6	77.4	0.00	0.0	16.25*	16.00	164.8
Gallagher Arthur J & Co	OTC	38.50	3.4	23.1	0.28	0.7	38.50	38.00	34.5
Hall Frank B & Co Inc	NYSE	26.00	6.1	0.0	1.00	3.8	26.00	25.00	104.4
Marsh & Mclennan Cos Inc	NYSE	63.63	-0.2	39.3	2.40	3.8	64.00	63.13	253.9
Poe & Assoc Inc	OTC	8.00	0.0	0.0	0.00	0.0	8.00	8.00	3.8
Reed Stenhouse Cos Ltd	OTC	21.00	-3.4	27.3	0.60	2.9	21.88	21.00	88.2
AGENTS/BROKERS	AVERAGE			60.7		2.3			
Conglomerates & Holding Cos.									
American Express(Fireman's Fd)	NYSE	43.50	4.8	14.9	1.28	2.9	43.50	41.38	3,007.5
Anderson Clayton(Ranger/PanAm)	NYSE	36.63	-3.0	18.9	1.32	3.6	37.38	36.63	58.4
Armco Inc	NYSE	7.50	3.4	0.0	0.00	0.0	7.50	7.13	881.9
Berkley W R Corp	OTC	14.75	0.0	0.0	0.32	2.2	14.75	14.50	65.9
CIGNA Corp	NYSE	51.88	6.7	471.6	2.60	5.0	51.88*	48.38	984.3
City Investing Co. (Home Ins.)	NYSE	38.38	-0.6	3.7	0.00	0.0	38.63	38.25	580.9
CNA Finl Corp (CNA)	NYSE	37.25	2.8	15.5	0.00	0.0	37.25	36.75	182.0
General Re Corp	NYSE	74.50	-2.9	46.6	1.56	2.1	77.00	74.50	422.1
ITT (Hartford Group)	NYSE	33.13	-4.3	11.2	1.00	3.0	33.63	33.13	2,103.3
Optimum Hldg Corp	OTC	0.50	0.0	0.0	0.00	0.0	0.50	0.50	0.5
Sears Roebuck & Co. (Allstate)	NYSE	33.25	0.8	8.3	1.76	5.3	33.25	32.25	3,283.9
Teledyne Inc (Argonaut)	NYSE	244.25	0.2	5.3	0.00	0.0	246.25	242.63	165.8
Transamerica Corp (Occidental & Fred S. James)	NYSE	28.75	-3.0	14.1	1.64	5.7	29.75	28.75	577.2
CONGLOMERATES/HOLDING COS.	AVERAGE			9.7		1.8			
Insurers									
Aetna Life & Cas Co	NYSE	40.88	1.6	25.7	2.64	6.5	40.88	40.25	920.7
American General Corp	NYSE	31.00	2.1	10.3	1.00	3.2	31.25*	30.38	1,380.1
Amern Heritage Life Invt Co	NYSE	30.00	-2.4	9.0	1.08	3.6	30.88	30.00*	3.8
American Indty Finl Corp	OTC	19.75	11.3	0.0	1.12	5.7	20.25*	18.63	10.3
American Intl Group Inc	NYSE	76.75	1.8	18.0	0.44	0.6	76.75*	75.88	445.3
Aneco Reins Ltd	OTC	1.50	0.0	0.0	0.00	0.0	1.50	1.50	2.0
Avemco Corp	NYSE	25.25	0.0	11.7	0.60	2.4	25.38	25.00	271.9
Bitco Corp	OTC	13.50	0.0	0.0	0.40	3.0	0.00	0.00	0.0
Business Mens Assurn Co Amer	OTC	58.25	0.4	7.3	2.08	3.6	58.25*	57.75	8.5
Chubb Corp	NYSE	62.63	6.6	17.8	2.20	3.5	62.63*	58.75	378.8
Combined Intl Corp	NYSE	43.63	-1.7	8.8	2.16	5.0	44.38	43.63	146.1
Continental Corp	NYSE	41.88	4.4	21.7	2.60	6.2	41.88	40.13	473.6
Crown Life Ins Co	OTC	132.50	-0.4	13.7	5.00	3.8	133.00	132.50	0.2
Durham Corp	OTC	39.00	0.0	7.5	1.28	3.3	39.75	39.00	14.9
Farmers Group Inc	OTC	57.50	0.4	10.5	1.76	3.1	58.00	57.38	165.2
Fremont Gen Corp	OTC	28.13	0.9	0.0	0.48	1.7	28.13	27.75	267.9
Great West Life Assurn Co	OTC	365.50	0.0	9.4	14.00	3.8	365.50	365.50	0.0
Hanover Ins Co	OTC	38.75	2.0	35.9	0.56	1.4	39.00*	38.00	171.7
Hartford Steam Boiler Insptn	OTC	81.50	1.2	36.4	3.00	3.7	81.50*	79.50	31.9
Kans City Life Ins	OTC	87.00	-0.6	10.0	2.88	3.3	87.50	87.00	13.7
Kemper Corp	OTC	51.63	-0.7	30.0	1.80	3.5	52.00	51.63	998.6
Liberty Corp S C	NYSE	31.13	0.0	15.0	0.72	2.3	31.13	30.88	43.7
Lincoln Natl Corp Ind	NYSE	38.50	1.3	10.1	1.84	4.8	38.75	38.00	218.3
Mission Ins Group Inc	NYSE	7.25	-6.5	0.0	0.00	0.0	7.75	7.25	62.7
Monumental Corp	OTC	30.88	1.2	22.7	1.30	4.2	30.88	30.25	46.9
Northwestern Natl Life Ins	OTC	34.25	-0.7	8.0	0.80	2.3	34.88	34.25	91.9
Ohio Cas Corp	OTC	53.00	2.9	19.9	2.80	5.3	53.00*	51.63	132.0
Old Rep Intl Corp	OTC	40.00	3.6	7.7	0.88	2.2	40.00*	38.38	185.3
Orion Cap Corp	NYSE	25.00	0.0	0.0	0.76	3.0	25.00	24.88	15.0
Protective Corp	OTC	23.50	-2.1	8.0	0.62	2.6	24.25	23.50	60.9
Provident Life & Acc Ins Co	OTC	97.50	3.7	7.0	3.38	3.5	98.50	95.50	56.2
St Paul Cos Inc	OTC	62.25	-2.5	0.0	3.00	4.8	63.00	62.13	206.2
SAFECO Corp	OTC	35.25	-2.8	12.6	1.50	4.3	36.25	35.13	298.9
Sri Corp	OTC	19.25	6.2	32.6	0.68	3.5	19.38	18.13	322.9
Seibels Bruce Group Inc	OTC	22.00	1.1	0.0	0.80	3.6	22.50	22.00	26.8
Statesman Group Inc	OTC	5.13	-2.4	0.0	0.15	2.9	5.25	5.00	169.9
Tokio Marine & Fire Ins Co	OTC	160.50	-0.3	27.8	0.00	0.0	161.00	158.00	7.2
Torchmark Corp	NYSE	47.00	-0.3	10.4	1.00	2.1	47.50*	46.50	186.2
Travelers Corp	NYSE	41.50	1.2	10.1	2.04	4.9	41.50	40.88	1,648.2
United Fire & Cas Co	OTC	20.00	0.0	0.0	0.80	4.0	20.00	20.00	0.0
United States Fid & Gty Co	NYSE	33.50	3.1	19.5	2.20	6.6	33.75*	32.75	484.5
Ustlife Corp	NYSE	39.00	-0.3	8.9	1.04	2.7	39.13	38.00	311.6
Washington Natl Corp	NYSE	26.38	-2.8	8.2	1.08	4.1	27.25	26.25	47.5
Zenith Natl Ins Corp	OTC	12.50	0.0	0.0	0.68	5.4	12.50	12.50	11.7
INSURANCE COMPANIES	AVERAGE			16.6		3.4			

System design: Altman Information Systems

12 more reasons to sell business insurance from the company with the stag.

Monthly payments.

The Hartford announces a premium payment plan your commercial clients will go for in a big way: interest-free monthly payments.

With our Total Account Billing System (TABS), you can even consolidate client payments on different Hartford policies.

We also offer interest-free quarterly and semiannual payment plans. Find out more. Call your Hartford regional office. Or write David Klein, Senior Vice President, The Hartford, Hartford, CT 06115.

THE HARTFORD

The Insurance People of **ITT**

THIS YEAR IS OUR 175TH ANNIVERSARY.

The Hartford Insurance Group, Hartford, Connecticut 06115.