Week of April 7, 1980

business insurance

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Corporate aviation

It's a smooth trip to the insurance market for a corporate aviation risk; **Page 3.** General aviation savvy helps sell the risk: Perspective, **page 27.**

Breeding challenges

A nuclear plant breeds challenges for risk exec Don FioRito: **Page 11.**

Exchange opens

Opening day at the New York Insurance Exchange: **Page 40.**

Soaring interest rates

Investment income cuts ADA plan rate

By JILL KAPLAN

CHICAGO—Dentists buying professional liability insurance through the American Dental Assn. will see smaller than expected rate increases next year because the underwriter is granting a credit for investment income.

Chubb Group of Short Hills, N.J., will estimate the investment income it expects to earn on reserves for professional liability losses under the professional protector plan in 1980. It will allocate 50% of the investment income earned at a 5.4% rate as a credit against a rate increase for 1981.

The ADA program illustrates the growing willingness of insurers to take investment income—now piling up at record rates—into account when rating large programs in a highly competitive market.

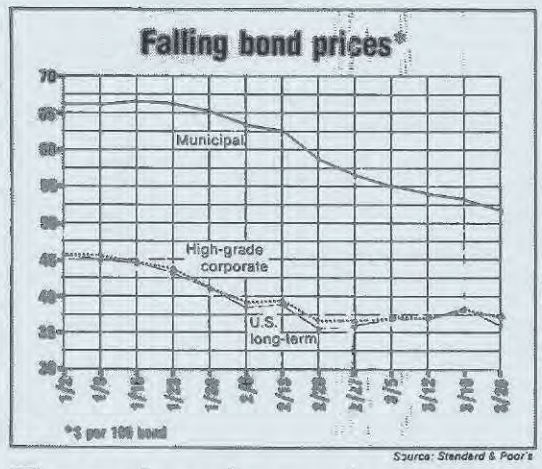
Insurance buyers have complained in the past that insurers wouldn't take investment income into account when pricing a policy. Insurance buyers and brokers are now increasingly pressuring insurers to do so.

"In these times of high interest rates and high premiums, insurance buyers feel that insurers holding a large portion of reserves should share," said Bernard Scalise Sr., vp at Reed Risk Management in San Francisco.

"Large underwriters are virtually being forced to make concessions they wouldn't otherwise make because of overcapacity in the marketplace and very high interest rates," added Jan Farver, vp at Reed Risk Management in San Francisco.

A policyholder can expect to be credited with investment income figured at 70% to 80% of the interest rate if the policy transfers little risk to the insurer, Mr. Scalise said. With the current market returns pushing 20%, a purchaser should be get-

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Bond price drop threatens insurer surplus position

By STUART EMMRICH

NEW YORK—Arizona insurance commissioner J. Michael Low is forcing 100 insurance companies to make up deficiencies in their statutory deposits caused by the sharp decline in bond prices.

Among the companies already notified are: First Penn-Pacific Life Insurance Co., with a deficiency estimated at $102,000; CIM Insurance Corp. ($96,000), Indemnity Insurance Co. of North America ($50,000), St. Paul Life Insurance Co. ($21,000) and Safeco Life Insurance Co. ($26,000).

The commissioner's action is the most dramatic example of the worry shared by many regulators, policyholders and insurance company investors over the insurance industry's heavy investment in

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Johns-Manville sues 27 insurers on asbestos risk

By ELLIS SIMON

SAN FRANCISCO—On the heels of the largest jury award ever in an asbestos product liability case, the nation's largest asbestos supplier is suing 27 excess insurers to determine which will pay its losses.

Johns-Manville Corp. of Denver filed suit here in superior court on March 31 seeking damages from The Home Insurance Co. for denying coverage and an order for insurers to provide coverage.

The Johns-Manville suit was filed 11 days after a Beaumont, Tex., jury made a $2.6 million award to the widow of an insulation worker at a Texaco oil refinery who died of lung cancer caused by exposure to asbestos.

Nicolet Industries of Philadelphia, the only one of 14 defendants that did not settle out of court with the plaintiff, is liable for the $2.6 million. Reliance Insurance Co. of Philadelphia is Nicolet's product liability insurer.

The remaining defendants, including Johns-Manville, had settled with the plaintiff for $400,000, said the plaintiff's attorney, Walter Umphrey of Port Arthur, Tex.

The bulk of the $2.6 million award, believed to be the largest ever granted a single plaintiff in an asbestos case, was for pain and suffering endured by Russell Miquez, Mr. Umphrey said.

Nicolet hasn't decided if it will appeal the case, said Nicolet's attorney Dale Dowell of Beaumont.

Johns-Manville doesn't know what effect this award may have on the 3,000 asbestos cases pending against it, said assistant general counsel Richard Von Wald. The cases charge Johns-Manville with property damage, bodily injury or death resulting from the use or exposure to asbestos made by Johns-Manville.

Johns-Manville's suit in San Francisco asks the court to determine how 27 insurers should respond in the cases pending against the company. The issue is whether the claims should be handled on an exposure theory or a manifestation theory.

The exposure theory contends insurers of record when plaintiffs were exposed to asbestos should respond to the claims. The manifestation theory holds that the insurers liable for claims are those of record when the disease was discovered.

Johns-Manville is asking the court to choose the exposure theory, which would be to the asbestos maker's advantage because it would spread the losses over a longer period of time and tap more policies.

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Pa. firms protest premium tax plan

By JERRY GEISEL

HARRISBURG—Pennsylvania businesses and their insurers are protesting legislation pending in the state senate here that would increase the premium tax paid by out-of-state insurers in order to bail out the state's financially strapped municipal police and firefighters pension programs.

Legislation proposed by Sen. H. Craig Lewis calls for raising to 3% from 2% the premium tax paid by out-of-state property/casualty insurers to provide $47 million in new annual revenues to help shore up the ailing pension plans. The 2% tax now paid by insurers incorporated in Pennsylvania would not be increased.

If enacted, the higher premium tax in Pennsylvania could raise the cost of insurance for buyers across the country because of retaliatory premium tax laws in most other states.

"It would cost insurance companies—and ultimately the buyer—many millions of dollars," warns Edward Banks, senior tax counsel

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Photo: Ron Gordon

London keeps ballclub owners in game

A strike fund and $10 million of reinsurance from London will keep major league baseball club owners in the financial ballgame if players like Chet Lemon of the Chicago White Sox refuse to take the field May 22, as they threaten. Ray Grebey, negotiator for the owners, refused to discuss the insurance arrangements, but Lloyd's sources said owners are covered in the London market. It's unsure how much coverage is being provided by Lloyd's. The owners placed the reinsurance for ballclub owners last July, Lloyd's sources said. Each club owner will be covered for expenses such as stadium rentals, lost concession revenues, lost broadcasting fees and office staffs. The policy would reportedly go into play after the owners exhaust a strike fund that will pay losses for two weeks. The players' strike of remaining spring training exhibition games threatened an expected million-dollar gate from a series between the California Angels and the Los Angeles Dodgers scheduled over the weekend.

NEWSPAPER

Oil rig disaster
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for your information

Suspect in E/S policy fraud surrenders to Fla. regulators

MIAMI—A Miami man who allegedly issued almost 200 bogus insurance policies to excess/surplus lines brokers and their clients has surrendered to Florida insurance officials.

Alvin Terrill turned himself in here March 26 and was charged with one count of organized fraud, one count of first degree grand theft and five counts of second degree grand theft. If convicted, he faces up to 70 years in prison and $45,000 in fines.

Mr. Terrill allegedly stole $80,000 in premiums, according to Robert McKenna, chief of the Florida insurance department's fraud unit. Mr. Terrill allegedly misrepresented himself as having binding authority with Lloyd's of London and Lloyd's broker F. Bolton International (*BI*, Dec. 24, 1979).

Among the firms said to be victimized by Mr. Terrill were Union Brokerage Inc. of New York and Dodge Management Co. of Illinois, both in the real estate business; American Blasting Co. of Sime Valley, Calif., and Los Angeles-based pyrotechnician Frank P. Clark.

Mr. Terrill pleaded guilty in 1977 to charges of forging construction performance bonds and embezzling $11,315 in insurance premiums. His Florida agent's license was revoked that year, but he allegedly sold his first bogus Lloyd's policies less than eight months later.

Midwife sues N.J. BC/BS

HACKENSACK, N.J.—A nurse/midwife, a consulting physician and various patients are suing Blue Cross/Blue Shield in state superior court here for not providing reimbursement for nurse/midwife care.

Fifty-seven of the 70 Blue Shield plans nationwide refuse to pay for nurse/midwife care, arguing that doctors should deliver babies (*BI*, March 31).

The class-action suit here charges Blue Cross/Blue Shield with restraining trade and monopolizing health care by refusing to provide reimbursement for nurse/midwife care.

Plaintiffs are: nurse/midwife Lonnie Holtzman, founder of The Childbirth Center in Englewood Cliffs, N.J.; Dr. Robert Livingston, consulting physician at the facility, and various patients.

Ms. Holtzman said the group is seeking reimbursement for nurse/midwife services from Blue Shield and payment for facility fees from Blue Cross.

The current policy, she said, discriminates against nonphysicians, limits women's choice of health care and is not cost effective.

Ms. Holtzman, who is licensed by the state as a nurse/midwife, said a birth at the facility she started four years ago costs about $925. Similar services at a nearby hospital would cost $2,200 to $2,400.

The center is operated by a staff of three nurse/midwives including Ms. Holtzman and Dr. Livingston, who acts as a consultant on all births.

Blue Cross/Blue Shield refused to comment on the suit.

Dentist group must disband

WASHINGTON—A Federal Trade Commission administrative law judge has ordered the Indiana Federation of Dentists to disband. The federation is charged with being a "front" for dentists illegally conspiring to boycott dental health insurance companies.

FTC Judge Paul Teetor said the federation was formed in 1976 to organize dentists refusing to supply dental X-rays to insurance companies. This refusal to supply X-rays constitutes a "boycott," a violation of the Sherman Antitrust Act and the Federation Trade Commission Act, the FTC judge said.

In order to keep costs down, dental insurers determine in advance of treatment what benefits will be paid. This predetermination is made partly on the basis of X-rays.

An attorney for the federation said the ruling probably will be appealed. The organization was formed to ensure good quality dental care, he said.

Calif. couple sues minister

BURBANK, Calif.—A California couple reportedly have filed a malpractice suit here against their minister and church, charging that bad counseling led to their son's suicide.

Walter and Maria Nally sued their minister, the Rev. John MacArthur and Grace Community Church for "clergy malpractice, wrongful death and outrageous conduct." The suit reportedly charged that instead of giving personal attention to their son, the minister gave him tape-recorded sermons to listen to, United Press International reported.

Several other lawsuits have been filed against ministers, said a spokesman for Church Mutual Insurance Co., a provider of clergy malpractice insurance. But no evidence exists that a suit ever was successful, the spokesman added (*BI*, March 31).

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North Sea disaster may spark rate hike

By JOHN MILLER

STAVANGER, Norway—British and Norwegian insurers for the Alexander Kielland, the $51 million North Sea oil rig platform that capsized in a gale March 27, killing 123 men, fear a wave of legal battles over liability claims.

Insurance rates for North Sea oil rigs, now $1.50 to $2.50 per $100 of value, are expected to increase 5% to 10% in the wake of the disaster, says one knowledgeable insurance broker.

The cause of the catastrophe is yet to be determined. And the international mix of the dead men, many of them working for subcontractors of Phillips Group, parent of Oklahoma-based Phillips Petroleum that leased the rig, leaves observers speculating over where and against whom survivors will file claims.

Liability claims may total $20 million, sources say.

Lloyd's and the London market jointly share the lost rig's insurance plan, which was set up in London with a Norwegian rig pool several years ago. The program now provides up to $600 million in coverage for offshore risks.

Hull value of the rig is estimated at $51 million, $32 million of which is reinsured in London by Lloyd's and other insurers and $19 million of which is covered by Norwegian reinsurers and others.

A Norwegian protection and indemnity club is believed to provide part of the liability cover.

The American offshore market is also in on the loss. All American Marine Slip, one of the largest U.S. offshore syndicates, will post a "seven figure" loss for the ill-fated floating hotel, president Robert Lowry revealed.

The London market heavily reinsured its 62.5% participation in the Norwegian rig pool through marine treaties, said Roy Williams, president of AIG Oil Rig, the largest U.S. offshore oil syndicate.

Much of the reinsurance on the Norwegian pool was placed with "innocent capacity," he said, using the phrase coined to refer to insurers cutting prices to get risks. "They'll see now that the rig business is a tough class to underwrite."

Having been burned, many of these insurers will drop out of offshore business, adding to pressure for a tightening of the market, he predicted.

AIG Oil Rig had been a participant in the Norwegian pool until two years ago, Mr. Williams said.

Rates charged by its underwriters were lower than in other markets since risks were placed directly, he explained. Reinsurance intermediaries' commissions further deteriorated those rates.

Not all offshore insurance experts, however, are certain the loss of the Alexander Kielland will force rates up. The floating hotel was the first of its kind to be lost,

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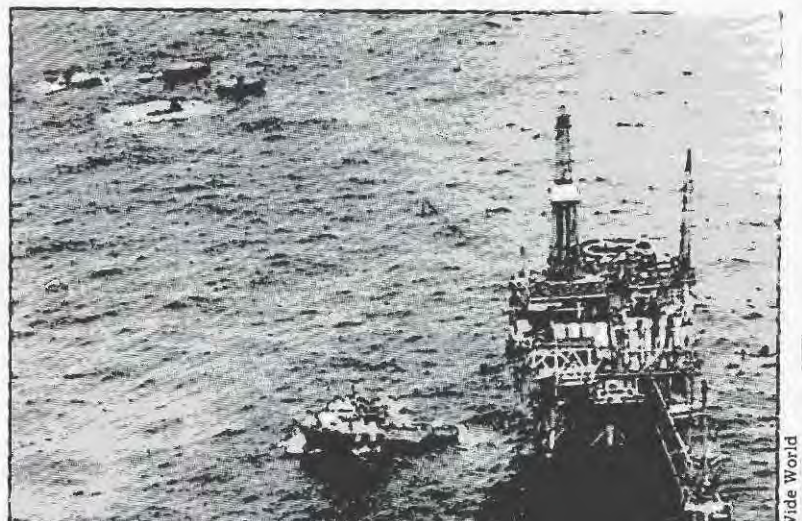


Photo: Wide World

Costly catastrophe

Liability claims in the Alexander Kielland disaster could go as high as $20 million, some observers say.

Change in paper

Business Insurance is temporarily printing on a matte-finish paper stock beginning with this issue. A shortage of gloss-coated paper is forcing the change. When gloss-coated paper is available again, *BI* will switch back to it.

errors & omissions

• The International Foundation of Employe Benefit plans is charging $2 per copy to send out a 65-page report on flexible benefits prepared by Coopers & Lybrand. An article in the March 10 issue said it was free. The foundation's address is P. O. Box 69, Brookfield, Wis. 53005.



Photo: Ellis Simon

Avondale shipyard is suing Kaiser for damages related to cracks in the polyurethane foam insulation on an LNG ship.

LNG ship construction leaks huge lawsuits

LONDON—Lloyd's may face claims as high as $200 million to $500 million in a series of U.S. lawsuits over a group of LNG ships built by Avondale shipyard in New Orleans for the Elpaso Corp.

The three ships were fitted with special tanks supplied by the Kaiser Aluminum Corp. for insulating liquified natural gas during transport. Last year Kaiser found that the polyurethane foam insulation fitted on one of the ships had cracked. Disputes between Kaiser and one of its subcontractors over the crack are in both litigation and arbitration.

Avondale, meanwhile, has filed a $95 million suit against Kaiser for damages alleged to have occurred during construction and an unspecified amount for damages related to the insulation itself. It also seeks to recover $74 million in payments already made to Kaiser.

Kaiser contends it is named as an insured under Avondale's builders risk policy and is not liable.

Lloyd's holds 70% of the risks involved in the suit, with the remainder held by the U.S. insurance market.

Corporate aircraft risks fly first class

By JOHN MAES

extended coverage



Photos: Rockwell

CHICAGO—The corporate aviation insurance buyer finds a trip to the aviation insurance market as smooth as cruising in a sleek jetliner through a tranquil, sunny sky, even if he isn't an aviation expert.

Good claims experience and competition among insurers for what is considered a desirable class of business keeps rates low. Brokers chart the way for the inexperienced. And underwriters don't expect to raise rates, although demand is increasing as more corporations buy aircraft to satisfy executives tired of being jostled by commercial airlines that cancel some flights and overbook others.

Even the recent corporate jet crash that killed 10 persons near Denver, Colo., March 27 can't shake the reputation corporate aircraft have as risks aviation insurers like to write.

"It could be a costly loss," said Richard Miller, vp of Associated Aviation Underwriters, principal hull and liability insurer for Lufkin Industries Inc., owner of the plane that crashed. "But that doesn't change the fact that it's still a good line and is the cream business as far as general aviation insurance is concerned."

Currently 522 of the 1,000 largest U.S. companies already own at least one plane. More than 300 business planes, some costing $10 million to $12 million, may be delivered this year.

Risk managers in firms that operate fleets of planes say the aircraft are one of their smaller and least troublesome exposures. "It doesn't stand out," says W.A. McNerney, manager of corporate insurance for Mobil Oil Corp. in New York, "not when you're drilling wells all over the world."

But corporate aviation risks don't just pale in comparison to other business risks. So sensitive is the business of transporting corporate officers and executives all over the country that large firms take special pains to ensure safety of operations.

The large multinationals such as Mobil, General Motors, Standard Oil Co. of Indiana and IBM Corp. operate miniature airlines complete with professional pilots and full-time maintenance and operations personnel.

Even mid-size firms operating only one plane usually hire a professional pilot, not only for safety reasons, but also to avoid the high rates that would otherwise be assessed by aircraft underwriters.

The result is an operation rivaling many commercial air carriers in attention to safety. Or as Martin Flink Jr., manager of corporate insurance for Standard Oil, put it, "I have less concern about riding in one of our company's own aircraft than I do about riding in a commercial aircraft."

Standard's fleet includes four jets used to transport company executives to and from out-of-town assignments and small fixed-wing planes and helicopters used exclusively to patrol the company's expanse of pipeline installations all over the world. Aviation coverage is part of Standard Oil's primary $10 million liability program and excess insurance of more than $100 million, Mr. Flink said. Standard's aviation coverage is handled by U.S. underwriters.

Mobil, with a fleet of about 30 transport and patrol aircraft, holds a large self-insured retention on its aviation risk and insures the risk with its captive insurer, Mr. McNerney said.

Both risk managers say they do not have a great deal of aviation expertise, as is probably the case with many of their colleagues. But that does not present much of an obstacle, they say. A risk manager can rely on his or her broker to provide just about any information necessary on the technicalities of aviation insurance or markets.

Marsh & McLennan in New York, for example, has a 20-person staff of specialists in its aerospace and aviation division, said A. Joseph Bethel, vp of the division. "We get a lot of inquiries and find that while risk managers are at ease talking about property and casualty coverages, aviation is something they just don't know."

Even though some risk managers are less perturbed about their aviation exposures than other risks, fleets and liability are still heavily insured. Small firms with one or two planes buy $4 million to $5 million of liability insurance. Large corporations sometimes buy up to $100 million of insurance, compared with the $500 million carried by some major airlines, underwriters say.

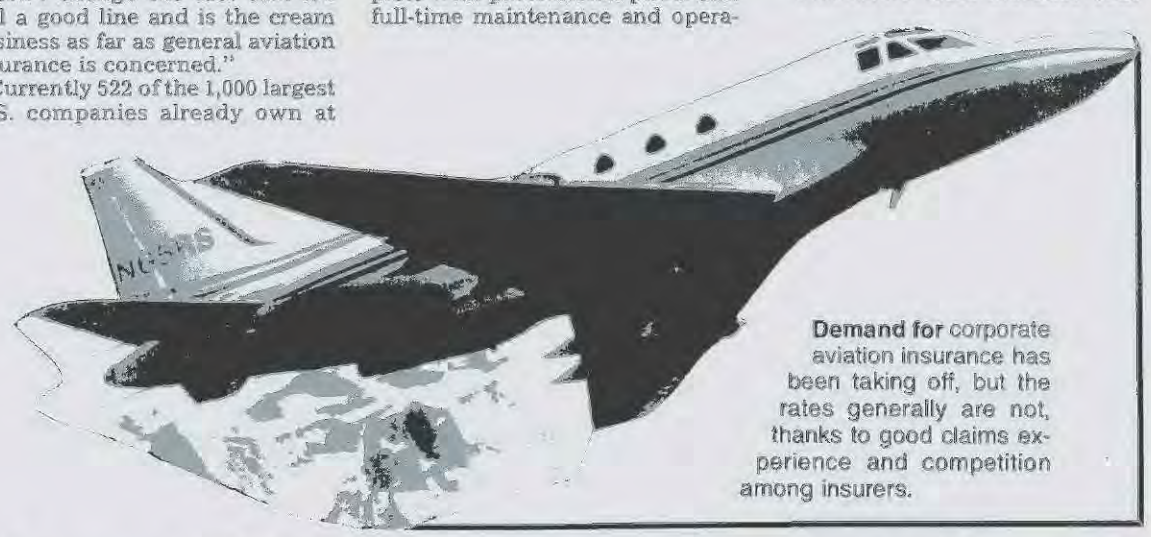
Firms with large fleets may pay premiums as high as $200,000 to $300,000 for hull and liability insurance and another coverage called voluntary or admitted liability, which is also a basic part of corporate aviation packages.

Admitted liability insurance pays death and injury settlements to guests flying in a corporation's plane even if the plane owner is not liable for an accident. The settlement simply is a goodwill gesture.

"The coverage is usually written on the seats in the aircraft for between $100,000 and $500,000 a head," said Fred McLemore, president of Aviation Insurance Co., managing underwriters for Employers Casualty Co. of Dallas.

Major underwriters, though eager to write the business, set tough standards for insuring corporate aircraft. Insurers don't hesitate to decline a risk or cancel a

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Demand for corporate aviation insurance has been taking off, but the rates generally are not, thanks to good claims experience and competition among insurers.

New FASB pension rule will hike actuarial bills

By ELLIS SIMON

NEW YORK—Compliance with Financial Accounting Standards Board Statement No. 35 could add as much as 15% to the cost of performing actuarial valuations for pension plans.

Statement No. 35, released March 19, calls on pension plan sponsors to issue an annual report to employes containing net assets available for benefits, actuarial present value of accumulated benefits and changes in both (*BI*, March 31).

Additional calculations will be required to determine the nonvested portion of the accumulated benefits, said Vincent Tobin, vp at George B. Buck consultants in New York.

New calculations also will be required to determine spouse benefits, he said.

"This requires new systems and more numbers and those things cost more money," Mr. Tobin said. He predicted the extra work will add 10% to 15% to the cost of performing an actuarial valuation.

FASB Statement No. 35 will make it "more difficult to do our work," said Hay-Huggins vp David Hewitt in Philadelphia. "Until now, actuaries were required to choose reasonable assumptions in total. The FASB wants each assumption to be reasonable. That means more juggling with additional assumptions."

Mr. Hewitt disagrees that compliance will add 10% to 15% to the cost of performing a valuation. He would not commit himself to a specific increase, but did not dispute a possible increase in the 5% range.

Special assumptions to calculate accrued liabilities, which include vested benefits and earned nonvested benefits, might be required for some clients, said Barnet Berin, director of New York-based William M. Mercer Inc. Clients would face higher costs if compliance required extensive collection of additional data, he added.

Not all actuaries see FASB Statement No. 35 significantly increasing the demand for their services. Much of the information sought under the new accounting rule is currently prepared for Schedule B of Form 5500 required under ERISA, said Len Mactas, a partner with Kwasha Lipton of Englewood Cliffs, N.J.

Although Mr. Mactas praised the FASB for doing a "creditable job overall," he cautioned that the statement's language "creates an environment" for actuaries to make annual changes in their assumptions. Competent actuaries will resist this temptation, however, he said.

"We want the statement to have maximum meaning," Mr. Mactas said. "A system that changes the number annually will hinder understanding of employes and the press."

Mr. Mactas also fears plan sponsors could face higher costs if accountants audit the work of actuaries.

"All hell could break loose if they have an accountant audit actuaries," he said.

Certification of actuarial information by accountants could lead to lots of conflict between the two professions, warned the benefit managers for a New York-based retailer.

Accounting standards call on auditors to rely on actuaries as the experts on these types of calculations, noted Harold Danker, technical services director for the employe benefit consulting group of New York-based Coopers & Lybrand.

"Accountants are not going to duplicate the work of the actuary," said Mr. Danker, a certified public accountant.

"If actuarial assumptions are not unreasonable, the accountant won't ask anything."

Most pension plan sponsors contacted by *Business Insurance* had not yet seen the new statement or had paid little attention to it since it will take effect for pension plan years beginning after Dec. 15, 1980. ■

Eight executives die in air crash

DENVER—Eight corporate executives, including the insurance administrator for Davis Oil Co. in Denver, were among 10 persons killed when a twin-engine plane crashed shortly after takeoff from an airport near here.

The plane, owned by Lufkin Industries Inc. of Lufkin, Tex., was taking the eight executives to Lufkin for a tour of the company's plant and a weekend of relaxation at a company-owned clubhouse at a nearby lake, a company spokesman said. The pilot apparently lost control of the plane when it suffered icing.

Associated Aviation Underwriters of New York said it is the firm's principal insurer for hull and liability, but it would not disclose limits.

The eight executives were from Denver-area customer firms of Lufkin, an oilfield equipment sales company.

Among those killed in the March 27 crash was Ed Gartland, 56, administrative manager for Davis Oil. He was involved in financial and administrative affairs for the firm including insurance buying, a Davis spokesman said.

Also killed were: John Stanzione, 50, operations manager for Brownlie, Armstrong, Wallace & Bander; Jack Rogers, administrative supervisor of purchasing for Tenneco Corp.; Bob Easter, purchasing representative for Petro-Lewis Corp.; Larry Gallagher, 42, production coordinator for Diamond-Shamrock Corp.; Dan Bolding, 29, operations assistant for Exeter Exploration Co.; Ron Pagliasotti, 34, purchasing agent for Kenneth Luff & Associates, and John Polland, 29, a district sales manager for Lufkin and son of the corporation's president.

The pilot, Ray Fisher, 52, and Charles Gilstrap, 47, were the other Lufkin employes killed in the crash.

The National Transportation Safety Board said the plane had been airborne for a little more than 10 minutes when the pilot reported severe icing conditions and indicated he wanted to return to Arapaho County Airport.

But the plane crashed before it was able to return.

UAW wins expanded survivor program

benefit beat

MASSEY-FERGUSON INC., headquartered in Des Moines, Iowa, overhauled its benefit program in a recent settlement with the United Auto Workers. The new three-year contract includes expanded health coverage, an improved pension plan and survivor benefit improvements.

The annual maximum coverage for dental care is increased to $1,000 from $750. Lifetime orthodontic benefits are increased to $800 from $750. Bitewing X-rays and oral exams are now covered every five months, instead of six months. Predetermination of benefits is no longer required unless dental expenses total more than $250, compared with the former $125.

Vision care payments are increased and retirees are now included under the vision plan. Also covered are referrals from an optometrist to an ophthalmologist within 60 days after the original exam.

Aetna underwrites the dental and vision programs.

A new hearing aid program, covering employes, retirees, surviving spouses and dependents, will pay for audiometric exams, hearing aid evaluations and hearing aids every 36 months, according to a schedule.

Workers, retirees, disabled workers receiving monthly life insurance payouts, surviving spouses and their respective dependents are now provided with catastrophic medical expense benefits for disabilities incurred on or after Jan. 1.

The survivor benefit program includes a new "bridge" benefit designed to bridge the years between an employe's death and the time the surviving spouse reaches age 62. The spouse will be eligible if her age at the time of the worker's death, plus the worker's years of credited service, total 55 or more.

Minimum life insurance coverage was raised to $12,000 from $7,000, and the maximum raised to $25,000 from $19,000.

Health, life and disability coverages are underwritten by John Hancock Mutual Life.

Pension increase

Connecticut General Insurance Corp. is making a cost-of-living adjustment in its retiree pensions, the seventh such increase since 1967.

The adjustment, effective April 1, will affect almost 2,000 people nationwide. The adjusted amount will vary from 6% to 40% depending on the year the employe retired. The biggest increases will go to persons retired the longest time. No adjustment was made for those who retired on or after Jan. 1, 1979.

"We know that continuing inflation has caused special hardship for persons living on fixed incomes," said CGIC president Robert D. Kilpatrick.

The first-year cost of the pension cost-of-living adjustment is estimated at $1 million.

HMO rate hike

Genesee Valley Group Health Assn., the health service corporation and health maintenance organization serving approximately 37,000 subscribers in the Rochester, N.Y., vicinity, has been granted rate increases by state superintendent of insurance Albert B. Lewis.

The increases include an average of 8% for basic under 65 contracts, 1.1 % for prolonged illness protection million (major medical rider), 23.5% for the PIP $2 drug rider and 13.4% for the $2 drug rider to the basic contract.

New rates will become effective immediately for both new and present subscribers.

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Bypass surgery

Coronary bypass surgery does not necessarily mean an employe will return to work, nor does it preclude further health problems, a Metropolitan Life Insurance Co. study shows.

Fifty-eight percent of Metropolitan's 71 employes who underwent bypass surgery in 1974-76 returned to work within a year; 39% remain disabled, and two employes died. Failure of the Metropolitan employes to return to work when able would have resulted in the termination of disability benefits.

Of the 41 employes who returned to work, 17 were later disabled by 21 episodes of illness; circulatory problems caused 14 of those instances.

HMO rate hike

A 15% premium rate increase for subscribers to Prepaid Health Plan Contract, an HMO sponsored by Health Services Medical Corp. of Central New York, has been approved by New York superintendent of insurance Albert B. Lewis.

The increase will raise monthly rates to $34.50 from $30 for individuals and to $93.20 from $81 for family enrollees in Onondaga, Oswego, Cortland, Cayuga and Madison counties.

Rates became effective Feb. 1.

Director coverage

Many large companies offer liability and travel insurance to their outside directors, but some also provide a variety of other benefits, according to a survey by Buck Consultants Inc.

The study of 73 companies, most of them large industrial firms and more than half in the top 200 of the Fortune listings, found that:

- 71% offer $10 million to $75 million in liability insurance to outside directors and 67% offer travel accident insurance, generally ranging from $100,000 to $500,000.
- Other insurance benefits include $10,000 to $200,000 of group life, most often $50,000, offered by 24% of the companies; accidental death and dismemberment, 15%; group health, 7%; dental, 3%, and long-term disability, 1%.
- 19% of the companies allow outside directors to defer some or all compensation until retirement from the board; a majority of directors, however, do not choose to defer compensation.

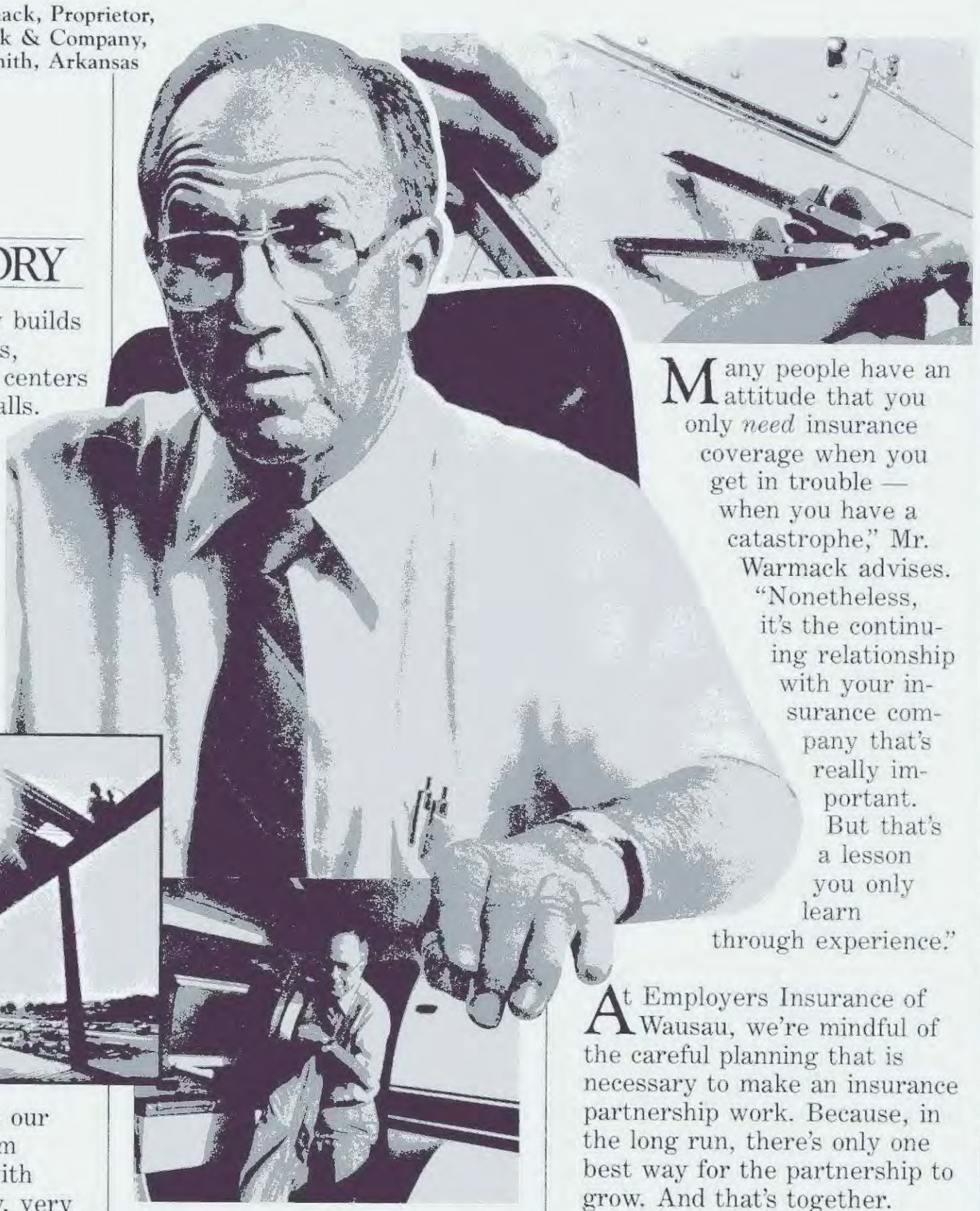
Respondents generally indicated they had not sought shareholder approval in order to provide these benefits to directors.

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Made any benefit changes? Write Valerie Berg, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611 or call 312-649-5430.

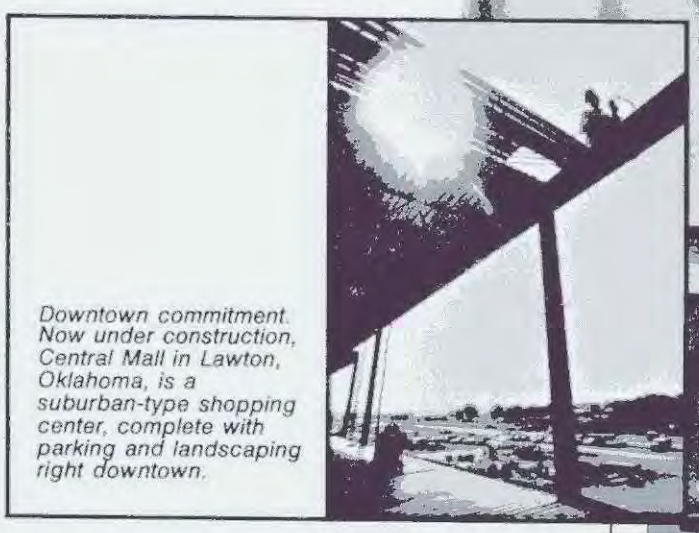
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Mr. Ed Warmack, Proprietor,
Warmack & Company,
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WAUSAU STORY

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Many people have an attitude that you only *need* insurance coverage when you get in trouble — when you have a catastrophe," Mr. Warmack advises. "Nonetheless, it's the continuing relationship with your insurance company that's really important. But that's a lesson you only learn through experience."

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Come to the source



Wausau Insurance Companies
Employers Insurance of Wausau

editorial opinions

Fairer system

A UNIVERSAL SOCIAL SECURITY system inclusive of all public and private sector employes demands the full attention of Congress, and soon.

Government employes don't want a universal system since it would prevent the kind of double-dipping now so prevalent. Apparently government workers think they should be given the special privilege of earning full pensions in government service, then retiring young and earning another pension from private sector employment.

A congressional study shows that a universal system preventing this kind of dual pension plan for workers who earn retirement benefits in both fields of employment would cut Social Security taxes only .5%, a $2 billion to $5 billion reduction.

But it would go a long way toward establishing a fairer system for employers and employes in the private sector who finance the Social Security system.

One argument being used to bolster the idea of a mandatory universal Social Security program is that government employes would gain better overall income protection under this program when they move in and out of federal service. We're not so sure this is true, since Social Security looks to be a shaky system at best, and on the verge of financial disaster at worst.

Nonetheless, governments should not have the option of providing extremely generous retirement benefits to their workers outside the Social Security system, considering that those workers can then take early retirement and cash in on another set of generous benefits from Social Security, too.

Waiting for delivery

ONCE AGAIN, the problem of undelivered policies is worsening.

That insurers and brokers fail to hand over policies within a reasonable length of time after corporate customers have paid for them is nothing new. But each time the industry heads into a heated competitive cycle, the problem becomes more serious.

So it is that we hear constant complaints in recent months from buyers who've forked over the dollars for coverage and now must rely on little more than a wing and a prayer for three months or eight months or even a year before an insurance company sends the all-important document.

Over the years, few insurers, if any, have been spared the barbs of insurance buyers angry over not being given the documents proving they have coverage. Everybody from Lloyd's of London and the largest U.S.-based insurers down to the most specialized of surplus lines companies have been cited for taking too much time shuffling papers.

Oddly, this complaint is voiced by buyers for very large organizations—supposedly having much more leverage with insurers—as often as it is by buyers for small companies.

It is inexcusable that a customer who's paid for a product is left waiting for months without knowing what's been bought.

Take the example of the school districts in California left holding the bag in the latest round of surplus lines scandals. Some undelivered policies excluded coverage the schools thought they had purchased. In other cases, policies were cancelled before the schools ever saw them. After writing about these situations in February, we learned that some governmental risk managers were pretty distressed that they'd never been given any policies or documents proving that the coverage they bought existed at all.

This is hardly limited to school districts. It seems to be happening everywhere.

One way to correct this never-ending problem would be to call for tougher insurance regulations.

But a better solution, we think, would be to call for wiser buyers. Premiums shouldn't be paid until a specimen policy that includes all endorsements is available. At most, a buyer should only pay a deposit until the policy is delivered.

Who says that because insurance is supposedly an intangible product, the purchaser isn't entitled to know what he's buying?

If insurers had to wait for their money, policies would be delivered faster.

letters

Business Insurance welcomes letters from its readers. Please keep your comments as brief as possible and we reserve the right to edit or shorten letters for clarity or space. Please send your comments to Letters to the Editor, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611.

Thanks for help

To the editor: You have helped bring the Risk Retention Act to the attention of those who will be directly affected by its content—the risk managers. Your readers are fortunate that in this situation, as well as in many others, you have kept them informed of matters of importance before they are right at their doorstep.

Victor E. Schwartz
Chairman
Task force on product liability and accident compensation
Washington, D.C.

Some concern

To the editor: I read with some concern your editorial on the Risk Retention Act in the Feb. 25 issue. I found it odd that the survey conducted by the Risk Management Board, which was the subject of an article ("Risk Retention Act fails to excite buyers") in the same issue, led to a conclusion strikingly different from that proposed in your editorial. The board's poll clearly demonstrates the conclusion of those surveyed that the Risk Retention Act is undesirable and unnecessary. It is viewed as the unwarranted creation of a new federal bureaucracy.

The American Insurance Assn. has indicated in its testimony that its primary objection to the Risk Retention Act is the creation of a federal regulatory body for insurance. It has been strongly urged by the association that, to the extent there are unreasonable impediments to the formation of risk retention groups, they should and can be remedied by the state regulatory system without the creation of a new federal body.

Dennis R. Connolly
Counsel
American Insurance Assn.
New York, N.Y.

▪ *Our editorial opinion advised that insurance buyers should support the act, despite apparent apathy among some risk managers at the present time.*

Not so

To the editor: "Say it ain't so, Joe!"

In your article on consulting firms filling needs, Feb. 18, Joe Destein is quoted as saying that, in addition to his own company, only Marsh & McLennan and A&A provide a computerized capability to bank data, forecast future losses, and provide a net present value comparison of alternative risk financing techniques.

In point of fact, we at Corroon & Black provide not only all of those services, but have been pioneers in the development of and continued improvement of these techniques and other quantitative tools to provide risk managers with better decision-making capabilities.

J. Bransford Wallace
Director
Advanced risk management services
Corroon & Black Corp.
Nashville, Tenn

Adjuster omitted

To the editor: Underwriters Adjusting Co., one of the largest claims adjusting firms, was omitted from an article and directory in the March 3 issue, "12 major vendors cater to risk clients."

UAC offers claim information reports in conjunction with its claims administration and claims handling services so the risk managers can determine their company's financial exposure to loss on claims reported and in addition, project their exposure to incurred but not reported claims. The reports are cumulative and can be summarized by profit centers allowing distribution of expenses and identification of areas of frequency and severity so losses can be controlled.

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A.C. Avitabile
President
Underwriters Adjusting Co.
New York, N.Y.

Notes on HMOs

To the editor: In response to your editorial "HMO must pass three tests" (Jan. 14), we make the following observations:

• HMOs have a benefit package supported by a contract which has limitations and/or exclusions like any other health benefit contract offered by indemnity insurers or medical service organizations. A possible difference is that those limitations or exclusions are frequently determined by the membership or their delegates in an HMO and therefore reflect the wishes of the membership.

• Experimental or research therapy is usually supported in its clinical phase by patient care grants, which make those services available in that fashion, limiting

Continued on page 38

business insurance

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Health bill would save $10 billion: CBO

By JERRY GEISEL

washington

THE CONGRESSIONAL budget office says enactment of health care reform legislation proposed by Sen. Richard Schweiker (R-Pa.) would save taxpayers at least $10 billion by 1985.

Sen. Schweiker's competitive plan approach (S. 1590) would stimulate greater employer contributions to health benefits plans, make catastrophic protection and preventive services available to more workers and decrease the amount of first-dollar coverage for expensive hospital care, says CBO, the analytical arm of Congress.

The Schweiker measure, one of several of the so-called "pro-competitive" bills now pending in Congress, would require employers to offer their employes a choice of at least three competing health insurance plans. Sen. Schweiker reasons that if insurers are forced to compete more directly, lower premiums and better benefits will result.

To encourage cost-sharing, Sen. Schweiker wants one of the three health insurance plans to require employes to pay the first 25% of their hospital bills out of their own pocket, up to 20% of the family income. The employe would receive as a tax-free rebate the premium difference between the high coinsurance plan and the other plans the employer offers.

"CBO believes the bill would encourage employes to choose plans with more cost-sharing and the use of fewer health services," Sen. Schweiker said before a meeting of the Utah Hospital Assn. "Tax-free rebates and a 25% copayment for hospital services also would be powerful inducements for lowering medical spending," he added.

Pollution liability

The House Subcommittee on Water Resources is now considering legislation (H.R. 85) that would establish a comprehensive oil pollution liability and compensation program.

The legislation would make ship owners and operators strictly liable for oil spills. The measure also would set up a $200 million federal "superfund" to clean up damage if the liable parties can't be determined. Shippers could be held liable for up to $30 million in damages, while oil facility operators' liability exposure would be capped at $50 million.

State enforcement

Sen. Howard Metzenbaum's (D-Ohio) new version of his long-awaited bill (S. 2474) to limit the antitrust immunity insurers now enjoy under the McCarran-Ferguson Act would leave regulation to the states.

Unlike other bills proposed by Mr. Metzenbaum, the insurance industry's most vocal opponent in the Senate, this bill calls for state insurance departments to enforce minimum federal standards. Federal enforcement isn't even a backup measure.

The bill, which sources agree has no chance of passage, would limit rate differentials and guarantee full availability of insurance.

The legislation would bar insurers from discriminating on the basis of sex, marital status, color or occupation unless a job "demonstrably causes increased exposure to loss."

Insurers also would be restricted in rate differentials they set by geographical location. Such rate differentials must be "reasonable, fair and just." This provision is aimed at satisfying consumer groups who have complained, among other things, that auto insurance rates for urban residents are arbitrarily set higher than for suburban residents.

Product liability

The Senate Commerce Committee will begin hearings April 22 on the Risk Retention Act. Committee Chairman Howard Cannon (D-Nev.), who has not yet taken a position on the legislation, is expected to be the chairman of the hearings.

Sen. Wendell Ford (R-Ky.), whose family owns a large Kentucky insurance agency, is expected by government sources to mount a move to kill the measure, *Business Insurance* learned. But an aide to Sen. Ford said the senator was undecided on the bill.

The Risk Retention Act, which is endorsed by the Carter Administration, would allow firms to set up groups to self-insure their product liability exposures under a federal charter. The measure also would permit firms to buy product liability insurance on a group basis—a practice now barred in 45 states.

In another product liability development, Rep. Richardson Preyer, the North Carolina Democrat who ushered the Risk Retention Act through the House of Representatives, has introduced a revised version of the Commerce Department's model product liability bill for federal adoption. Hearings on the Preyer bill will be held April 23, 29 and 30.

Regulator promoted

Morton Klevan, who has been the Labor Department's deputy associate solicitor in the benefit plan security division since 1977, has been appointed deputy administrator of the department's office of pension and welfare benefit programs.

Mr. Klevan, who also served as counsel for fiduciary responsibility in the plan benefit security division, will report directly to Ian Lanoff, administrator of the pension and welfare benefit program office.

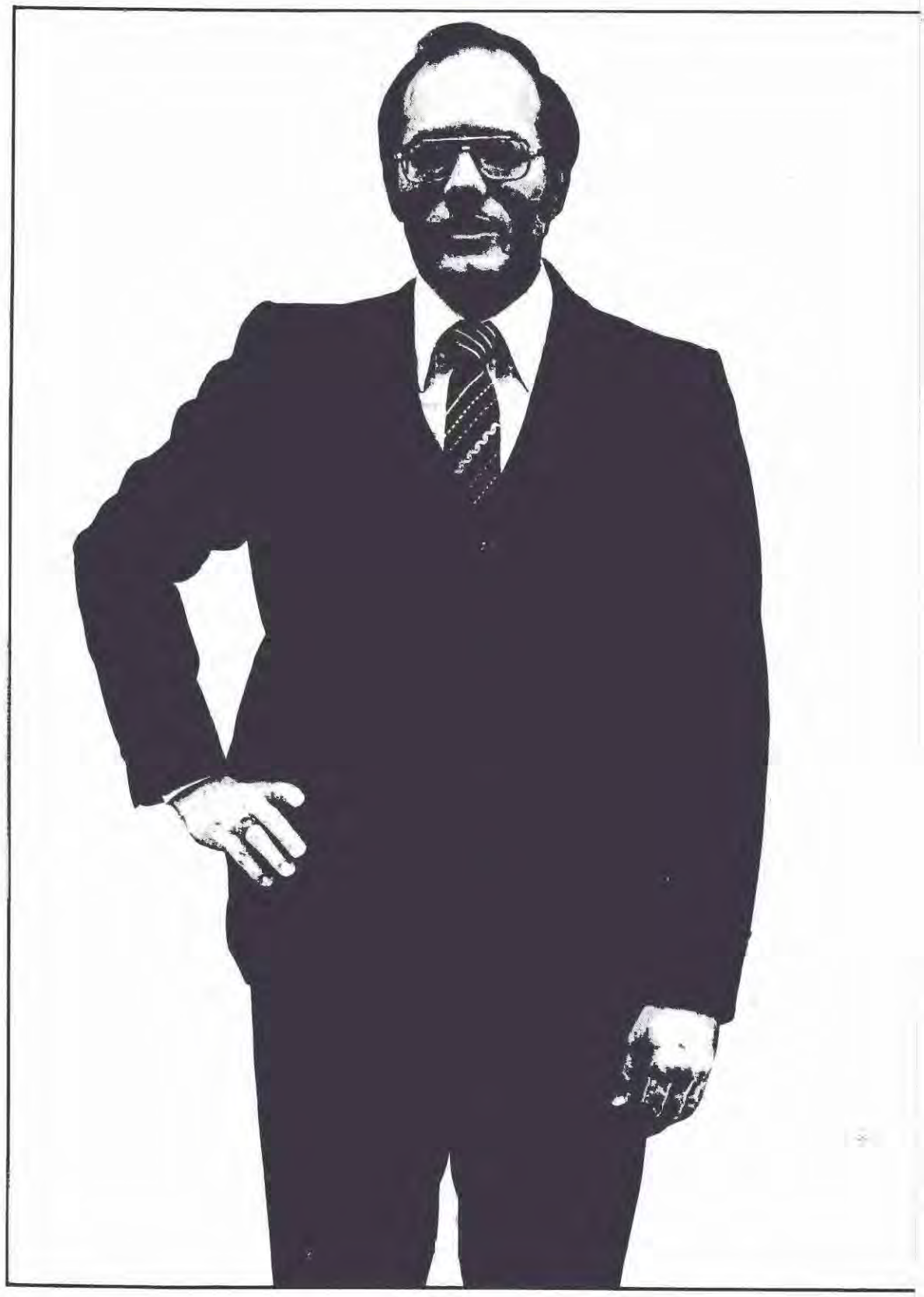
Mr. Klevan replaces J. Vernon Ballard, who retired last year.

IRA contributions

Congress should boost the amounts individuals can contribute toward their retirement in Individual Retirement Accounts and Keogh plans, says the American Institute of Certified Public Accountants.

"Raising the ceiling would prevent inflation from eroding the value of the individual's pension," said Kenneth F. Thomas, director of the AICPA's federal taxation division.

Under current tax law, the annual contributions to an IRA account is limited to $1,500, while the annual contribution limit for Keoghs is $7,500. ■





Some airlines, including Eastern, have returned to the CAB's former, lower liability requirement for cargo claims.

Voluntary liability rules satisfy air freight users

By STACY SHAPIRO

CHICAGO—Self-policing and customer choice is regulating air cargo liability to shippers' satisfaction in the absence of federal regulation.

In the two-and-a-half years since airlines were freed of Civil Aeronautics Board regulation—including liability regulations—shippers can't point to any large unpaid claims.

Most of the major air freight carriers subscribe to voluntary liability regulations and customers avoid those air carriers that don't.

Yet, shippers use air claims chaos to support their stand against lifting liability regulations on truckers, saying liability deregulation harms shippers (*BI*, March 24).

Shippers' few losses under deregulated air freight may be attributable to the small amount of cargo moved by air, suggests William J. Augello, executive director and general counsel of Shippers National Freight Claim Council. "Only 1% of the nation's commerce travels by air," he says.

With that small amount of cargo going by air, even a large unrecovered loss isn't a great financial loss to a shipper who moves far more of his cargo by truck, Mr. Augello argues.

If liability deregulation is transferred to motor carriers, "you've got a monumental problem," Mr. Augello maintains.

Thirty-nine air cargo carriers have avoided claims problems by voluntarily filing a Book One Rules Tariff with the Civil Aeronautics Board that creates liability regulations. These regulations include CAB's recommended $9.07 per pound per piece liability for goods without a declared value lost or damaged or delayed and not less than $50 per shipment or the actual value—whichever is least.

"Air carriers haven't gone willy-nilly in different directions" when it comes to liability standards, says a spokesman for Flying Tiger Lines, the second largest air freight carriers in the world, next to Aeroflat in Russia.

Flying Tiger is one of the airlines participating in the Book One tariff, which requires shippers to file claims within nine months.

Air carriers can file exceptions to the Book One tariff, and 18 have. Airlines like Eastern and United have returned to CAB's former liability requirement of 50 cents per pound per piece with limits on claims filing ranging from 120 days to nine months.

Mr. Augello of SNFCC says this is blanket liability, first instituted in 1861 by the Pony Express. Despite inflation, he says, carriers have kept it at that level. Even the CAB thinks it's antiquated, he says.

Joe Stock, manager of freight claims of Pickwick International, solves this low liability standard by avoiding it. His employes have a list of recommended airlines to fly, among them Flying Tiger, Pan Am, National, Emery Air Freight, American and Air Express International. They all subscribe to the Book One Rules Tariff.

Mr. Stock says he thinks it's ludicrous when carriers aren't responsible for their own actions if they damage or lose merchandise in transit: "Regulation of liability is necessary."

An air carrier can sit on a claim until it is time-barred and it will never be paid, he says, citing one of his experiences.

Pickwick used to fly with Eastern until whole containers of records and tapes were lost en route to San Juan, Puerto Rico. Pickwick filed a claim, and no acknowledgement came.

Eastern said it lost the claim and needed the number. Pickwick then sent three duplicates of the complaint. This went on until the 120 day statute was up and Eastern time-barred the claim.

"Even though we filed during the 120 day time limit," Says Mr. Stock, "We lost the claim. The only

Continued on next page

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Air cargo shippers satisfied

Continued from previous page

recourse is litigation and that's time-consuming and costly."

Pickwick lost $700 to $800 on the claim, not a substantial amount considering the volume it ships.

To guarantee full recovery on lost or damaged goods, shippers have two options other than relying on the carriers' liability.

Shippers can declare a value on the contract of the shipment which raises the carrier's liability limit for carriage. The shipper pays an excess value charge, which varies depending on the carrier, ranging from 10 cents to 40 cents for every $100 over the carrier's liability coverage.

Coverage under declared value includes only loss, damage or delay from carrier negligence. Carriers are self-insured and emphasize that excess value is not insurance.

Shippers can also buy "shippers all-risk insurance" from the airlines prior to shipping. This is not a part of the contract of carriage, but instructions are right on the back of the air bill. All-risk coverage includes acts of God as well as carrier negligence.

Flying Tiger offers all-risk insurance underwritten by Lloyd's of London for 40 cents per $100 of declared value.

United Airlines also offers all-risk insurance underwritten by Insurance Co. of North America for 40 cents per $100 based on the weight of the whole shipment.

Shippers infrequently use either of these options, maintaining that the air carrier's liability usually covers the cost of a lost shipment anyway. "You'd have to buy on every shipment and the cost would be prohibitive," says Mr. Stock of Pickwick.

Mr. Augello advises shippers to read air bills before signing them. "Shippers should be alert for the publication of rules or printed statements on receipts limiting liability, such as one published by a commuter airline stating: 'Not responsible for damage or loss to shipment unless a value is declared.'"

Textronics, a member of SNFCC which ships over 50% of its electronic products by air, has suffered no adverse effects under air carrier deregulation, says a spokesman. But the company seldom has a claim and insures its own cargo. "There may be adverse affects," he said, "but not at this time." ■

Utility risk exec's job plugs into many areas

By STUART EMMRICH

ALLENTOWN, Pa.—The nuclear power books, periodicals and reports crammed into the bookshelves of Don FioRito's office at Pennsylvania Power & Light threaten to push out the normal reading material found in a risk manager's office.

Mr. FioRito, like many of his colleagues, is finding that his job as insurance administrator entails a lot more than buying insurance and settling claims for the company.

PP&L construction of two nuclear power plants has catapulted Mr. FioRito into regulatory, safety and budgetary issues.

The two plants are scheduled for operation in 1982 and 1983. Since PP&L is located about an hour's drive from the nuclear accident site of Three Mile Island, company officials know firsthand that public reaction to any problems with their plants would be damaging. Mr. FioRito is involved in renewing the $26 million wrap-up program now insured by the local Pennsylvania Manufacturers Assn. He is keeping tabs on efforts in Washington to raise liability limits on nuclear plants and to beef up safety procedures at the plants.

And he is a member of the insurance committee of the Atomic Industrial Forum, which expects him to submit a response to the Rep. Morris Udall (D-Ariz.) bill that would radically change the Price-Anderson act.

PP&L also expects regular reports from Mr. FioRito on rising costs of insurance and safety measures required at the plants that could influence the company's decision to proceed or halt the projects (*BI*, March 24).

All of that takes a lot of work and reading. "A person can almost go batty trying to keep up with all this stuff," Mr. FioRito says as he looks around at the burgeoning shelves in his office.

Nuclear power, however, is only one part of Mr. FioRito's far-flung job.

With five major power plants, and 40 substations, each valued in excess of $1 million, the property program is almost enough to keep one person busy. The covered property is insured "to value" of more than $1 billion.

The blanket policy has been insured with Philadelphia Manufacturers Mutual Insurance Co., a Factory Mutual System company, since 1971 and carries a deductible of $250,000. The premium is in excess of $1 million on an annualized basis and includes excess boiler and machinery coverage.

The first $2 million of boiler and machinery coverage is written by a Bermuda-based industry captive, Utilities Services Insurance Co., at a premium of more than $250,000, Mr. FioRito said.

The various property coverages illustrate to some degree two facets of PP&L's insurance department: a tendency to eschew the use of brokers and a constant search for ways to save money.

Mr. FioRito says he often places coverage directly with the insurer, rather than going through a broker, particularly when it involves Pennsylvania Manufacturers Assn., with which PP&L has built up a fairly close working relationship.

"We don't use brokers that much," says Mr. FioRito. "We don't always need them and we don't want to pay the commission if we don't have to."

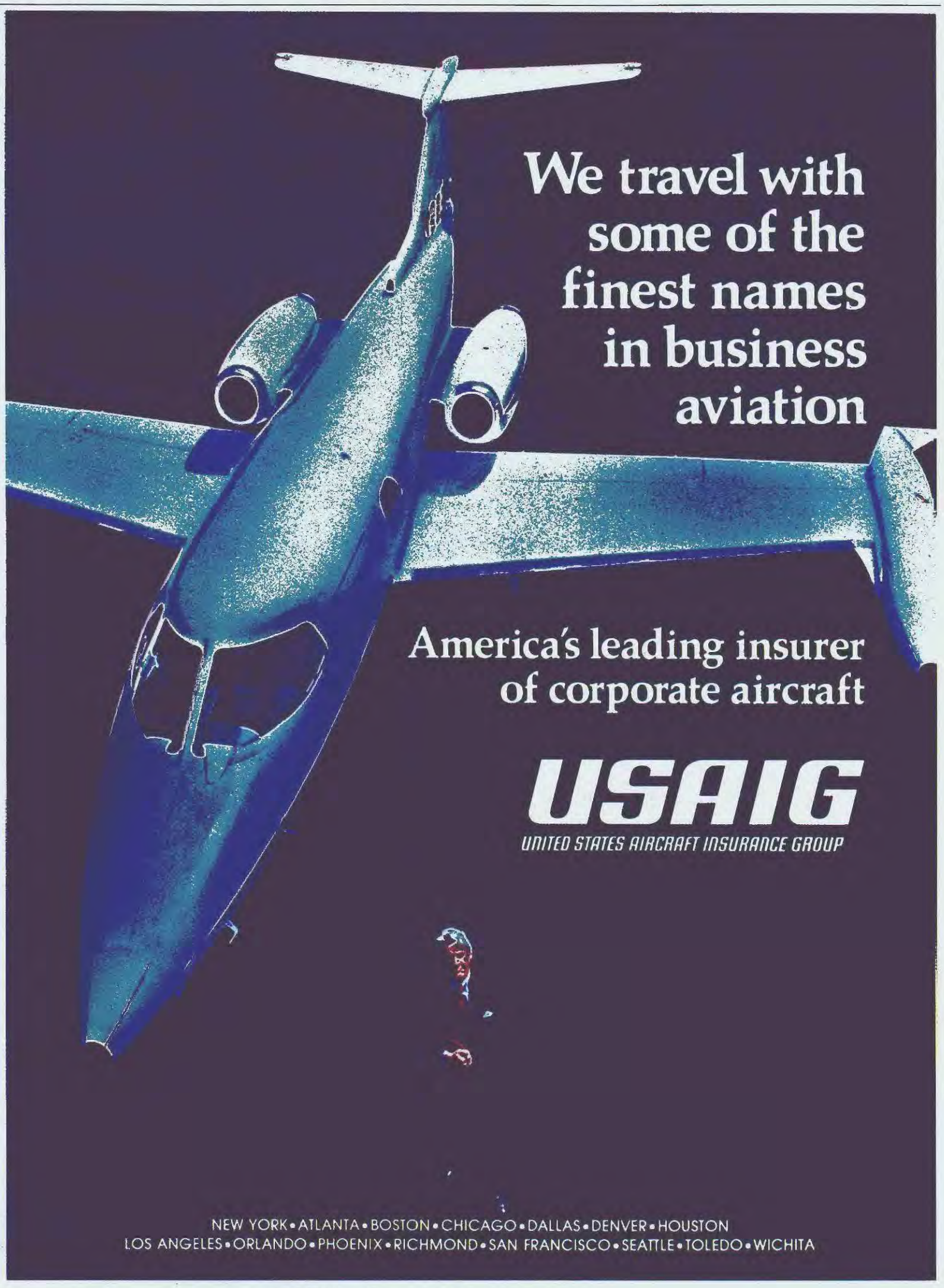
Mr. FioRito is also looking to save PP&L money by reviewing its long-standing relations with the Factory Mutual System. At issue is that firm's premium deposit requirement, which can tie up an insured's money for up to 10 years. At a time when interest rates are approaching 20%, that represents a large chunk of cash.

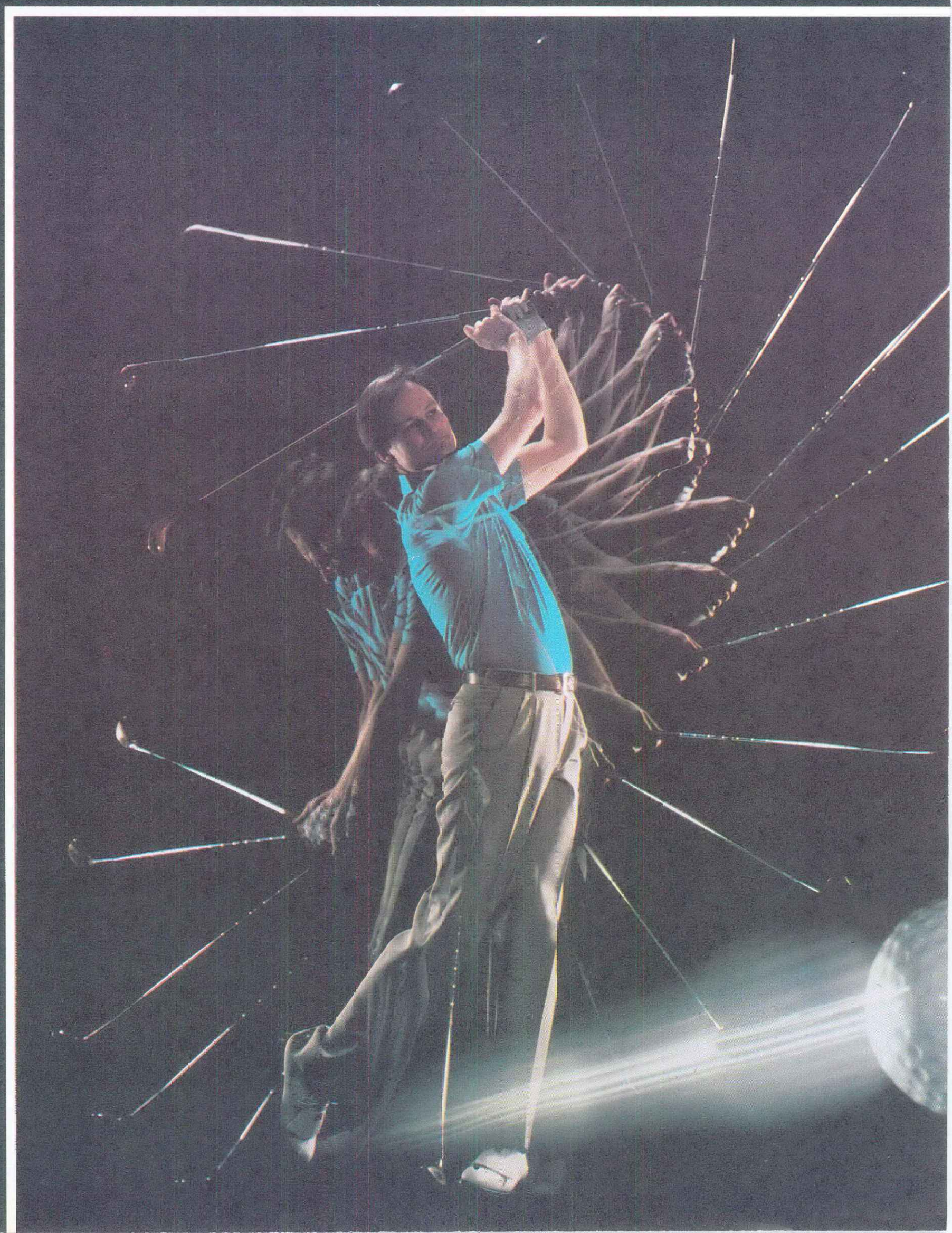
"We are going to have to take a look at the cost of money and discuss with them this premium financing," Mr. FioRito says. "We haven't considered switching the coverage (because of the deposit requirement) but we might if we

Continued on page 14



Photo: Stuart Emmrich





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Pa. utility's risk exec plugs into new areas

Continued from page 11

find something competitive."

Casualty coverage for the company is also a complicated task, particularly since among the PP&L's operations is the Pennsylvania Mines Co., a coal-mining subsidiary.

Workers compensation, for instance, requires two programs. Everyone except the miners are insured under a modified cash flow plant plan with Pennsylvania Manufacturers. PP&L pays 12 monthly installments based on what it thinks its losses will be that year—averaging around $500,000—and PMA settles and investigates claims.

Workers compensation for the miners is self-insured. A black lung benefit trust was set up in 1978 to handle those losses. Funding is $2 million a year, which Mr. FioRito said has been "more than adequate to handle our losses," and is a substantial savings over what the company might have to pay in insurance premiums—$58 per $100 of payroll.

The company is now trying to determine exactly how much is being saved with the trust plan, but a quick analysis is thwarted by the fact that of 80 claims filed last year, only about 10% have been settled.

Other workers compensation losses from the mines amount to about $1 million a year, he said.

The company's first $15 million of liability coverage, beginning at $500,000, is written by USICO. Excess insurance of more than $50 million is underwritten by foreign and domestic carriers, including Lloyd's of London, Aetna and National Union. Bayly Martin & Fay brokered most of the coverage.

Within the first $500,000 casualty layers, PP&L buys a $100,000 policy from Pennsylvania Manufacturers. That policy has a $50,000

Calculating need

"We have to look for the maximum loss potential when we look for insurance," Mr. FioRito says.

deductible and is purchased mainly so that PP&L has an outside firm to come in and do most of the claims administration. PP&L, therefore, retains the $450,000 of a $500,000 casualty loss.

"We have our own claims unit, but we prefer to have PMA settle claims," Mr. FioRito said.

The kinds of policies that Mr. FioRito goes after and the kinds of limits he needs are a reflection of the industry PP&L is in.

"When we have a loss, generally speaking it is going to be a large catastrophe-type loss. We have to look for the maximum loss potential, the probable loss we can incur, when we go out to look for insurance," he explained.

It also means looking for insurance that might not be a standard offering in the marketplace.

The company has an extra expense policy to cover any losses in its fossil fuel operations that would force it to shop elsewhere for power for its customers. The $100 million policy, which carries a $12.5 million deductible and was placed with the FM system, is somewhat similar to a policy now being offered nuclear power plants by an industry captive (*BI*, Nov. 26, 1979). But it was a bit out of the ordinary when PP&L went looking for it five years ago.

"Since Three Mile Island, however, other companies have started to request it and it has gotten a lot of publicity," he said.

"We are not going to go out shopping, but now we know there are other markets available and we want to make sure that our prices are competitive," Mr. FioRito said. He declined to disclose his company's extra expense insurance premium, except to say that "we are talking about big dollars."

There is also another job for the 44-year-old Mr. FioRito. He is president of the year-old Central Pennsylvania RIMS chapter. ■



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Lloyd's ignores own underwriting rule

By JOHN H. MILLER

LONDON—Lloyd's of London attorneys are poring over the possible implications of an ignored underwriting rule that requires all insurance to be transacted in the underwriting rooms of Lloyd's.

Members of the Sasse Syndicate have raised the issue to try and recover for their heavy losses on business that was underwritten for them outside of Loyd's underwriting room under a binding authority.

Lloyd's says that the rule is obsolete and that most auto insurance, both commercial and domestic, is underwritten outside Lloyd's. A large amount of nonmarine business is transacted throughout the world under binding authorities and so is some marine and aviation insurance, Lloyd's says.

Lloyd's intends to continue accepting risks through binding authorities unless the courts order it to stop. Hearings on the Sasse suit have been deferred until at least January.

New group plan

Wigham Poland broking group has arranged the first government-paid personal accident cover for all U.K. members of Parliament at a group premium of $52,000—underwritten by Royal Insurance Group.

The plan was created when one MP, Arthur Bottomley, was hurt on an escalator in the Parliament House last year and found there wasn't any compensation. He pressed for a change in the rules.

Satellite rates

Higher premiums for commercial satellite insurance are expected at Lloyd's, which is paying the $77 million claim by RCA Corp. for the loss of its Satcom III. The satellite vanished in orbit in December (*BI*, Dec. 24, 1979).

Geoffrey Hargreaves of the C.T. Bowring group predicts there will be a rate review, although at the moment there is a slight lull in space projects.

The RCA loss is the heaviest to hit the market since space cover was introduced. Previous big losses were a European satellite covered for $28 million which was lost on takeoff from Cape Canaveral in 1978, and a $15 million Japanese satellite lost in mid-air last year.

Marine fraud

Marine insurers are being pressed for better cooperation with worldwide police authorities in efforts to crack down on the huge shipping frauds which are plaguing the market.

Shipping experts in London are planning to set up a "quick response" team which will be ready to travel to any part of the globe to help local investigators if they suspect bogus insurance claims are being lodged.

These ideas came from a committee headed by the U.K. Institute of Chartered Shipbrokers which has been studying the problem in cooperation with Eric Ellen, head of the Port of London police authority.

"Shipping frauds have become the near-perfect type of crime because some intermediaries are prepared to negotiate with their perpetrators in the hope of getting back money they may otherwise lose," says Mr. Ellen. "But it is a grave indictment on insurers if they have a claim which clearly should be reported to the police and then fail to do so because they would sooner protect their own position over it. Evidence is needed to convict the gangs responsible for these swindles."

Delegates from the Lloyd's market, as well as from P&I clubs, have joined the shipbrokers to stamp out fraud. The aim of quick-response teams would be experts sent abroad to cooperate with crime prevention authorities if highly sophisticated insurance swindles are suspected.

The International Chamber of Commerce also intends to open a maritime bureau which will advise on the intricacies of shipping frauds.

Meanwhile, Greece is moving to tighten its national criminal laws in order to trap those involved in fraud more quickly.

london line

Disaster forecasts

Earthquake losses from the U.S. might reach $50 billion if San Francisco is hit by a disaster as big as the 1906 one, insurers in the U.K. have been warned.

Experts are now predicting that the world is entering an era of rising perils activity with greater exposures being created through movements of population being drawn towards hazard-prone areas.

"The westward movement of people towards California, the development of the Tokyo-Yokohama area and the growth of population in the hurricane-prone part of the Gulf of Mexico are creating huge conurbations," Peter Butler of the Royal Insurance group told the Insurance Institute of London.

"They are of vital importance to insurers. Because while Hurricane David and other storm and flood events have been serious, they pale into insignificance against estimated losses when Tokyo is hit by an event equivalent to its 1923 quake, or San Francisco by another 1906 catastrophe."

Estimating that the "Big One" will cost $200 billion in Tokyo and $50 billion in San Francisco, Mr. Butler, a prominent catastrophe peril underwriter, explained: "I deliberately say 'when' a Big One will occur, and not 'if'. For I believe such an event is certain to happen. At present there's no agreed possibility of predicting earthquakes.

"Several lines of study are in hand, not least in China. But if prediction becomes possible, insurers will be deluged with requests for cover as soon as a forecast is known. If they issue the cover, what will the effect be on their finances if the event really does occur?"

But if insurers refuse earthquake cover in such circumstances, Mr. Butler pointed out, there will be a public outcry and governments will be pressed to take over their responsibilities.

AIRMIC conference

Risk managers from the U.K. and other countries will attend the

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annual conference on current insurance problems scheduled by their organization AIRMIC for May 14 in London.

Trans-Atlantic influences will be examined by speakers including Bob Kiln of Lloyd's and E.S. Clark of Alexander & Alexander, who will discuss global cover.

The Assn. of Insurance & Risk Managers in Industry & Commerce, which is running the conference, will also schedule a panel of speakers for a question-and-answer debate.

U.K. safety award

Winners of a safety award sponsored by brokers Sedgwick Forbes Bland Payne will attend the U.S. National Safety Council's congress to be held in Chicago later this year.

The award is designed to encourage cooperation between management and employes at industrial plants on problems of health and safety at work and to promote loss prevention methods.

Broker loss

Lloyd's broker Brentnall Beard suffered a $2.7 million loss on its trading operations last year, a loss the company blames on unwelcome publicity over the Sasse affair.

"The continuing inquiry by the Committee of Lloyd's into the Sasse Syndicate and the publicity which this attracted has seriously affected group ability to get new business in the U.S. and Canada," chairman Maurice Fullerton told stockholders in the latest annual report.

"Much increased effort has been needed to explain the problems to existing clients, and we have also felt the effects of a general recession in the insurance industry which has affected most Lloyd's brokers."

The firm has been criticized for producing much of the bad risk business that hit Sasse for more than $40 million in losses in 1976-77.

The group's future largely depends on a speedy and satisfactory conclusion to the Lloyd's inquiry, opened nine months ago against Brentnall Beard International and three of its directors, who have now left its executive board (*BI*, Aug. 20, 1979).

But as Brentnall Beard International is a third-party defendant in the Sasse lawsuit, already contested by Lloyd's and various U.K. underwriting agencies, the firm believes it is premature to predict its own contingent liabilities in the affair.

Tanker wreck

Lloyd's insurers and the company market are liable for the whole $4.7 million cargo coverage on the 27,700-ton Madagascar tanker Tanio, which recently broke up in storms off the Brittany coast near the site of the 1978 Amoco Cadiz disaster.

Small oil slicks threatened the French coast but soon disappeared, and workers are trying to recover some of the Tanio's oil cargo. The tanker's $7.5 million hull value was partly reinsured in London after originally being placed through Madagascar.

CU expenses up

Commercial Union, which has invested heavily in its U.S. operations in the last few months (*BI*, Nov. 12), expects expenses will reach their peak this year but that few rate increases will be granted because 1980 is an election year, says Cecil Harris, North American executive director.

U.S. premium income hit $968 million last year, just short of CU's $1 billion target, compared with $859 million in 1978. Two-thirds of the premiums came from commercial lines. The group's statutory underwriting loss of $41 million last year was in line with the general downturn, but more than 50% of the loss came from private auto coverage.

Royal Insurance, which turned in a net underwriting loss of $18 million on its U.S. business last year against a $21 million profit in 1978, was hit by storm, workers compensation and auto claims. General Accident had a $2.2 million profit against a $10 million loss, with workers compensation causing large losses.

Fire loss

More than 40 U.K. insurers face a record $180 million in losses in the aftermath of a blaze two months ago at a British Aerospace plant in Weybridge, Surrey County.

The figures are just emerging after loss adjusters prepared a report for Commercial Union, which leads the risk but says it does not expect to pay out more than $4.5 million.

The loss is the biggest ever recorded by the British Insurance Assn. outside of war damage, far outstripping the Flixborough blast (about $80 million) in 1974 and well above last year's $21 million fire loss at an auto component plant in Lancashire County. The recent catastrophe represents more than 20% of the U.K.'s normal annual fire losses.

Spare parts for six kinds of aircraft from around Europe and the world, including the supersonic Concorde, were destroyed when their storage depot burned. The spare parts were stacked together in one unsprinklered building and represent the major part of the loss. The building cost only $4.5 million.

Apparently fire broke out after an electrical fault in a nearby building blasted open a connecting door to the storage warehouse and set cardboard packing cases on fire. Oxygen bottles among the components were feared to have added to the blaze.

"It looks as if we put all our eggs in one basket and it's going to take 12 months to get the final loss figures worked out as hundreds of thousands of components were destroyed or damaged beyond repair," a plant official said. But he declined to say what risk prevention procedures might now be introduced at the plant.

Acquisition

London United Investments, owner of H.S. Weavers underwriting agencies in the U.K., has been expanding into the U.S. market in recent months and has completed its 80% purchase of R.L. Jarrett Underwriting Agency in Texas. The new move will extend the firm's underwriting interests in the U.S. and will also enable it to enter brokerage activities. ■

College sets summer sign-up

NEW YORK—Registration for evening division summer classes at The College of Insurance is 11:30 a.m. to 2 p.m. and 4 to 6:30 p.m. April 23-24 at the college, 123 William St., New York, N.Y. 10038.

Term one begins April 28 and ends June 19. Registration for the second term will be June 19, with classes running from June 23 to Aug. 7.

Tuition for students from firms sponsoring the college are $88 per credit hour for undergraduate and $106 for graduate courses.

Fees for all other students are $99 per credit hour for undergraduate and $116 for graduate classes. There is an $18 registration fee, payable only once if a student registers for classes both terms. ■

In reviewing health care coverage, a lot of executives make a false assumption—that health care costs will be the same no matter who the carrier is. After all, the same people will get sick and incur the same costs. The only variable is what the carrier charges for administering the program.

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Safety Council clarifies the cost of work injuries

action line

Action Line: I was interested in a statement in an article in the Feb. 25 issue of *Business Insurance*. You quote Vincent Tofany of the National Safety Council that each lost workday costs an employer an average of $10,000 to $14,000.

We are attempting to reduce our lost workdays by making supervisors aware of their costs, but these figures seem too excessive for general credibility.

Could you give me some idea of what goes into those dollar amounts? Any information would be most appreciated.

Susan Salomon
Financial assistant
Powers Chemco, Inc.
Glen Cove, N.Y.

Irving Etter, who began the loss control consultation study at the National Safety Council, says the wording in our Feb. 25 article should have been, "Each lost workday *case or injury* now costs an employer an average of $10,000 to $14,000." The average is found by dividing the 2.2 million disabling injuries reported in 1978, whether they were for one workday or two years, into $23 billion, the 1978 national cost of work accidents.

For further statistics, Mr. Etter suggests reading Accident Facts, 1979 edition, which the National Safety Council distributes for $7.00. If interested, write to the National Safety Council, 444 N. Michigan Ave., Chicago, Ill. 60611; 312-527-4800.

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Business Insurance does not recommend service firms or consultants, but you can take a look at the directory of consultants in the Feb. 18 issue and the addendum published in the March 24 issue. After seeing your letter, though, local consultants will probably come knocking at your door soon.

•

Action line will answer readers' requests for information. Have a question regarding insurance or your profession? Write Action line, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611.

Con Ed plans award appeal

NEW YORK—Consolidated Edison will appeal a jury decision finding the company liable for a $5 million punitive damages award to a woman injured in a darkened hallway.

Con Ed is not insured for the award.

The power company had shut off electric service to a Brooklyn building in May 1975 after the manager was delinquent in paying its bill. Gloria Hall, a member of the building tenant council, was allegedly walking an elderly couple down the darkened stairway when she slipped on wax that had dripped from a candle.

Mrs. Hall was so severly injured that she couldn't continue working as a clerk for Metropolitan Life Insurance Co., according to testimony.

The Lefrak organization, owner of the building, refused to comment on its $4 million share of the $9 million award the jury granted to Ms. Hall. ■



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Meenaghan spices up Fireman's Fund wares

By RHONDA L. RUNDLE

someone you should know

SAN FRANCISCO—The Fireman's Fund is a "plain vanilla" insurance company that's about to add new product varieties to tempt the modern risk management palate, declares James J. Meenaghan, executive vp of the conservative, 117-year-old company.

"This is the story of a big company learning to adapt to a changing world," explains Mr. Meenaghan, chief of the Fireman's Fund's commercial division. Historically, he says, the company has stubbornly stuck to orthodox insurance underwriting with an almost religious fervor.

Today, Fireman's Fund's aggressive pursuit of non-risk bearing revenues is raising eyebrows. Within the past several months, the San Francisco insurer has plunged headlong into the surplus lines brokerage business and launched a new national accounts division to market sophisticated risk management services.

Both steps would have been unthinkable just a few years ago, contends Mr. Meenaghan.

In a major policy speech to the Annual Convention of Tennessee Insurors last fall, Mr. Meenaghan dramatically described the economic forces which he thinks will transform the "fierce" underwriting competition of the 70s into the "deadly" competition of the 80s.

The brave new insurance world of the future will encompass many more billions of dollars of risk capital, he said. "The players will be bigger and stronger," he stressed, and "in my judgment, only the fittest will survive."

Commercial insurance appetites are changing, too, he noted. The risk manager used to buy one product five years ago; now he buys something else. Increasingly, corporations prefer to pay their own way or buy risk services along with insurance.

Fireman's Fund has a choice—to stick its head in the ground or to adapt, sums up Mr. Meenaghan. "Our decision is to adapt."

Out of this decision sprang the national accounts and risk management services division six months ago to sell client services. Headed by heavyweight underwriter Creighton White, senior vp, the division is staffed with over 60 of Fireman's Fund's top-notch financial analysts, claims specialists, EDP programmers and underwriters. A couple of corporate risk managers have been hired to strengthen the team.

Fireman's Fund is hardly the first insurer to take this route, Mr. Meenaghan admits. INA Special Risks and AIG, to name two, have made similar moves, he observed. "But we're bringing something the others aren't," he maintains. "Besides a first class team of hand-picked professionals in San Francisco, we're going to have national accounts people in the field."

"Our competitors have centralized their risk management services in New York or Hartford," he continued. "The national accounts arm of the Fund already reaches into 26 branches—in large cities around the country. And these offices have 'put to bed' authority," revealed Mr. Meenaghan. Only the truly jumbo risks will need underwriting approval from the home office, he said.

Although still in its infancy, this risk management extension is stirring up notice in the marketplace, reported Mr. Meenaghan. "And I don't hear that from inside here," he declared, "but from my counterparts in other companies!"

One of the most tempting new varieties of the risk management products is the paid-loss retrospectively-rated plan, an attractive alternative to self-insurance on big workers compensation risks, says Mr. Meenaghan.

"With interest rates pushing 20%, people are reluctant to give up their cash," he said. Insurance is no exception. In a paid-loss retro, the policyholder pays a deposit premium up front and gives a letter of credit for the balance. The policyholder keeps a grip on his cash until claims are paid, when his company is billed by the insurer for losses and handling.

"This has been a terrific tool for us," said Mr. Meenaghan. "It's an answer for the customer determined to enjoy the cash flow bene-

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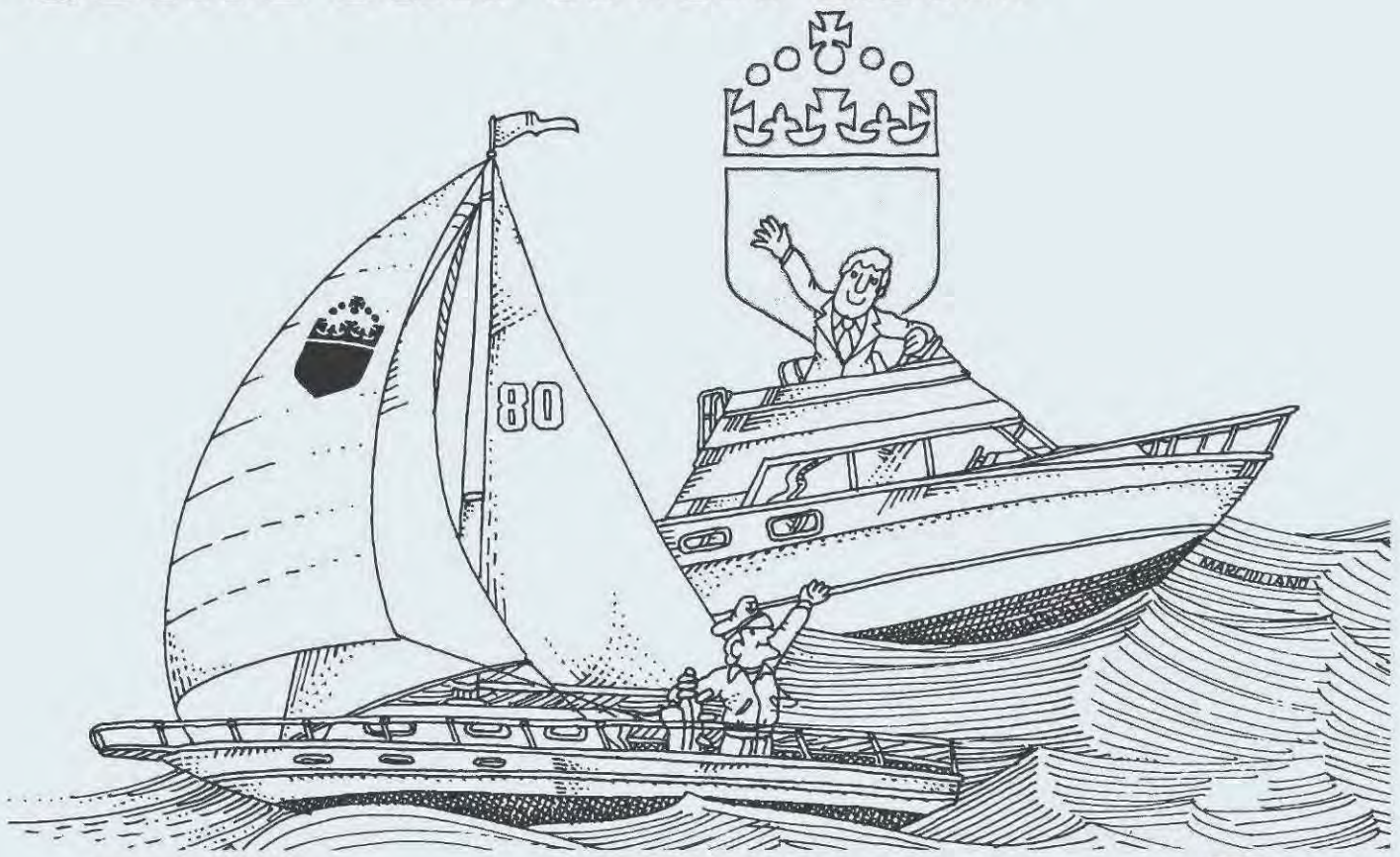


Photo: Rhonda L. Rundle

Catering to new appetites

James J. Meenaghan, executive vp of Fireman's Fund's commercial division, is directing a product overhaul to adapt the insurer's products to the demands of buyers.

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Meenaghan plays down fronting plans

Continued from previous page
fits of self-insurance. Yet the paid-loss retro guarantees all the traditional benefits of insurance to the buyer, including claims services and tax deductible premiums with no questions asked by Uncle Sam."

Unfortunately, the California department of insurance wants to take the product off the market. Last fall, the commissioner asked Fireman's Fund and other companies to stop writing paid-loss retros until the department could complete an investigation (*BI*, Nov. 26, 1979). On the face of it, those plans appear to violate California's minimum rate laws, said the state's chief of rate regulation. A final ruling is expected shortly.

"We think we're right," insisted Mr. Meenaghan. "After carefully examining the law and the plan in great detail, we don't see any problem."

Some brokers in the state are wagering that the Fireman's Fund is prepared to take its cause to court, if necessary. Mr. Meenaghan declined to confirm that speculation, however.

"I like to think we won't need that recourse," he said. "If the ruling is negative, it will be very specific, pointing to a particular aspect of the plan the department disputes." To comply with the law, the plan might need adjustments, but Mr. Meenaghan doubts that the paid-loss retro would have to be completely abandoned.

"Buyers are demanding innovative alternatives to insurance such as this," he reasoned. "If they can't find them with us, they will be forced to seek them outside the protection of rate regulation. But that won't be our decision," he added.

Fireman's Fund doesn't want to shut the door on any new business, continued Mr. Meenaghan, but he conceded that the company is less than overjoyed at lending its name to fronting arrangements (issuing policies for risks reinsured in the policyholder's captive or self-insured).

"Let's put it this way," he said. "Our first ambition is to sell insurance. Our second goal is to sell less insurance, but combined with services. Our third objective is to sell services without insurance at all. Our last and final objective is to sell neither insurance nor services, but to give a client a policy with our name on it, and let him get all those other things somewhere else."

Fronting arrangements are complicated contracts that for the insurer may not be worth the fees charged, hinted Mr. Meenaghan. "The good name of our company is at stake as well as a legal obligation in the eye of the state. In addition, we have to worry about the security of the captive and the soundness of reinsurance," he pointed out.

As part of its goal to be more attractive to insurance, Fireman's Fund is in the closing phases of acquiring a surplus lines brokerage firm and a surplus lines underwriting company. The acquisitions will take the company into the nonadmitted, surplus lines field of the insurance industry for the first time.

"This puts us into a whole new dimension," enthused Mr. Meenaghan. The agreement calls for The American Insurance Co., one of the Fireman's Fund companies, to acquire the Interstate Insurance Group and the Geo. F. Brown Inc., brokerage operation from National Student Marketing in Chicago for $54 million.

"Interstate is a fine company which writes over $100 million in premium," said Mr. Meenaghan. "And the acquisition of Geo. F. Brown moves us five years out on our planning horizon for brokerage business." Last year, Fireman's Fund started up about 10 brokerage offices of its own.

Fireman's Fund is also pursuing other methods of finding buyers. One outcome is a new operation, called the rural markets department, which will handle personal and commercial lines business outside urban areas, says Mr. Meenaghan. "We're frankly copying some successful practices of the regional companies that have historically dominated this market," he said. ■

Choice business

Fireman's Fund is most interested in selling insurance, then insurance combined with unbundled services, then services, and least of all fronting programs, says executive vp James Meenaghan.



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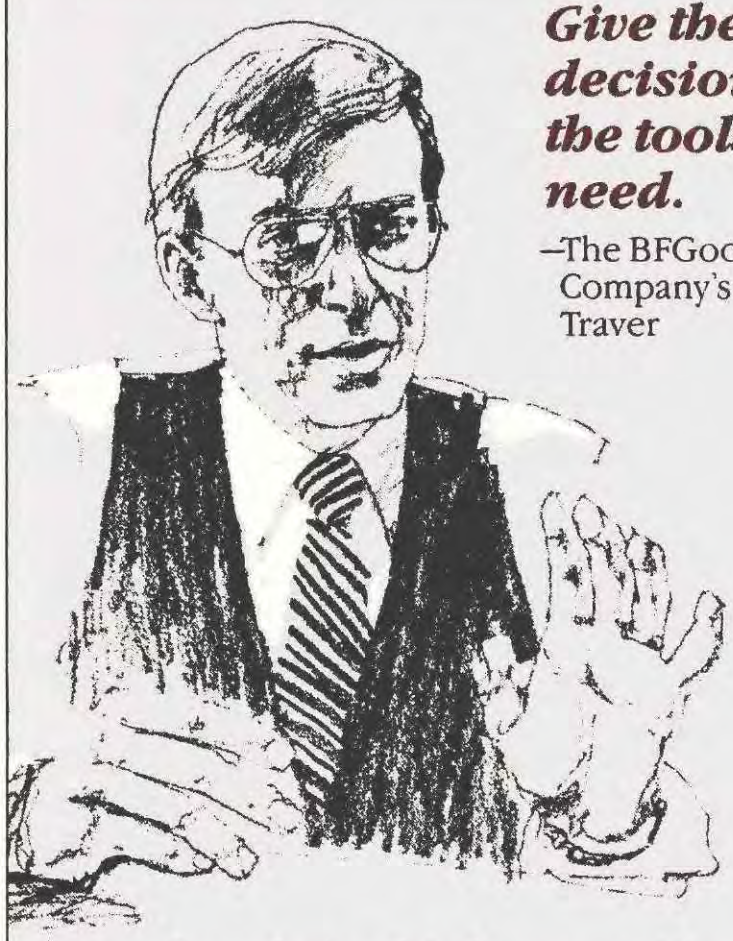
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Financial Strategies

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Give the decision-makers the tools they need.

–The BFGoodrich Company's Traver

Holding the line on total risk expense in a major manufacturing company involves a complex set of techniques: self-insuring, cash flow programs, and – perhaps most crucial – analysis of loss experience for projecting future costs. Spencer J. Traver, Assistant Treasurer of The BFGoodrich Company, has taken the latter step to a high degree of perfection.

For each of BFG's approximately 900 operating centers, loss experience figures are compiled for the previous five years. "The tremendous amount of data cranked in," says Traver, "means that forecasting our future losses is unusually accurate."

Operating center managers are given a set of optional plans at the start of each fiscal year. One details the insurance expense necessary if no substantive changes are made from the prior year. Another option, based on computer modelling, sets up the cost-value relationship between risk coverage and new loss control steps.

Traver comments: "Each center can choose the alternative best suited to revenue projections and other factors." By use of this highly analytic system, linked to BFG's management-by-objective program, casualty/liability risk costs have held about even in the face of industry growth that exceeds 20% per year – and property risk costs have declined by 36%.

A multinational firm, according to William L. Mather, Administrator of Risk Management for The Gillette Company, doesn't necessarily have to buy all its overseas property coverage at the high rates that often prevail locally.

In Gillette's case, when the company determines that an overseas exposure is costing more than a comparable U.S. exposure (.20-per-$100, for example, as opposed to .10-per-$100), corrective measures are taken. "In countries which permit the practice," says Mather, "we export the reinsurance back to our offshore captive."

An admitted national carrier writes the basic property coverage for Gillette at prevailing



Cost analysis tells us when to go offshore.
–Gillette's Mather

rates – assuring that the policy is in compliance with local laws and regulations. But the carrier retains only part of the risk, with the majority being reinsured by the Gillette captive. When the two premiums are averaged, the high rate of .20-per-$100 can be substantially reduced.

Mather sees this as a viable way of smoothing out differentials between U.S. and overseas property-coverage costs.

Careful examination of a company's balance sheet can often give a brokerage firm clues about which type of cash flow insurance program to recommend. The Advanced Risk Management Division of Corroon & Black noted that one client had large amounts of short-term debt with its lead bank.

"After studying the company's position," says Jake Wallace, Director of this division, "we felt that a compensating balance offset plan could save the client significant dollars in his casualty program."

Under C&B's recommended compensating balance plan, premiums are "substituted" for cash balances. The insured pays an annual premium – in toto – to the carrier. After deducting expenses, the carrier then deposits a major portion of these funds in the company's bank. Result: immediate reduction of the compensating balance position.

The more knowledge, the more gain.
–Corroon & Black's Wallace



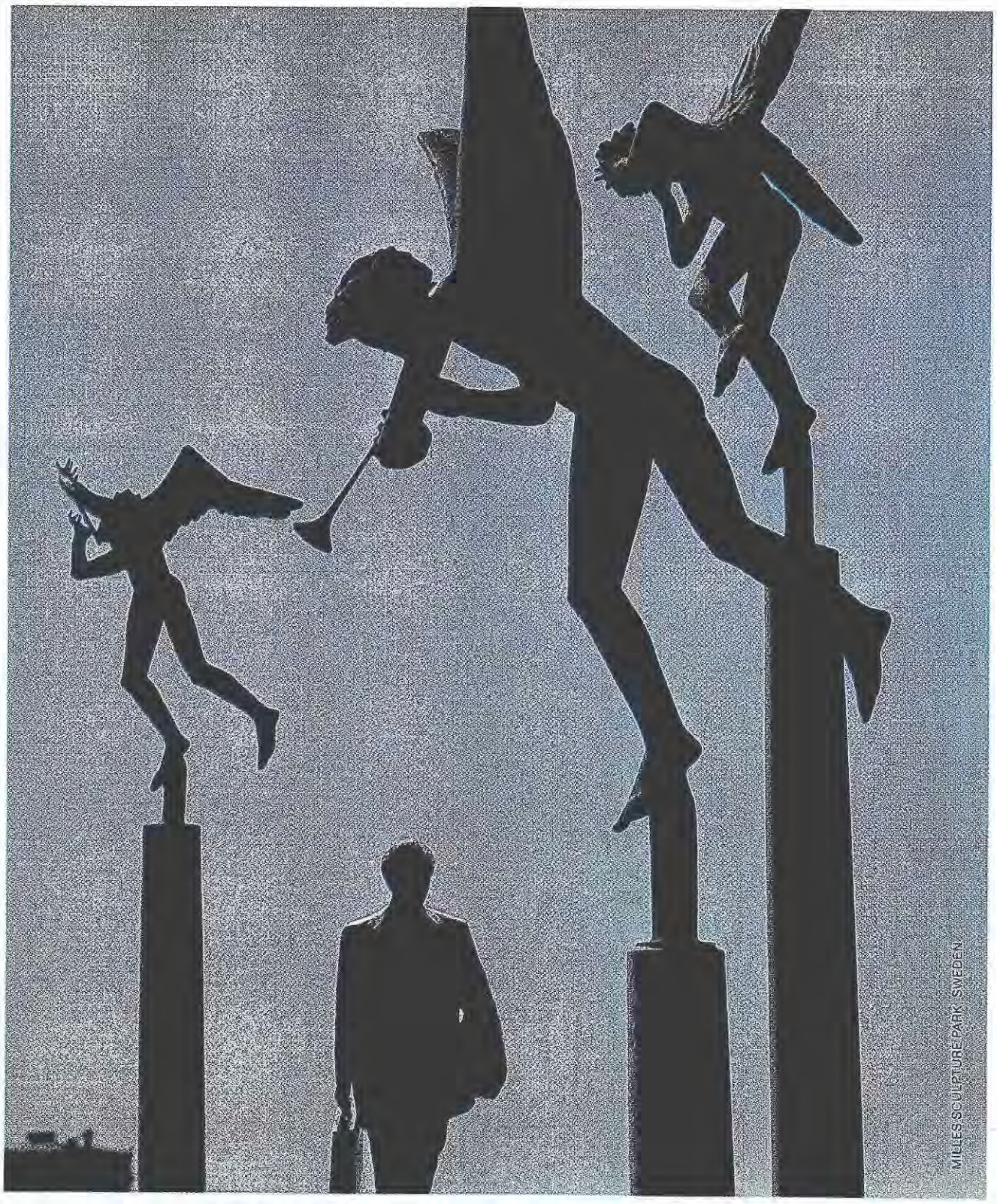
Over three years, the Corroon & Black client has had a net gain in working capital of over $20-million. Jake Wallace again: "This is a perfect example of how in-depth financial analysis leads to cost-effective risk coverage." INA supports the type of strategic thinking demonstrated by this program – and, in working with brokers and insureds, provides coverage that enables compensating balance plans to go into effect.

Decision-making in business insurance has never been more complex. And the financial implications have never been greater. Today, devising cost-effective insurance programs requires knowledge, experience, capacity – and a complete range of products and services. Flexibility and the willingness to innovate are also essential.

INA's ability to combine these elements can assist you in developing practical solutions, new approaches, and better strategies. Consult the professionals. Write directly to John Cox, President, INA Property-Casualty Group, 1600 Arch Street, Philadelphia, PA 19101 or call (215) 241-2729.

The resources to do it all, the strategies to do it right.

INA
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BUSINESS INTERRUPTION AND GLOBAL POLICY.

Allendale Insurance is well known for its technical expertise in industrial loss prevention. And its ability to turn that knowledge into real protection. But some losses are inevitable. So it's reassuring to know that our people are also proficient and imaginative when it comes to helping our clients recover from a devastating loss.

It took some fancy globe-trotting recently to replace a ruptured 12-foot, 100-ton "Yankee Dryer" roll in one of American Can's paper mills. Having a new roll custom-fabricated would have meant a downtime of two years. And a loss valued at $100,000 a day. But our global reach and persistence paid off. The only suitable "Yankee Dryer" roll existing in the world was discovered within weeks in Carlsbad, Sweden.

Getting the roll from the interior of Sweden to the middle of Alabama, USA, was no small challenge. It took some sophisticated international distribution management to bring it off. Especially during a stormy January.

Five months after the interruption, American Can's tissue paper line was back in production. All through the joint efforts of Allendale, American Can, the fabricator, riggers and numerous consultants. Ed Alheit, Risk Manager of American Can, put it in perspective, saying: "We couldn't have done it in such a short time without Allendale."

What our loss adjustment professionals accomplished with American Can certainly isn't routine. Nor is it extraordinary for us. After helping insureds recover from losses for close to 150 years, we're used to going to great lengths. And for the important companies Allendale insures, that can make a world of difference.

Allendale Mutual Insurance Company,
Allendale Park, Johnston,
Rhode Island 02919.

Factory Mutual System

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perspective

Corporate aircraft

Growing executive use demands risk managers master the aviation risk

By Jay Lavenson

WILL YOUR G-III OR HS-125 operate under Part 91 or 91 Sub-Part D? Do your PIC requirements call for an ATP? Should your hull deductibles be NIM/IM or GD/FTI? What are the differences in tax impact of VS as opposed to travel accident coverage? Can NBAA help you as a risk manager?

These and other acronyms are the common mark of familiarity—and, hopefully, knowledge—with general aviation of which corporate aviation is a vital and rapidly growing part. To help the risk manager get a handle on this small but high risk potential, let's see just where it is in corporate importance.

Corporate planes are the tool or toy of very senior management. They are a status symbol, a unique sales tool, the heart of management mobility and the pride of many of the most profitable Fortune 500 Companies.

The Civil Aeronautics Board Deregulation Act of 1968 has fueled airline competition to the point where large commercial carriers are competing heavily with higher payloads and are entering or leaving new routes at will. The end result is a sharp and clear increase in corporate aircraft sales to meet the needs of senior and middle management people frustrated trying to get airline reservations.

Whether for one corporate aircraft or a fleet, the U.S. insurance market is limited to a small handful of underwriters. And in these days of inflation/recession dollar crunch, the risk manager must be circumspect about his security. A total hull loss can be settled quickly if the underwriter has the cash, but a partial loss takes longer and when dealing with high interest rates, delay in claim payment serves only to aggravate the loss.

Associated Aviation Underwriters, Insurance Co. of North America and United States Aircraft Insurance Group are the most notable domestic markets known for consistent presence and stability, with underwriters at Lloyd's being the surplus lines leaders.

AAU is the Aviation Management arm of Chubb & Sons, providing coverage on the policy form of one of its memeber companies. INA typically runs its own show with its own form. USAIG is the only underwriter—domestic or foreign—issuing a joint and several policy to which a number of its members are signatory, a unique security. The ability and desire of these underwriters to respond promptly and effectively is well known in the aviation insurance community.

In addition to these underwriters, there is another dozen ranging from good to modest with policy, procedures and coverage treatment too varied to describe here.

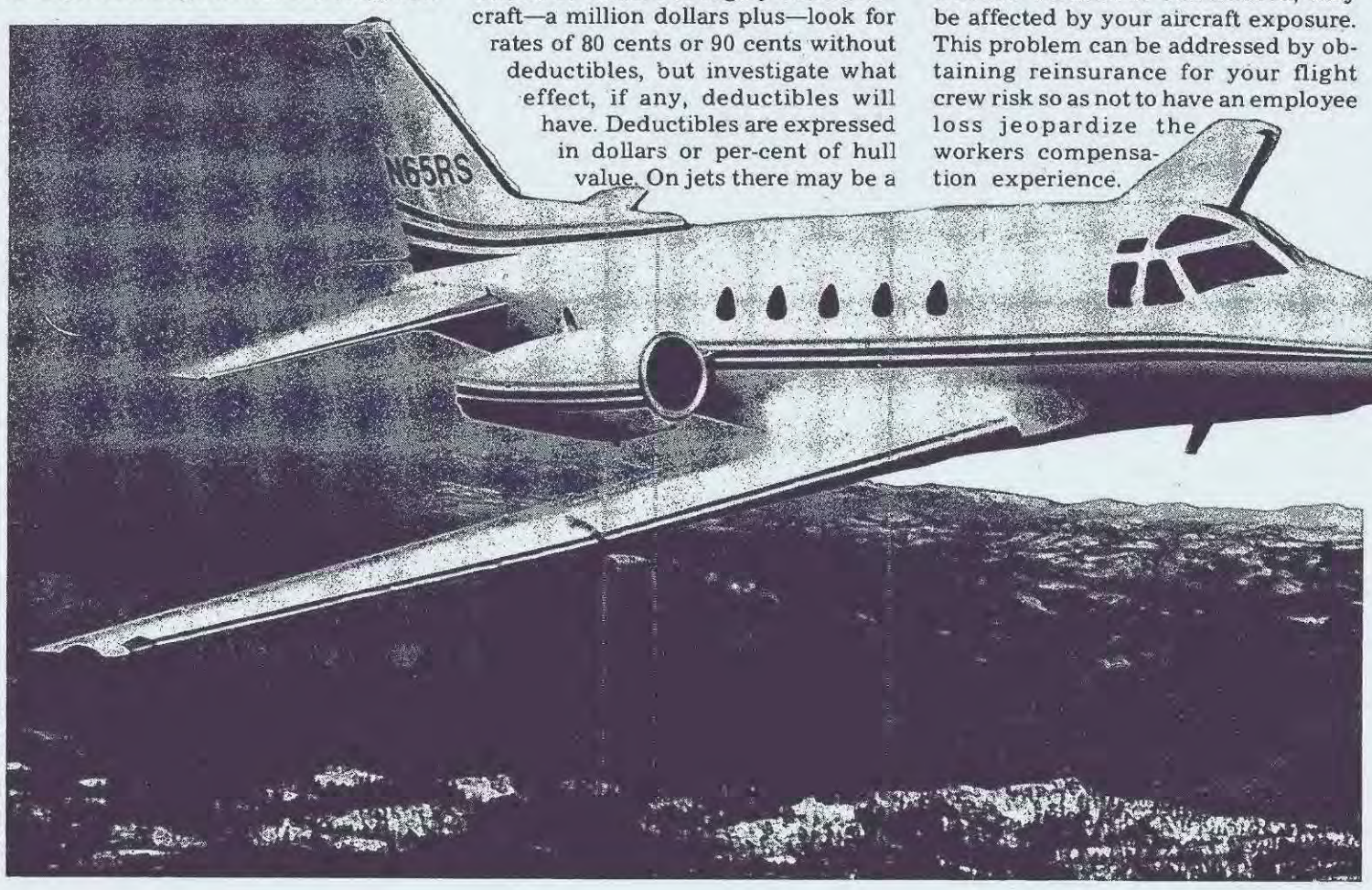
Hull insurance, similar to fire or marine, is expressed in rates per hundred dollars of value. For highly valued aircraft—a million dollars plus—look for rates of 80 cents or 90 cents without deductibles, but investigate what effect, if any, deductibles will have. Deductibles are expressed in dollars or per-cent of hull value. On jets there may be a separate deductible for ingestion losses. Insuring jets also requires pinning down with the underwriter your position on engine damage (an engine can cost several hundred thousand dollars) as a result of internal failure and not FOD (Foreign Object Damage such as taking in a bird or stone). The appreciation provision must be considered since your aircraft does not depreciate like other personal property. To the contrary, it will probably increase in value.

Liability coverage is surprisingly cheap. Ask for quotes at various levels. Up to $100 million dollars is available domestically, and somewhere within that limit the risk manager may decide to go the aviation policy route under his umbrella. For an average good jet with competent crew, look for $10,000,000 Combined Single Limit (CSL) for $800; $20,000,000 for $1,200; $50 million for $3,500; $100 million for $6,500.

In the liability area, do not pass up the opportunity to evaluate your "product" exposure. How about the company that bought the aircraft you owned two years or six months ago and now has a loss which it attributes to maintenance performed by your flight department while in your ownership? This is frequently ignored.

Workers' compensation coverage, whether insured or self-insured, may be affected by your aircraft exposure. This problem can be addressed by obtaining reinsurance for your flight crew risk so as not to have an employee loss jeopardize the workers compensation experience.

Jay Lavenson, executive vp of Bayly, Martin & Fay in the Philadelphia office, has specialized in aviation insurance for over 20 years. He is also a pilot.



Rockwell International

extended coverage

Evaluate carefully this employe exposure and that of non-flight crew employes—officers, executives, salespeople.

Voluntary settlements, also known as admitted legal liability, may reduce the liability premium, but before jumping into VS, look at the coverage and tax difference by providing this coverage via seat accident insurance or travel accident insurance. These differences deserve more attention than they have historically received.

Review your territorial requirements. Worldwide extensions are available, although spottily subject to war and hostile activity limitations.

Rented premises liability coverage should be included as should protection for baggage of passengers or crew.

Certainly the risk manager should consult with his flight department, and his broker, to determine how crew requirements and scheduling procedures may reduce risk and thereby contain insurance costs. There are some specialty companies available whose business it is to assist in analyzing flight department operations and writing manuals of procedure.

Your company does not own any aircraft? You can bet your job on there being some nonowned aviation exposure somewhere in the ranks. A salesman flying his own or chartered aircraft? A commercial aircraft operator picking up a part or package or otherwise running an errand in his aircraft for your company in an emergency? Salesmen on a company sponsored convention using a variety of air transportation?

Policy forms are not standard. Manuscript is available, but you simply must know what to ask for. Most brokers handling corporate aircraft get the policy by default since they have the rest of the portfolio but unless he is a specialist in aviation, that broker may be expensive in premium cost or uninsured loss. Aircraft coverage is separable, for the most part, from the total corporate program. A skilled specialist may be a real eye-opener to the risk manager facing a corporate aviation risk for his or her first time.

Five-hundred twenty-two of the Fortune 1000 companies operate aircraft. Those 522 companies generate 84% of the sales, 86% of the total net income, have 85% of the assets and employ 80% of the total number of people employed. It is not that a company need be large to own an aircraft or a small fleet. The risk manager may find it takes this tool and form of mobility to become big. An aircraft might well be in any risk manager's future if not currently on the scene. He should know or deal with someone who knows his TCA from his MEA. ■

perspective

Corralling capacity

Expect fewer, bigger insurers and brokers

STOCK MARKET SHIFTS, insurance exchanges, captives and risk pools may change the structure of insurance capacity. Molding the capacity to the needs of buyers will continue to be a challenge, said the *BI* round table.

The round table panel included: John R. Cox, president of Insurance Co. of North America; Linda Rice, director of risk management, The New York Times; Harold Hines, vice chairman of Marsh & McLennan Inc.; John A. Bogardus, president of Alexander & Alexander; Michael I.D. Morrison, president of American Home Assurance Co.; Peter Lopez, director of insurance, St. Regis Paper Co.; Len Strazewski, features editor, *Business Insurance* moderator. Also, Kathryn McIntyre, managing editor of *Business Insurance*.



"Insurers have started responding to the capital crisis," says Linda Rice of The New York Times.

Mr. Cox: I firmly believe that the insurance underwriter side of the marketplace in the '80s will follow the pattern of Wall Street. There will be larger underwriters by consolidation. By that I don't mean that there will be the elimination of the smaller specialty carriers or regional type, but on a national or multinational basis I see a major consolidation. If you would pick the top 25 companies in America today, I think that in the 1990s, 10 of the names will be part of something else.

Mr. Bogardus: This is true in our entire industry, among insurance companies and brokers.

BI: Sounds like those brokers will be talking to fewer people. Is that so?

Mr. Bogardus: That won't change the competitive atmosphere. The competition will be fiercer than ever, and I think these combinations will be healthy for the buyer.

Mr. Hines: I won't dispute what has been said, but the big question is what does that mean in terms of insurance cycles? Will predicted developments mitigate cycles, or are price swings inevitable? I believe there will be more capacity from the kinds of consolidations John predicts, and I believe there will be new efficiencies developed to make better underwriting decisions and to shorten the chain of risk transfer transactions.

More dollars of premium will go to pay losses and fewer will be going to nonrisk bearing costs. I confess that I am most worried about inflation. Inflation adversely affects insurance company capital by eroding it in a most sinister way. For example, in the last decade premiums increased about 200% and capital only 30%. We now have a more fragile industry, an industry whose capital base may soon be less responsive to those it serves. I know John Bogardus agrees with me that inflation confuses judgments about future risks, adding more uncertainty and more costs to the risk transfer process.

Mr. Bogardus: I think in the '80s we're going to continue to see the violence with all its cycles that we've lived with during the '70s. I see no possibility of that changing during the 1980s. And as a matter of fact, seemingly the cycles are becoming even shorter, and I think more volatile, with more of a swing. In a way it's pure, free enterprise—supply and demand situation—even though none of us likes it. It's what happens in a relatively free market.

BI: Mr. Morrison, you want to create a third or fourth side to this before the risk managers can respond to the scenario?

Mr. Morrison: Well, I read that the price of gold is shooting up as a hedge against inflation and I'm just glad that we didn't take in yesterday's premium and pay losses with today's gold prices. I'm not dealing in gold. Inflation is a major concern and is the major difficulty in forecasting. But I think here, too, that this is something that risk managers are going to be faced with because, as they get into cash flow, they're going to have to forecast these inflationary values.

They're going to be very much concerned with what's going to happen in the future, so all the help they can get not only internally, but from their brokers, I think, is going to be of great use to them.

I think that the shape of the market, the cycles, are getting shorter. I think the shakeouts are going to get more violent. I think the fact that the top 25 companies or whatever are going to be 15 by the 1990s is a very great possibility.

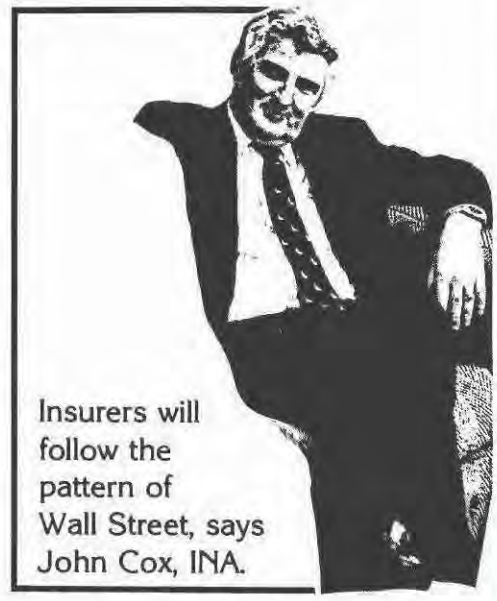
BI: Mr. Lopez, what does this scenario mean to you as a buyer? Are you buying insurance companies that don't have a bottom?

Mr. Lopez: I don't know if I can express it because it's so complex and I have not come to a conclusion. It's funny, but when you go to school and you learn these things about risk transfer and whatnot, you learn that you can turn your unknown into a known by accepting a premium and transferring the risk and the uncertainty to the insurer. And then you get out into the real world and you find out that the insurer doesn't want the uncertainty either.

And what happens? It's so difficult to measure the inflation rates and all these complex things and I think that's one reason why you've seen so many of these captive insurance companies come to the forefront. You read all the stuff in the press all the time about all the various reasons and the surveys that have been taken, but I'm beginning to conclude that part of what the insurance industry has found itself incapable of doing for the reasons just talked about are now being attempted to be accomplished by the emergence of the captives.

Mr. Hines: The capital base of the American insurance companies is over $43 billion dollars and one-half, or $20 billion dollars, is used for commercial lines. Perhaps $11 billion of capital supports larger commercial risks, the type of risks that concern captives. If you agree that the captive capital base is about $3 billion to $4 billion, then you can see how significant the capital base is. Underwriters should be concerned about these facts because capital that normally went to build insurance companies' capital, so they could be more responsive to society's total insurance needs, now goes to captives.

Ms. Rice: Insurance companies have started responding to the captive situation, unfortunately, by not perhaps doing it sooner. The people they lose aren't so much the risk managers as the CEOs. The risk manager says, "I'm not sure I should have a captive but my CEO kind of wants one and it looks like we're going that way."



Insurers will follow the pattern of Wall Street, says John Cox, INA.

What insurers haven't been able to do, captives are attempting, says Peter Lopez of St. Regis Paper Co.



That's a very damaging thing. Maybe the financial analysis is marginal, but those dollars are going to go to the insurer. By the time the insurance companies respond, and I'd be willing to make a presentation and I'd say, "Well, look. Now we're going to go captive this way and here are the dollars or I can go to the INA."

And maybe it's neck and neck. I've still got another problem to attack with that CEO. Because he's still thinking, "Well, gee, captive, that's something I want to have." And you know, it's an emotional decision perhaps at that point, but it's damaging to the industry.

I think that as the risk manager moves up the corporate ladder and gets some of the skills we're talking about and, again, some of the financial skills, it's going to change because the presentations will change. You're going to say, "Well look, you can go this way and you can go that way and here are the reasons."

And the reasons are going to be presented and they're going to be better reasons, because they're going to be analyzed not only from a risk standpoint but also from a cash flow standpoint. All those pieces come together and I think that that will have a lot to do with turning that CEO back to where he should be.

Mr. Cox: Insurers fail sometimes. Wherever you go today, there are people that are in the business that deal with captives on the strength of the capital of the captives and not the strength of the capital of the parent.

I want the parent's guarantee; I don't want the captive's. The captive is nothing more than the financial institution



Photos: Kathryn J. McIntyre

"The captive insurance company movement has produced lower insurance prices. Had captives not been created, the supply of insurance would've been less," says Harold Hines of Marsh & McLennan.

created in the minds of the hierarchy or the auxiliary. I want the parent, because the parent is the one that's totally at risk.

Mr. Hines: The captive movement has done a great deal for the insurance industry. It has served as an educational vehicle for risk managers, brokers and company people in the construction of plans that have nothing to do with the development of captives. Insights into risk management concepts and risk transfer mechanisms were once the possession of a few and are now spread to buyers throughout the world.

And the captive insurance company movement has produced lower insurance prices. Had captives not been created, the supply of insurance would be less. The chances of captives making continuing contributions in the 1980s are less, but they will certainly endure.

BI: The New York Exchange, an Illinois Exchange and Lloyd's of London, are going to be competitors.

Mr. Hines: Lloyd's is an institution 300 years old, flourishing and vital. It will prosper during the period of the '80s and beyond as it continues its preeminent role in insurance and reinsurance transactions.

Lloyd's will, however, have new competitors in the form of exchanges and dynamic insurance companies as they exist today and as they have been perceived in this conversation. The exchanges will give Lloyd's opportunities as well as some competition. The talents that reside in London will be enriched by better competition. There is new capital in Lloyd's that provides Lloyd's with additional capacity.

When will Lloyd's fully assimilate its new capacity? Can Lloyd's find the kind of returns that have proved historically favorable? I think Lloyd's will be successful, but its prices will be relatively lower because of the additional capital they have created and because of new competitive forces.

Mr. Bogardus: Don't you feel they're a little scared almost by all this additional capacity?

Mr. Hines: Yes, I think so. I think it puts some supply-side stress on them.

Mr. Bogardus: I think that if there's any silver lining in all of this—in the Fisher Report that's going to be out in April—I guess some of these things that are happening in the market are probably salutory and long-term, making them look introspectively at themselves and see themselves in perhaps a slightly different light than they have in the past, that they are vulnerable. And when they have a great influx of capital like this, which they are not necessarily prepared for, and the same way, hopefully, this market might be too. I would certainly agree a hundred per cent.

I think Lloyd's is going to be equally as viable a market as it's ever been. I think good will come from its present trouble. There will be more regulation which I think is necessary at this point in time and the effect would be beneficial. ▪

Lloyd's is going to be as viable a market as it has ever been. Of its present trouble will come good, says John Bogardus of Alexander & Alexander.



legal briefs

Ambiguity works to the advantage of policyholder: Ind.

AN INDIANA appellate court concluded that an ambiguity existed between two exclusionary clauses in a comprehensive general liability insurance policy issued to a contractor and construed them against the insurer.

James S. Gilson, a contractor engaged in constructing and remodeling residential structures, was insured under a policy issued by Indiana Insurance Co. The policy covered Gilson for property damage caused by an occurrence, including a completed operations hazard. However, the policy did not apply to any warranty that work performed by Gilson would be done in a workmanlike manner or a property damage arising from Gilson's work.

Gilson was sued by the purchaser of a home he built, who contended the footings were not placed in hardpan soil and so caused cracking. The purchaser sued for a breach of warranty of fitness. The insurance company refused to defend Gilson. He then brought this suit to force Indiana to defend. The trial court ruled against the insurance company.

On appeal, Indiana argued that coverage for breach of warranty existed, but that such coverage did not include damage caused to Gilson's work. The court said that after studying the precise wording of the policy it concluded that reasonably intelligent people would honestly differ as to its meaning. Thus, the court said the contract must be construed against Indiana and in favor of Gilson. *Indiana Insurance Co. vs. DeZutti,* court of appeals of Indiana, Nov. 20, 1979 (BI/04/A.-$4).

Forged instrument

False signatures of purchasers contained on duplicate invoices were "forged" and within the coverage of a banker's blanket insurance policy, ruled the U.S. Court of Appeals for the Sixth Circuit.

A bank was covered under the bond issued by Aetna Casualty & Surety Co. The policy provided indemnity for losses for credit extended through written documents that had forged signatures. However, the policy expressly excluded losses arising simply from fraud or false pretenses or false documents that were not transferable or had no value, in the ordinary course of business.

The bank loaned a businessman $336,000, secured by his business accounts receivable, which were represented by duplicate invoices, each containing the signature of a purchaser purporting to acknowledge receipt of merchandise. The invoices and accounts receivable turned out to be phony and the signatures of the purchasers were forged by the businessman. The bank sued Aetna on the bond and recovered in the trial court.

The appellate court affirmed the award, concluding the invoices were "written instruments" within the meaning of the bond. Furthermore, the court noted that the invoices had value and were transferable. "The receipt portion of the invoices," the court said, "purported to acknowledge debts owed by the purchasers and were valuable evidence of these debts which were subject to transfer." *First National Bank vs. Aetna Casualty,* U.S. Court of Appeals for the Sixth Circuit, Dec. 4, 1979 (BI/05/A.-$4).

Group disability

The Michigan supreme court ruled that language in a group disablity insurance policy providing for a setoff of other benefits "regardless of actual receipt of such benefit due to the insured's failure to apply therefore" related only to Social Security disability and not to workers compensation.

The Insurance Co. of North America issued a group disability policy to a rubber company. An employe of the company became disabled in 1970 and received disability payments from INA from March 1971 to December 1973. The employe filed for both workers compensation and Social Security disability benefits, receiving the former for 13 weeks. The Social Security claim, although initially denied, resulted in an award of benefits in 1973. The employe sued INA to compel payment of weekly benefits. The trial court allowed INA to offset retroactively awarded and received Social Security disability benefits as well as worker compensation benefits.

The appellate court held that "failure to apply" language related only to the social security benefits and not to workers compensation because wherever the provision spoke of Social Security disability it used the singular, benefit, whereas the workers compensation reference was to benefits, plural. The court said the policy ambiguity was to be construed against the drafter, the insurance company. Consequently, the court concluded that a setoff of the workers compensation benefits, even if no application were filed, could not be made under the provision. *Mays vs. Insurance Co. of North America,* Michigan supreme court, Oct. 6, 1979 (*BI/04/M.-$4*).

These abstracts were prepared by Cases Unlimited Inc. Copies of the entire decision may be obtained by sending a check for $4 made out to Cases Unlimited, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. Please list the number for each opinion.

BI Roundtable

Our panelists discuss regulation in next week's Perspective.

Computer value drives security push

By SHARON WATSON

FORT WORTH—Higher values of computers and more corporate dependence on the information the computers hold is driving a new push for security and insurance coverage on computer systems.

Technical services managers are knocking on risk management and corporate management doors to plead for better security and insurance protection for their systems.

Risk managers and top management must be sold on these critical issues, William Carter, manager of technical services for the computer services department of Duke Power Co., told a seminar here on data processing security.

A computer disaster would cripple and perhaps destroy 95% of U.S. companies, says Richard Bessenhoffer of Data Processing Security, Inc., an international consulting firm.

Nearly half—43%—of the companies that lost their computer centers in fire went out of business within one to three years, says the National Fire Protection Assn.

As high as the threat of potential loss is, however, corporate action is lagging in some companies.

Said one participant in the Fort Worth seminar: "Our computer center (located in a new Dallas skyscraper) would be like the 'Towering Inferno' if there was a fire. There are no protective fire walls."

As for insuring against mere physical loss, another seminar participant said she was not certain her company knew the current computer inventory.

Duke Power, one of the nation's largest investor-owned electric utilities, began studying its data processing security situations in 1977, said Mr. Carter.

At best, the existing planning was weak and ineffective, he recalled.

A risk analysis completed in late 1979 showed that on any given day, the company stood to lose in excess of $1 million in a computer disaster.

In the face of such exposures, loss prevention and contingency recovery become important. Duke Power is now studying extra expense and business interruption coverage. Current insurance now covers the first $20 million in media losses, including electrical disturbance, and named peril above those losses. The manuscript policy is underwritten by Lloyd's of London.

Morton-Norwich Products Inc. in Chicago has also recognized the need for data processing security. It is implementing a loss prevention program costing $500,000.

A perfect opportunity

MortonNorwich implemented a new computer security program costing $500,000 when it remodeled its Chicago riverside facility. The firm is now analyzing EDP insurance.

The planning coincided with an overall building remodeling project within the Chicago riverside facility. Before renovation, the data processing system was located in the basement, where it was susceptible to storm sewer backup, as well as fire, vandalism and other types of water damage.

The new physical security program was installed in 1979. It includes such components as access control, fire protection and suppression and an uninterruptible power system. And the department was moved from the basement.

"There has been great receptivity to the need for data security and disaster recovery," said Perry R. Grace, director of management information systems for Morton-Norwich.

Planning is not over. The company is currently looking into data processing insurance, says director of insurance George Phillips. Equipment is covered in the firm's blanket fire and casualty policy and assessment has now turned to needs for insuring against more specific data processing losses.

"We're considering exploring an EDP policy," Mr. Phillips said. MortonNorwich will seek bids from two or three domestic companies and the London market. "We feel confident (with the new security program), but you can never sit back and say nothing will happen." ■

Excerpt from Annual Report by President Maurice H. Saval.

The year 1979 marked another milestone in our corporate development, for in the latter part of that year we activated the CANADIAN UNIVERSAL INSURANCE COMPANY, *Incorporated* (chartered in 1966 by the State of Rhode Island). This was effectuated by the infusion of $10,000,000. in additional funds; $2,000,000. in paid-up capital and $8,000,000. in contributed surplus. The reason for this action was that over the years it had become apparent that separation of the United States and Canadian activities of the CANADIAN UNIVERSAL INSURANCE COMPANY, LIMITED would simplify operations considerably and would result in significant economy of operations and other advantages.

The CANADIAN UNIVERSAL INSURANCE COMPANY, *Incorporated* has fulfilled the requirements of the State of Rhode Island and has been licensed by it and is now in the process of becoming approved in the various states in the United States as required by law or regulation.

The plan of operation is for the CANADIAN UNIVERSAL INSURANCE COMPANY, *Incorporated* to underwrite excess, surplus and special risk business previously written in the CANADIAN UNIVERSAL INSURANCE COMPANY, LIMITED. Ultimately all United States underwriting previously conducted by the CANADIAN UNIVERSAL INSURANCE COMPANY, LIMITED will be written under the banner of the CANADIAN UNIVERSAL INSURANCE COMPANY, *Incorporated*, thus providing United States assureds with the additional advantage of an American company.

Management will be unchanged thus maintaining the continuity of service and expertise that has been our hallmark over the years. It is apparent, therefore, that this plan of operation will benefit all parties involved — insureds, regulators and the company itself.

CANADIAN UNIVERSAL INSURANCE COMPANY, *Incorporated* BALANCE SHEET/December 31, 1979

ASSETS	
Cash	$ 8,993,428
Bonds at Amortized Value	1,016,230
Total Cash and Investments	10,009,658
Accrued Investment Income	49,591
Total Assets	$10,059,249

LIABILITIES	
Other Liabilities	$ 38,055
Total Liabilities	$ 38,055
CAPITAL AND SURPLUS	
Capital Paid Up	$ 2,000,000
SURPLUS (Including Paid-In Surplus of $8,000,000)	8,021,194
SURPLUS AS REGARDS POLICYHOLDERS	$10,021,194
	$10,059,249

CANADIAN UNIVERSAL INSURANCE COMPANY, LIMITED BALANCE SHEET/December 31, 1979

ASSETS	
Cash	$ 9,185,628
Investments:	
Bonds at Amortized Value	61,112,860
Stocks at Convention Value	1,705,068
Total Cash and Investments	$72,003,556
Premiums Receivable	9,912,258
Accrued Investment Income and Other Assets	2,449,419
Total Assets	$84,365,233

LIABILITIES	
Reserve for Losses and Loss Expenses	$28,533,089
Reserve for Unearned Premiums	9,607,063
Funds Held Under Reinsurance Treaties	29,244,493
Ceded Reinsurance Balances Payable	4,976,147
Other Liabilities	2,504,349
Total Liabilities	$74,865,141
CAPITAL AND SURPLUS	
Capital Paid Up	$ 2,000,000
SURPLUS (Including Paid-In Surplus of $328,300)	7,500,092
SURPLUS AS REGARDS POLICYHOLDERS	$ 9,500,092
	$84,365,233

AMERICAN UNIVERSAL INSURANCE GROUP

Canadian Universal Insurance Company, *Incorporated* • Canadian Universal Insurance Company, Limited
American Universal Insurance Company

Chromalloy American Companies

Suit feared despite rule

MADISON, Conn.—Town officials here have a liability claim on their hands and possibly an imminent lawsuit for the death of a young man killed in an accident during a high-speed police chase.

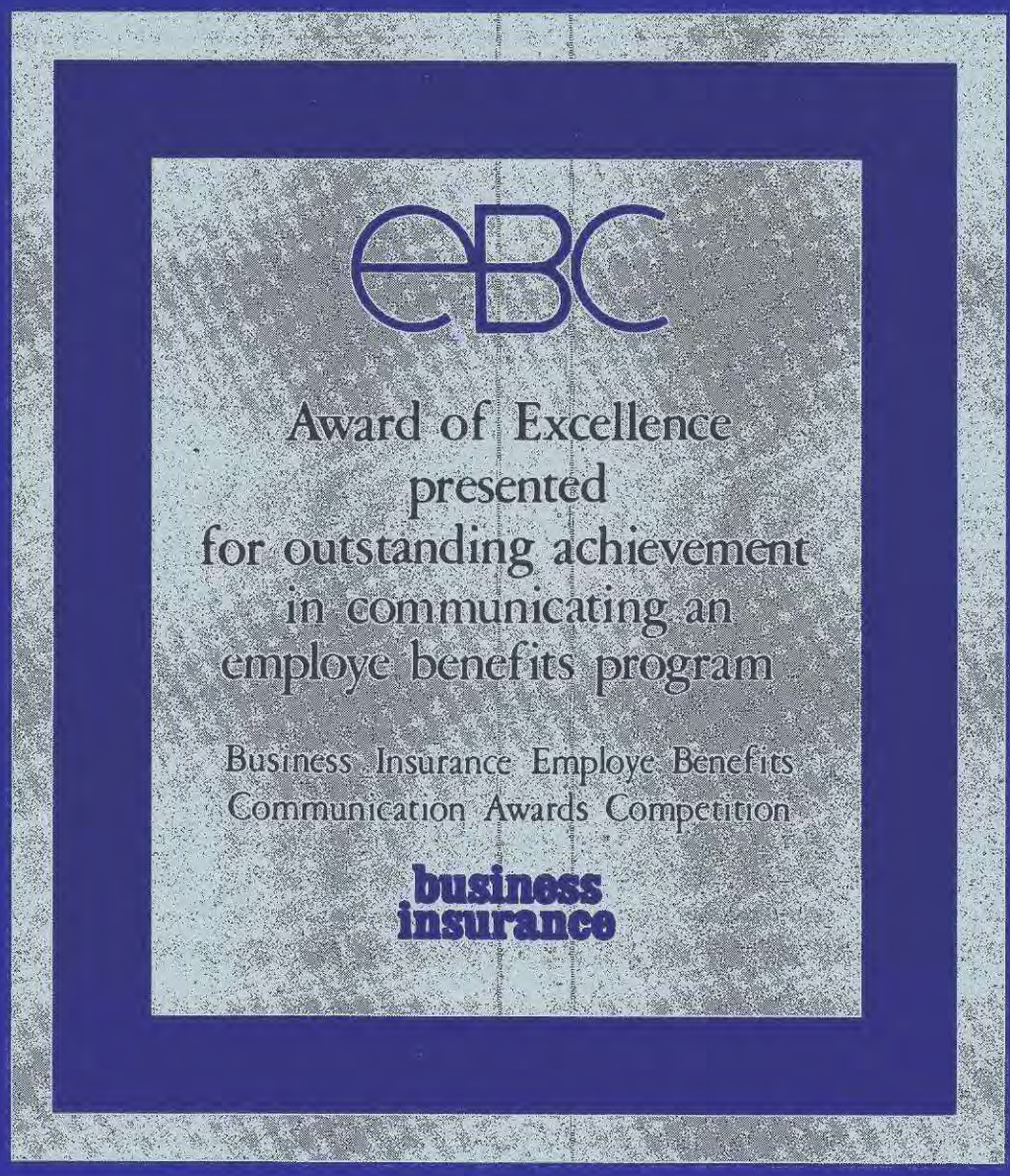
The claim itself isn't unusual, except that the victim's survivors charge police with negligence on how to handle the risks in high-speed police chases.

Madison is insured for whatever damages it may ultimately have to pay under a $1 million single limit liability policy underwritten by Commercial Union Assurance Cos. through Insurance Management Inc., agents.

This community, ironically, was the first in the state to require that the local police department establish guidelines for high-speed chases in order to protect the public. It took the action after an innocent bystander was killed as a result of a long police chase.

The police department regulations were used as a model for drafting the town ordinance.

The plaintiff's attorney, Roger Sullivan of Sullivan & Donegan, charged in this case that an unnecessary three-mile police chase caused the accident and killed the victim. The police officer, said town police chief Cyrus Gaeta, pursued the offender's car because it was traveling too fast and swerving over the center line in the road. ■



The 1980 Business Insurance awards presentation for outstanding achievement in communicating employe benefit programs will be made at a banquet during the annual Business Insurance Employe Benefits Communication Conference. Place and date: Continental Plaza, Chicago, October 28, 1980.

A panel of employe benefits managers and communicators, selected by Business Insurance, will judge programs in the following categories: Booklets... Personalized Correspondence... Audio-Visuals... Special Projects... Total Communication Programs.

Entries will be accepted for the eighth annual competition beginning April 1. Entries will be accepted no later than May 30. The competition is open to all companies in the U.S. and Canada and has no restrictions as to the size of the company.

For more information, to obtain rules and entry forms and to submit your programs, call Ronnie Drachman, Awards Coordinator, 212/986-5050 or clip the coupon and send it to us as soon as possible.

Employe Benefits Communication Awards Competition

Mail to: Benefits Communications Awards · Business Insurance · 708 Third Avenue · New York, N.Y. 10017

Yes, I am interested in entering our communications program(s). Please send me _____ entry blank(s) and the competition rules.

Name, title _____

Company _____

Address _____

City _____ State _____ Zip _____

Telephone _____

BI 4/7/80

business insurance

a publication of Crain Communications, Inc.

Ohio adopts comparative negligence

COLUMBUS—Ohio negligence law will be governed by the concept of comparative negligence instead of contributory negligence under a law signed by Gov. James A. Rhodes.

Under comparative negligence, which will govern lawsuits in Ohio beginning June 20, a plaintiff can recover damages even if he is found partly responsible for the injury for which he is seeking damages.

Under the contributory negligence doctrine currently in effect in Ohio, a plaintiff can't recover damages if it is shown that his own negligence contributed to the incident.

The Ohio comparative negligence law denies damage awards to a plaintiff whose negligence is found by the court to have been greater than the defendant's negligence.

around the states

New commissioner

MONTPELIER—Vermont Governor Richard Snelling appointed George Chaffee as the new commissioner of banking and insurance on March 22.

Mr. Chaffee, former deputy commissioner, replaces Stewart Ledbetter, who left the post to pursue his candidacy for the Senate.

Mandate stalled

HARTFORD—An act mandating insurance coverage for orthomolecular medicine will not be taken up by Connecticut's insurance and real astate committee during this short-session year.

The act, which would require all individual, group hospital or medical insurance policies to provide coverage for orthomolecular medicine, died when the insurance committee failed to discuss it by March 17.

Orthomolecular medicine is defined by the committee as preservation of good health by providing optimum molecular environment in the human body by concentrations of vitamins, minerals and nutritional substances normally present in the body.

Redlining bill

LANSING—The Michigan legislature is considering legislation to ban certain insurance redlining of small businesses. Sponsor of the bill, Rep. George Cushingberry (D-Detroit), defined redlining as "the arbitrary denial of coverage because of a building's location."

"Under our proposal," he said, "an insurance company could not deny coverage to any business that meets the standards outlined."

The measure, says Rep. Cushingberry, also aims to take the profit motive out of arson by limiting the recovery on fire damage to the market value of the building.

"More than 20,000 businesses in Michigan are unable to obtain coverage in the standard insurance market," said Sen. Doug Ross, cosponsor of the bill.

Pa. liability

HARRISBURG—The survivors of about 30 Johnstown flood victims are appealing to the Pennsylvania supreme court for the right to sue the state for damages totaling millions of dollars. Johnstown residents were killed when the Laurel Run Dam broke during a torrential rain on July 20, 1977.

A commonwealth court ruled that the plaintiffs could not sue under a 1978 law that limits suits against the state to eight classifications. The flood doesn't fall into any of these categories, the court ruled.

The 1978 law permits suits against the state involving vehicle liability, medical and professional liability, damages occurring on commonwealth property, from personal property (such as baseball bats), from sale of alcohol at a Pennsylvania dram shop and damages caused by Pennsylvania military forces.

The state self-insures $250,000 per loss and $1 million a year.

Rate hike denied

RALEIGH—North Carolina insurance commissioner John Ingram has denied an increase in workers compensation rates that would have cost employers $10 million in premiums. The financial information on which the increase is based was not sufficiently credible to support a rate revision, he said.

The commissioner's order allows the rating bureau 60 days to submit an amended filing based on properly audited information.

No covered lunch

LANSING—Michigan workers hurt on lunch breaks cannot collect workers compensation, said a divided state supreme court in reversing a precedent-setting 1978 ruling.

Michigan's highest court voted 4-3 that one worker hurt on his lunch break and the wife of another who was killed on a lunch break were not entitled to workers compensation.

In a landmark decision two years ago, a 5-2 supreme court decision said workers injured at lunch could collect workers compensation benefits.

The first claim covered in the decision was filed by Carol McClure, the widow of a man killed in 1973 while crossing the street to lunch across from a General Motors Corp. plant in Detroit.

The second involved Kimberly Krolczyk, severely injured in a 1974 auto accident while en route to a restaurant a half-mile from her job at Wolverine Moving & Storage Co. in Livonia.

Both had asked for benefits and been turned down by the workers compensation appeal board. The state court of appeals refused to hear their appeals.

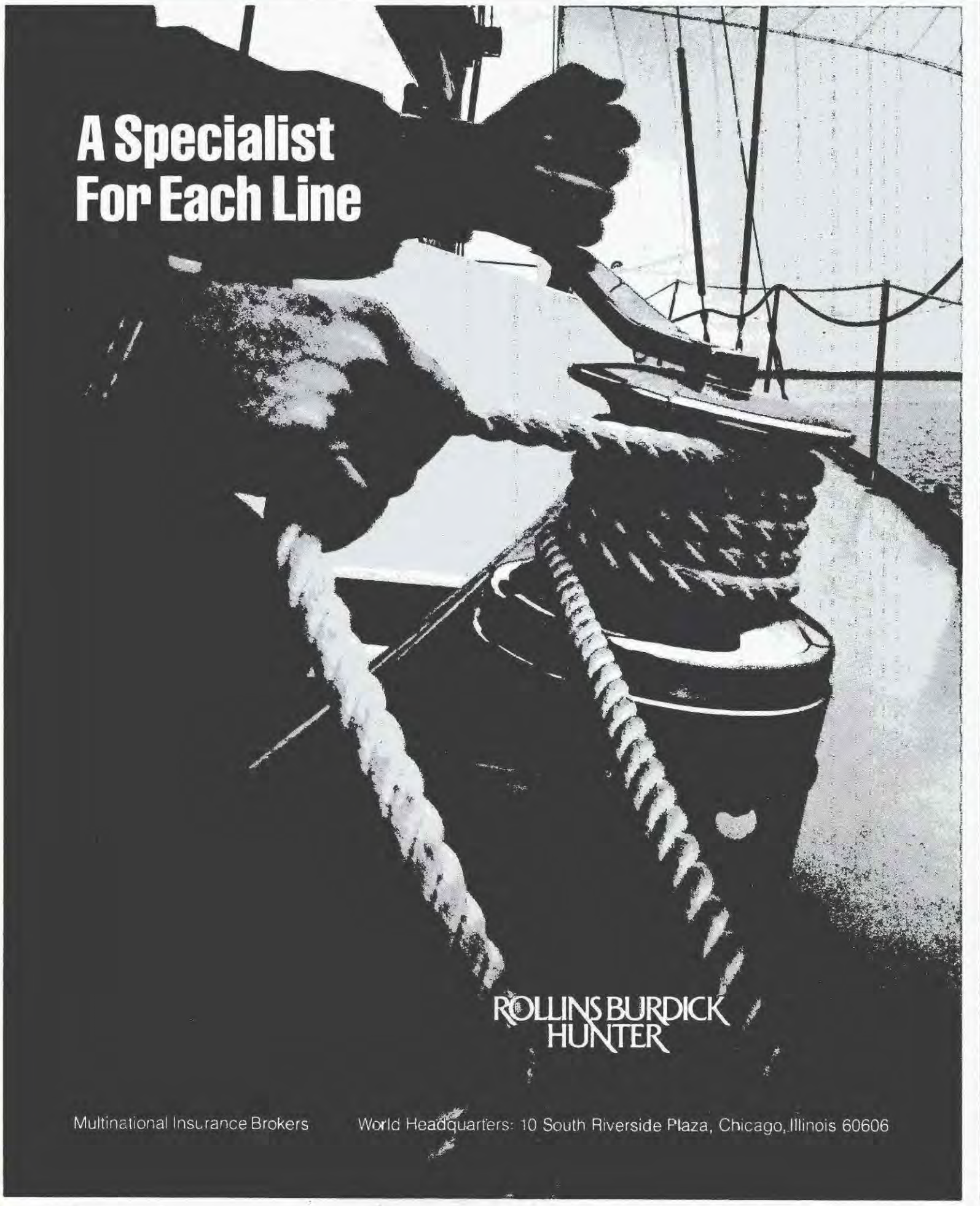
But the high court agreed to hear them. Its majority opinion said that to award benefits to workers injured on lunch break would continue court expansion of workers compensation coverage.

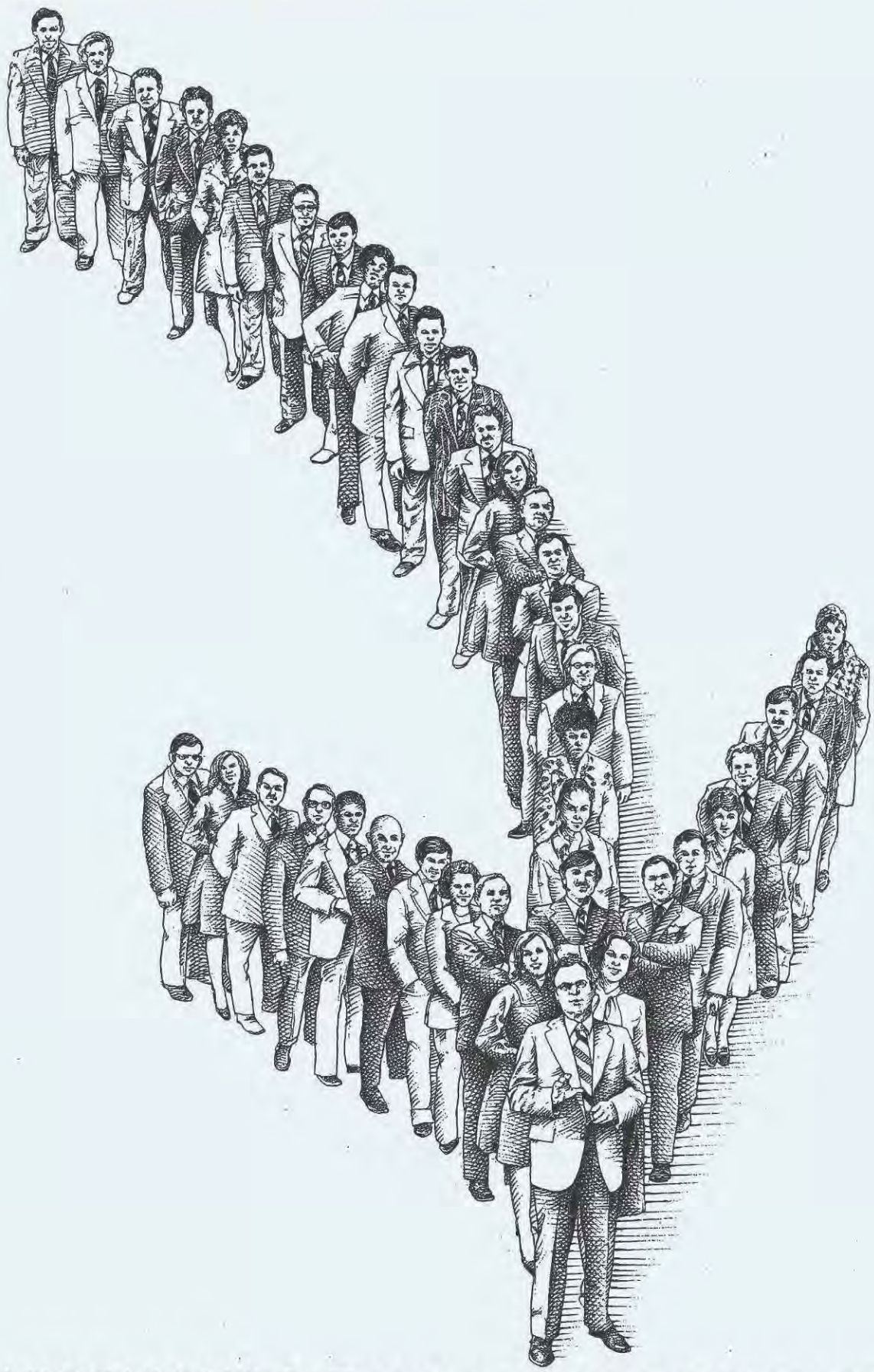
Award restored

HELENA—The Montana supreme court ruled that the pain Walter Hume had in his shoulders and neck was not all in his head.

Mr. Hume won an appeal reversal of a 1978 state workers compensation court decision terminating his benefits for injuries received

Continued on page 34





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CONNECTICUT GENERAL INSURANCE CORPORATION, HARTFORD

COMING THROUGH FOR YOU. THAT'S WHAT CG PEOPLE DO.

around the states

Continued from page 32
while working for St. Regis Paper Co. in Flathead County in October 1975 and August 1976.

The workers compensation court ruled that Hume had failed to prove that his pain was related to the accidents while working at St. Regis.

The supreme court ruled on appeal that the lower court's finding was contradicted by unchallenged testimony from a Kalispell neurologist that Mr. Hume's pain was related to the work injuries.

Work comp reform

SPRINGFIELD—A new three-bill package seeking to reform Illinois workers compensation insurance benefits and administration is being pushed by two state legislators.

Under the bills, insurance companies would be required to offer new forms of coverage and to disclose financial data. The industrial commission would be required to adopt uniform standards for the awarding of disability benefits and attorney's fees would be regulated.

Democratic senate president Phil Rock and senate GOP leader David Shapiro, sponsors of the bill, charge Gov. James Thompson with failing to mediate broken-down talks on compromise legislation for workers compensation.

Meanwhile, another bill has been introduced in the house to create a state fund.

James Pike, sponsor of the bill, contends a state fund could save Illinois employers as much as 30% on the costs of workers compensation.

Ohio appointments

COLUMBUS—Gov. James A. Rhodes has appointed Raymond A. Conner, a civil engineer and former real estate developer and property manager, workers compensation bureau administrator. Craig Zimpfer, 35, an administrative aide to Gov. Rhodes, will assume Mr. Conner's position on the industrial commission.

Public hearing

CONCORD—The New Hampshire insurance department will hold a public hearing May 5 to consider an average 20.6% workers compensation insurance rate increase requested by the National Council on Compensation Insurance.

Interested persons may make oral or written comments on the rate increase request to the insurance department here before May 5 or they may attend the hearing in the New Hampshire state library here beginning at 10 a.m. on May 5.

Abortion benefits

ANNAPOLIS—Maryland's group health insurance plan will continue to cover abortion expenses for state employes.

A legislative conference committee refused to impose funding restrictions as established by a house bill (*BI*, March 24).

The house legislation would have barred the state from paying for abortions in its group plan, sponsored by Blue Cross/Blue Shield, except where the pregnancy threatened the health of the mother. The senate refused to accept this restriction and house conference committee members agreed to go along with the senate.

Maternity coverage

MONTPELIER—Vermont employers who provide maternity coverage for employes or dependents must provide the benefit equally to married and unmarried women, the Vermont department of banking and insurance says in an opinion.

Although Vermont law does not require all health insurance policies to include maternity benefits as federal law does, it does not permit discrimination in the provision of maternity-related coverages based on marital status.

Pregnancy is not an illness or injury, but a voluntary condition that results in some disability, and so is not required to be covered, the department said. However, the law requires that general medical expense policies must cover all complications of pregnancy and that failure to do so constitutes unfair sex discrimination.

Brown lung

RALEIGH—A study panel in North Carolina recommends that Gov. James Hunt appoint a special medical committee to define byssinosis and how doctors should diagnose it to speed settling workers compensation claims for brown lung disease.

Robert G. Byrd, chairman of the panel, said its members were not qualified to decide between conflicting medical opinions without a great deal more time and further testimony from medical experts.

The seven-member panel was named by Hunt in December to recommend ways to speed up the handling of workers compensation claims filed by brown lung victims with the state industrial commission.

Lack of concrete definition of the disease and standard diagnostic criteria are major stumbling blocks in resolving claims by brown lung victims and the textile and insurance industries.

Brown lung, or byssinosis, is a chronic lung disease caused by prolonged exposure to cotton dust. Physicians disagree on exactly what the disease is and how to recognize it.

Work comp fund

SACRAMENTO—The California state workers compensation fund paid and reserved for payment $346 million in benefits to injured workers or their dependents in 1978, the department of industrial relations reported.

Employers paid $474 million to the state fund in 1978, a 14% increase from the previous year, and investment income reached nearly $66 million, a 32% annual increase. More than 205,000 newly reported claims were adjusted during that year and nearly 50,000 were adjusted for injuries occurring in previous years.

The state fund insured a record high of more than 140,000 policyholders, a 17% increase over 1977. More than one-fourth of insured California employers purchased workers compensation coverage through the state fund, the report said.

Court jurisdiction

HELENA—The Montana supreme court has found a hole in the state workers compensation court's exclusive jurisdiction over disputes involving benefits for injured workers.

An injured worker may sue a provider of workers compensation benefits in district court for bad faith, the court ruled. This applies when the cause of action is related to something that occurs after his employment has ceased.

The supreme court said that other courts have held that where a wrong is "intentional, malicious and calculated to cause intimidation," the worker is entitled to regular court remedies beyond the workers compensation law. ■

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Southwest Life elects White president

DALLAS—Jon B. White was elected president and chief operating officer of Southwestern Life Insurance Co., succeeding Ben P. Denman, who will become vice chairman of the board until his retirement in 1981.

Mr. White has been the company's executive vp-operations for two years. Mr. Denman, who has been president since 1972, will serve as an adviser to Mr. White and will work with the chairman of the board and chief executive officer William H. Seay.

Other insurer changes:

E.J. Whittier elected president of PM Management Services Company (PMMSCO) in Newport Beach, Calif., a subsidiary of Pacific Mutual Life Insurance Co. which administers and provides marketing support for Pacific Mutual's group insurance multiple employer trusts. Mr. Whittier remains a vp of the parent company.

F. Roy Fitzsimmons named vp-finance for Med-Tac Corp. in Wellesley, Mass.


Fitzsimmons

Jerry F. O'Malley promoted to boiler and machinery underwriting manager for Zurich-American Insurance Cos. in Schaumburg, Ill.; **Lionel R. Steger** promoted to staff superintendent of workers compensation; **Richard Schemitis** promoted to underwriting manager in the excess/surplus department.

Alan C. Elwell elected president and chief executive officer of Bermuda-based St. John's Insurance Co. Ltd. and J. H. Blades & Co. International Ltd. Also **Bernard J. Cutts** elected assistant vp, **John A. Houghton** assistant secretary and **Brian Leman** assistant treasurer, of Blades Group of Bermuda.


Elwell

Edward J. Ritter named assistant vp-commercial casualty underwriting for U.S. Insurance Group in Morristown, N.J.

Charles B. Mitchell promoted to vp of Western Employers Insurance Co. in Santa Ana, Calif.


Mitchell

Marion Perkins named underwriting vp for Comstock Insurance Co. in Los Angeles.

John T. Nangle promoted to assistant vp and assistant general counsel of the National Assn. of Independent Insurers.

A.J. Czerwinski named vp-agency and **Robert E. Main** named vp-special markets for Lincoln Benefit Life in Lincoln, Neb.

William J. Fechtmann, Ardavazt Honanyan and **Margaret M. Janelle** appointed assistant secretaries of The Continental Corp.

Jacques Chevalier named vp-underwriting for Mutual Trust Life Insurance Co. in Oak Brook, Ill.

Dean T. Chiang named facultative manager in the Hong Kong office of Prudential Reinsurance.

Constant V. Pardon appointed manager of AIG Risk Management (Overseas) Inc.'s European technical division in Brussels.

Bruce W. Balha appointed vp of group underwriting at First Farwest Corp. in Portland, Ore.

Jed B. Jecen promoted to director of professional services with UNI-Service Risk Management Corp., a subsidiary of the Utica National Insurance Group.

comings & goings: industry

Broker changes

Maurice F. Hatrel, Jr., has been named managing vp of Alexander & Alexander's New Orleans office. L. "Bud" Pieratt has been named managing vp of the Waterloo office of A&A.

Other agent/broker changes:

John B. Raiford, Jr. to the newly established Corporate Holding Co. position of manager of loss control engineering of E.H. Crump Cos. Inc. Mr. Raiford will assist the company's 18 insurance agencies in the Southeast in developing active loss control engineering programs.

John W. Muldoon to branch manager of Leslie H. Cook Inc. in Chicago.

Joseph A. Lorenzo named a director of Schiff Terhune International, and **John F. Ross,** elected executive vp-sales.

William A. Waite, joined the Robert F. Driver Co., Inc. as a special consultant on health maintenance organizations and will serve as account executive in the employe benefits division.

Sherman W. Furlong joins American Agency Inc. of Bloomington, Minn., as vp.


Myers

Warren T. Myers appointed executive vp and director of the Whitehall Brokerage Inc. in New York.

William E. Hedrich appointed manager of marketing and service of the Asset Protection Group.

Townsend R. Morey, Jr. named manager of the Albany office of Alexander & Alexander; **William H. Atchison** named managing vp and **Richard R. Nourie** named deputy managing vp of A & A's Philadelphia office.

Donald H. Holder elected senior vp and **Richard M. Sloan** elected a vp of Fred S. James & Co. of Mo.

Stan Holmes named new commercial lines insurance specialist at North American Insurance Agency.

Other suppliers

C.M. (Bud) Saunders named senior vp of Underwriters Salvage Co.

William Xanthos appointed managing principal to head the Los Angeles office of A. S. Hansen Inc. ■

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BI-4

California HMO to merge with INA Health Plans

ROSS-LOOS Medical Group, a California-based health maintenance organization, will merge with INA Health Plans of California, a subsidiary of INA Corp.

Ross-Loos serves some 200,000 residents at 22 centers in California. It is staffed with 230 physicians.

INA has been acquiring HMOs in California, Arizona, Texas and Florida. INA and Ross-Loos have agreed to the merger in principle but the deal has not yet been formally approved, said an INA spokeswoman.

AIURM division

American International Underwriters Corp. and the AIU division of American International Group Inc., have formed a new division to specialize in international risk management programs.

The AIURM division will be involved in self-insurance administration and excess plans, fronted self-insurance and retention plans and captive insurance company programs.

William K. McCleary, vp of American International Underwriters Corp. and of the AIU division of AIG, will manage AIURM.

markets

World growth

The growth of the world insurance industry in the 1970s slightly exceeded that of the overall economy, according to a report by the North American Reinsurance Corp., and expansion is expected to continue in the 1980s.

Between 1970 and 1977 the ratio of premiums to world gross national product has risen to 4.77% from 4.65%. But the ratio has fluctuated throughout the decade, displaying an overreaction to changes in the general business climate, North America Re says. In 1971-72, the premium volume registered much stronger growth than the GNP. A setback followed during the recession of 1973-74, and an upward trend was observed from 1975 on.

This overraction varied in three different regions: North America, OECD countries and the rest of the world. North America and the rest of the world registered almost parallel growth of the economy and insurance, although the industry in these areas was less affected by the recession of 1973-74 than in the OECD nations.

The recession affected both life and nonlife business in each region.

In North America and the rest of the world, however, life insurance was affected more markedly and the recovery in the overall insurance industry since then resulted from the development of nonlife business, the report said. In the OECD, the reverse trend was seen.

Hall acquisition

Frank B. Hall & Co. has agreed in principle to acquire Brown Brothers Adjusters, an independent multiline adjusting firm. ■

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President and Chief Executive Officer. Delphi Management Corporation

Ralph J. Vernon,



PhD, P.E., CIH
Professor, College of Engineering. Texas A&M University

Bruce D. Evans,



CPCU, ARM
Assoc. Prof. Grad. School of Mgmt.
Exec. Dir., Risk Mgmt. Inst.
Univ. of Dallas

Robert Hagopian,



P.E.
Director of Corporate Relations. Massachusetts Institute of Technology

DELPHI has signed Management Service Agreements with:

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Delphi Management Corporation has been organized to provide a diverse range of risk management consulting capability to its clients. For a confidential discussion of your needs, call or write:

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DELPHI MANAGEMENT CORP

riskWatch

Bermuda market grows and mellows with age

BY KATHRYN J. MCINTYRE

HAMILTON, Bermuda—The insurance industry here is mellowing like a fine wine; it appears even a cold season of claims won't turn it sour.

Continued growth and diversification of insurers here and sheer experience are creating a more substantial market. And its third-party underwriters are being tapped by the likes of DuPont, AT&T, Monsanto and Dow for high excess casualty insurance, says one broker.

The island bubbles with the diverse mixture of business being conducted: captives underwriting only parent company risks; captives diving into third-party underwriting; captives sampling small pieces of third-party risks; established reinsurers creating Bermuda companies, and new reinsurance ventures trying to carve a place in the business.



McIntyre

It's mostly the same business that was growing last year, but a small taste of the Bermuda market this year and last left different impressions.

Last year, Bermuda was like a young red wine—bold, brash and sassy. Nearly everyone claimed a part of the great creation of a third insurance market for the world (*BI*, April 2, 1979). This year, the market is mellower, still somewhat bold and brash, but not quite so sassy. Fewer people brag about third world market status and more are quick to offer that Bermuda has a long aging process ahead if it is to emerge into a market that can rival Lloyd's and U.S. insurers.

"Third world market status is a long way off in volume and underwriting expertise," says David Vaughan, managing director of Marsh & McLennan (Bermuda) Ltd., one of the largest captive managers on the island. "It takes a long time to move an insurance center. There's been big growth, but it's not sufficient for world market status."

That kind of talk sounds like the market is already aging. Understatement is easier to swallow and more believable than sassy claims of greatness, especially when no one can be sure how big the Bermuda insurance market is.

Estimates of Bermuda's market size range from $2 billion to $5 billion in gross premiums—with no more than 25% retained on that island. That's a big spread even for estimates. The only hope of accurately gauging the size of the Bermuda market is getting reports from the registrar of companies, who can aggregate business reports and release the figures to the public. But Shelton Burgess and the Bermuda government aren't saying if figures that can be accumulated under the new insurance regulations will ever be uncorked.

Some Bermuda insurance company executives sneer when market size is questioned. "What's it matter?" asked one with disdain.

It certainly matters to risk managers whose brokers suggest they tap the Bermuda market for capacity. Size, to some extent, lends credibility to the third-party market, suggesting it will have the money to pay claims. Spared huge disasters in recent years, the Bermuda insurance industry has yet to be tested for its ability to pay off on big losses that hit all insurers at once.

Bermuda's status in the world insurance market also matters to students of market capacity. The size of the Bermuda insurance industry indicates how much business it is siphoning from U.S. and London insurers whose capacity for new risks will certainly be diminished if as many risks are being placed in Bermuda as it's said.

But the skeptical insurance company executive who refused to engage in market estimates was unmoved by these arguments. The bulk of the Bermuda insurance industry is still pure captives underwriting only low-layer risks for their parent companies, he contends. Premiums paid for these layers wouldn't be available to U.S. or London insurers because, lacking a captive, the parent companies would self-insure the risks, he says.

While the pure captives stick with mostly lower-layer risks, the third-party underwriters here deal mostly in high-layer catastrophe risks. "World capacity runs out and they come here," says one underwriter.

No one admits to writing bad business, a charge often leveled at Bermuda underwriters. Let's hope not. The idea of a third world market developing is always appealing to the consumer who wants more options.

And nobody likes the smell of anything turned sour.

info

• Underwriters Adjusting Co. is offering a promotional brochure that describes **self-insurer services** and answers 22 questions most often asked by self-insurers. For a free copy, write Underwriters Adjusting Co., Marketing Department, 80 Maiden Lane, New York, N.Y. 10038.

• Guidelines for the U.S. Risk Manager on **Mexican Insurance;** Mexico: A Profile of Employe Benefits, and extracts from the Mexican Insurance Law and Fire and Lightning insurance policy are available free from Seguros La Commercial Group. Write Alejandro Verduzco, manager, U.S. Liaison Office, Grupo Seguros La Commercial, S.A., 20 N. Wacker Drive, Suite 3006, Chicago, Ill. 60606.

• Inflation and its impact on employe benefit costs was the topic covered at a series of seminars sponsored by Meidinger & Associates Inc. A text of the speeches delivered at the seminars is available in the publication **Controlling Benefit Costs.** For a free copy, write Roy Zander, Meidinger & Associates Inc., Suite 1800, 20 North Wacker Drive, Chicago, Ill. 60606.

• The **Worldwide Benefit Review,** published by William M. Mercer, summarizes the political, economic and social developments during the past year that have affected benefits. The review indicates how companies are responding and forecasts trends that might be observed in the coming year. For a free copy, write William D. Welsford, director, William M. Mercer International, 11211 Avenue of the Americas, New York, N.Y. 10036.

• An updated version of the **OSHA Handbook for Small Businesses** guides employers through a seven-point program to improve occupational safety and health in their companies. The booklet includes a sample checklist for a workplace self-inspection and describes sources of no-cost help available to those wanting to improve safety and health on the job. Information on OSHA's free on-site consultation program is included. For a free copy, write OSHA Publications Office, Room S1212, New Department of Labor Building, Third Street and Constitution Ave. N.W., Washington, D.C. 20210.

• The 1980-81 edition of the **Little Red Book** from GAB Business Services Inc. provides a complete roster of addresses as well as day and night telephone numbers for each of GAB's more than 700 offices in the U.S. and the Caribbean. Free copies are available by writing to R.H. Hopkins, vp-marketing, GAB Business Services Inc., 123 William St., New York, N.Y. 10038.

• **What's Happening in Product Liability? Some Recent Studies in the Field** is available for purchase. The publication consists mainly of papers presented at the fall 1979 meeting of the Machinery and Allied Products Institute. It is available to MAPI member companies at $4 and at $6 for all others. Write Charles Derr, senior vp, Machinery and Allied Products Institute, 1200 18th St. N.W., Washington, D.C. 20036.

• **A Pocket Guide to Arson Investigation,** released by Factory Mutual Engineering in October 1979, has been revised. The new book includes a foldout flow chart that diagrams the steps a firefighter should follow and the questions to ask at the response, suppression and investigation stages of a suspicious fire. Factory Mutual policyholders may buy the guide for 50 cents; cost to nonmembers is $1. Write Factory Mutual Training Resource Center, Order Processing Department, Box 688, Norwood, Me. 02062.

• **Flood Insurance Information For Lending Institutions** is an updated guide from the American Bankers Assn. The cost is $12.50 plus postage to members and $15 to nonmembers. Write American Bankers Assn., 1120 Connecticut Ave. N.W., Washington, D.C. 20036, requesting Order No. 211900.

• The American Bar Foundation has compiled an up-to-date supplement to its 1975 **German Insurance Laws:** Statutes and Regulations Concerning Insurance Supervision and Insurance Contracts. The English translation accompanies the German text. The 48-page paperback supplement is $3 and the 242-page clothbound principal volume is $27. Write American Bar Foundation, 1155 East 60th St., Chicago, Ill. 60037.

• **Work and Retirement** is the title of a new book being offered by the Andrus Gerontology Center at the University of Southern California. The book discusses the role of government in changing work and retirement patterns, age discrimination and ethical and legal issues of preretirement counseling. Copies are available for $5.85 prepaid to the Publications Office, Andrus Gerontology Center, University of Southern California, University Park, Los Angeles, Calif. 90007.

• The defense of medical malpractice cases is the subject of the recently published **Medical-Legal Monograph** offered by the Defense Research Institute. Articles discuss the investigation and preparation of medical malpractice litigation, the medical standard of care, the statute of limitations and informed consent. An appendix outlining a strategy of discovery for the defense, an annoted bibliography and case references to nearly 90 briefs are included. Each copy of the monograph costs $7.50. Write William H. Kotlowski Jr., Defense Research Institute, 1100 W. Wells St., Milwaukee, Wis. 53233. ▪

Where to send for items

To receive materials listed in Info for Buyers, write to the name and address accompanying each item, mentioning that you saw the item offered in *Business Insurance*. Readers are invited to submit educational and promotional material of interest to risk managers and employe benefit chiefs for possible inclusion in the column. All items that are free and of interest to our readers are eligible; those available at a modest cost will be considered. Send a sample to Info for Buyers, *Business Insurance*, 740 Rush St., Chicago, Ill. 60611.

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letters

Continued from page 6

the economic exposure to either the patient or his third-party payer during the experimental part of the program.

• "Experimental or research therapies" are defined by local community practice. If such therapy is generally available in or outside of an HMO, it no longer falls under the rubric of "experimental therapy" and would not qualify as an excludable benefit under that language.

You point out that employers have the "burden" of determining adequacy of coverage. We would agree and suggest that responsibility is no more or less with any other form of health insurance. The additional leverage that an employer participating in an HMO environment has is the opportunity to discuss not only the contract and its benefits, but also the service itself since HMOs not only offer the benefits but also the providers, facilities, and program in which those benefits are provided.

Loren N. Vorlicky, M.D.
Medical director
Med Center Health Plan
St. Louis Park, Minn.

Little knowledge

To the editor: Your editorial opinion regarding apathy over HMOs (March 24) indicates little knowledge of how multiemployer HMOs work.

The HMO must compete against established experienced health insurance providers. The "going in" family rate for the multiemployer HMO in our area is already $12 per month higher than the equivalent area Blue Cross Plan. Since only employes with large families and with one or more members chronically ill are willing to pay the additional $12 per month out of their pocket, the HMO is only picking up very expensive, high claim members.

Due to the above, I believe the gap in cost between conventional health insurance and HMOs will continue to widen. It is possible, of course, that in five years or so enough people will be in HMOs so that their preventive medicine concept will start to narrow the gap in their favor.

The fact that most HMOs require that members give up their family physicians and travel miles to a central clinic indicates that "apathy" is not the prime reason multiemployer HMOs are not surviving.

William H. Moebius
Assistant treasurer
The John W. Cowper Co. Inc.
Buffalo, N.Y.

Engineers maligned

To the editor: The Perspective article "Internal auditor's efforts improve risk detention" (*BI*, March 10) by accountant Que H. Christensen and professor Ronald Mano certainly maligns the thousands of safety engineers who also read your publication.

They state that "The internal auditor should be relied upon as a primary source of information with respect to risk exposure." Who is to train them? It takes five to 10 years to qualify as a Certified Safety Professional.

Messrs. Christensen and Mano go on to suggest that our internal auditors examine: (a) operational safety of machinery; (b) compliance with government regulations (OSHA and CPSA) and (c) general safety (?!).

They conclude that "the internal auditor can be useful in valuing potential loss because of his background..." I can assure any believer in this that their potential loss will indeed be substantial. I would not think of "playing accountant" in I.A.; nor would I expect them to "play safety director."

We have utilized our internal auditors as they wend their way through our 800-odd operations to verify that OSHA records are kept and in file, required postings (which we list for them) are up, safety committee minutes are in file, etc., but not for evaluation of safe procedures and equipment. If there are any such omnipotent internal auditors among your readers, I would ask that they write me. We have two excellent loss prevention openings.

If your Perspective article was intended for companies unfortunate enough to have no safety expertise aboard, the recommendation would be, *hire a competent technician*.

Charles V. Culbertson, CSP
Vp-loss prevention
Marriott Corp.
Washington, D.C.

Risk consultant

To the editor: We read with great interest your features on risk management consultants and computer systems (Risk management services, Feb. 18, and special report, March 3). Reed Stenhouse Cos. has a subsidiary called Reed Risk Management Inc., which performs virtually all phases of risk management consulting either on a direct basis or through the facilities of Reed Stenhouse. In addition, we offer risk information system design and implementation for any client desiring a custom-made system developed to fit their needs.

Berne Scalisi, CPCU
Vp
Reed Risk Management Inc.
San Francisco, Calif.

Problems told

To the editor: The article "Adjusted cover, appraisals fix inflation damage" (Feb. 18) concerning the need for yearly coverage adjustments and appraisals to cope with the effects of inflation on insurable values highlights some of the problems facing risk managers.

Your reference that most firms have actual cash value at hand since it is used for taxes and accounting purposes but that appraisals are often needed to determine replacement costs is somewhat confusing.

Taxes and accounting purposes generally involve original cost information with accumulated depreciation based on the convention elected and tabled lifes producing depreciation bearing little or no relationship to insurance depreciation. Most assets remain actively involved in production long after being fully depreciated for book and tax purposes and thus require insurance recognition. Pity the poor insured basing actual cash value on original cost less accounting depreciation, especially in today's inflationary economy.

Determining actual cash value first requires establishing the replacement cost less actual depreciation as determined by physical inspection. We feel an appraisal is essential to determine replacement cost or actual cash value in order to properly plan an insurance program.

Joseph C. Hajek
Vp-continuous service division
The American Appraisal Co.
Milwaukee, Wis.

Misspelled name

To the editor: Re: "Pinto: Risk managers applaud acquittal in Ford trial" (*BI*, March 24).

Thilo indeed!

Hell hath no fury like a trial lawyer whose name's misspelled.

John M. Hickey
Assistant corporate safety director
Rexnord
Milwaukee, Wis.

▪ *Harry M. Philo, not Thilo, is president-elect of Assn. of Trial Lawyers of America.*

Two clarifications

To the editor: I would like to clarify two statements included in Mary Ann Matlock's very interesting article "Work comp underwriters look West" (Jan. 28).

While I may have said, "We need to have better regulation," what I really meant to convey was that the workers compensation system needs better administration.

Also, a paragraph not attributed to anybody suggests that solving litigation problems would turn many state systems around and make them more like that of California. This suggests that California is a relatively non-litigious state. Unfortunately, that is not the case. California, particularly Southern California, has serious litigation problems, which Fireman's Fund for one is working to correct.

John C. Richman
Vp
Fireman's Fund Insurance Co.
San Francisco, Calif.

Fine contribution

To the editor: There were two comments in the Feb. 18 article about the role of actuaries in risk management that deserve clarification.

As recently as a few years ago there were only two or three actuaries working in this area. The question that I was answering was, "How many members of the Casualty Actuarial Society were employed by risk management consulting firms?" My understanding was that Wyatt Co. was the only established risk management firm actively employing members of the Casualty Actuarial Society and that they had two or three actuaries a few years ago. Now other risk management firms, including Warren, McVeigh & Griffin, are employing members of the Casualty Actuarial Society.

For many years there have been a number of consulting actuaries, including members of the Casualty Actuarial Society, who have been involved in risk management work. My comments were in no way meant to belittle the fine contribution made to risk management by this larger number of actuaries.

In my book, an actuary is a person in the profession of providing projections of uncertain events, including fortuitous losses, and of evaluating the impact of those events on businesses and others by considering the probability of those events and their value in present-value dollars.

The professional association of actuaries (other than life insurance actuaries) is the Casualty Actuarial Society. As I understand the Risk Sciences Group operation Joseph Destein is conducting, he has a number of actuaries on his staff; what he does not have is any actuaries who have attained membership in this association.

The focus of an actuary is a narrow one. Although I might wish to criticize the program of examinations for membership in the Casualty Actuarial Society, I cannot fault it for being narrow in scope. It includes general mathematics, probability and statistics at a graduate level, numerical methods and operations research, the theory of interest, life contingencies, principles of economics, the theory of risk and insurance, policy forms and coverages, underwriting and marketing, principles of ratemaking and data for ratemaking, insurance accounting and expense analysis and premium, loss and expense reserves. That is just for associateship in the society; fellowship in the society requires an even broader scope of academic training.

Oakley E. Van Slyke, ACAS, MAAA
Consultant
Warren, McVeigh & Griffin
Newport Beach, Calif.

Another plan

To the editor: A March 3 article regarding the new dental plan for the Suffolk County Patrolmen's Benevolent Assn. Welfare Fund stated that the plan was administered through Dentcare Delivery Systems Inc. of Valley Stream, Long Island, the only licensed not-for-profit dental insurer in New York state.

We would like to point out that New York Dental Service Corp. is also a licensed not-for-profit dental insurer in New York state and, in fact, as part of the national Delta system, is the largest dental insurer in the country.

William A. Sweeney
Marketing director
N.Y. Dental Service Corp.
New York, N.Y.

Calling attention

To the editor: The Feb. 25 article entitled "Market eases for chemical haulers" contained two errors. The second paragraph of the article reads as follows: "More than 250,000 residents of Toronto, Canada, fled their homes when chlorine gas escaped from an overturned boxcar on the Chessie System Inc. train." This paragraph should close with the words "... on the Canadian Pacific Railroad train."

Further on in the article you say members of the Assn. of American Railroads set up a multiple-owner insurance company for themselves. Since I have been a member of the AAR committee studying the capacity problem from its inception, I can assure you that the AAR has not and presently has no plan for establishing an insurance company. The proposal currently under consideration is for an intra-industry sharing of excess losses.

E. Eugene Gibson
Director-insurance, casualty prevention
Chessie System
Baltimore, Md.

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May 1-2. Liability of Corporate Officers and Directors Seminar in Chicago, sponsored by the Practising Law Institute; $225. Also **May 29-30** in New York. Practising Law Institute, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700, ext. 271.

May 2-3. Emergency Forces workshop in Philadelphia, sponsored by the National Fire Protection Assn.; $30 half day, $50 full day, $90 two days. Also **May 9-10** in Reynoldsburg, Ohio and **June 13-14** in Detroit. Write National Fire Protection Assn., Ina L. Miller, Division for Continuing Education, 470 Atlantic Ave., Boston, Mass. 02210.

May 5-6. Social Security workshop in Pittsburgh, sponsored by Meidinger & Associates Inc.; $250. Also **May 27-28** in Atlanta. Brian Livingston, Meidinger & Associates Inc., 2440 Grinstead Dr., Louisville, Ky. 40204.

May 5-6. Disaster Management Workshop in Philadelphia, sponsored by the American Society for Industrial Security; $180 for members, $230 for nonmembers. ASIS, 2000 K St. N.W., Suite 651, Washington, D.C. 20006; 202-331-7887.

May 7. Contractors Bonding, General Liability and Professional Liability Seminar, sponsored by Society of CPCU; $70 for members, $80 for nonmembers. CPCU, Providence Road, CB#9, Malvern, Pa. 19355; 215-648-0440.

May 13-14. How to Reduce Your Construction Insurance Costs seminar in Chicago, sponsored by the International Risk Management Institute Inc.; $435 per person or $375 each for groups of three or more. International Risk Management Institute Inc., 10300 North Central Expressway, Suite 350, Dallas, Tex. 75231.

May 15-16. Hazardous Chemical Safety seminar in Montreal, sponsored by J.T. Baker Chemical Co.; $265, $245 each for two from the same firm; $205 each for more than three from the same firm. Also **May 20-21** in Toronto and **May 28-29** in Philadelphia and Atlanta. Carol Morris, J.T. Baker Chemical Co., Phillipsburg, N.J. 08865.

May 17-18. Fireground Commander seminar in Boston, sponsored by the National Fire Protection Assn.: $70 member, $80 nonmember. National Fire Protection Assn.; Ina L. Miller, Division for Continuing Education, 470 Atlantic Ave., Boston, Mass. 02210.

May 18-20. Coping with Post-retirement Inflation Conference in San Antonio, sponsored by the Southwest Pension Conference; $150 for members, $165 for nonmembers. Marie T. Spivey, Coopers & Lybrand, 5000 First International Building, Dallas, Tex. 75270; 214-741-5000.

May 18-23. 1980 American Industrial Hygiene Conference in Houston, sponsored by the American Industrial Hygiene Assn. and American Conference of Governmental Industrial Hygienists; $50 for members (preregistered). American Industrial Hygiene Assn., 475 Wolf Ledges Parkway, Akron, Ohio 44311; 216-762-7294.

May 19-22. National Fire Protection Assn. Annual Conference in Boston. NFPA, 470 Atlantic Ave., Boston, Mass. 02210; 617-482-8755.

May 20-21. American Insurance Assn. Annual Conference in New York; no fee. American Insurance Assn., 85 John St., New York, N.Y. 10038; 212-433-4400.

May 21. Education Session in Atlanta, sponsored by the Southern Pension Conference. Southern Pension Conference, P.O. Box 1713, Atlanta, Ga. 30301; 404-967-3815.

May 21-23. Reinsurance Practice Course in Hong Kong, sponsored by Risk Research Group Ltd.; $2,250. Jane Coghill, Risk Research Group, Bridge House, 181 Queen Victoria St., London EC4V 4DD; 01-236-2175.

May 22. Business Risk Management seminar in Union, N.J., sponsored by the Society of CPCU; $70 for members, $80 for nonmembers. Society of CPCU, Providence Road, CB# 9, Malvern, Pa. 19355; 215-648-0440. ■

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NY INSURANCE EXCHANGE

Opening day risks written for $850,000

By ELLIS SIMON

NEW YORK—Opening day at the New York Insurance Exchange here on March 31 produced $850,000 in premiums, starting the market toward its goal of underwriting $40 million to $50 million in premiums its first year.

Seventeen member syndicates participated on 12 risks ranging from property coverage for a Cincinnati hospital to excess general liability and product liability on a Taiwanese subsidiary of Standard Oil of Indiana.

Excess facultative reinsurance placements dominated the early activity. Among the risks partially or totally placed on the exchange were:

- Excess casualty reinsurance for General Signal Corp., written by American Centennial Insurance Co. and brokered by Johnson & Higgins.
- Reinsurance of Carborundum Corp.'s master cargo risk policy, written by Insurance Co. of North America and brokered to the exchange by NBA Excess & Surplus Lines Inc.
- Reinsurance of IBM's $40 million excess of $40 million umbrella liability policy, written by National Union Fire Insurance Co. and brokered to the exchange by Johnson & Higgins.
- Foreign general liability and automobile liability in excess of $9 million for Borden Inc., brokered by Johnson & Higgins.
- Reinsurance of a property policy for Children's Hospital of Cincinnati, written by Commercial Union Assurance Cos.
- Excess property reinsurance for Colorama Laminating & Printing Co. of Passaic, N.J., brokered to the exchange by Wilcox, Barringer & Co.
- Reinsurance of $10 million excess of $20 million umbrella liability coverage for the Illinois Terminal R.R., written by Lexington Insurance Co. and brokered to the exchange by Sargent, Wobber & Co.
- Reinsurance of excess contingent business interruption coverage for Boeing Corp., written by North River Insurance Co.
- Reinsurance of excess general and product liability coverage for China-American Petrochemical Co. of Taiwan, a subsidiary of Standard Oil of Indiana. The policy was written by Chubb Group and brokered to the exchange by Eagle Brokerage Corp.

The underwriting floor of the insurance exchange was a scene of mass confusion, after board chairman T. Vincent Learson snipped a ribbon to open the exchange shortly before 9 a.m. on March 31. Underwriters quickly moved to their positions in their respective boxes awaiting the brokers who scurried about, each trying to get his risk placed first.

The identity of the actual first risk to be placed will probably be unknown. Underwriting and broker members voted before the exchange's opening not to select one symbolic "first risk."

"Lead underwriters" did not emerge on the first day, either. Brokers made their rounds on the floor, in some cases following its layout or by visiting syndicates in alphabetical order.

As Robert Sanford of Sargeant Wobber & Co. placed the Illinois Terminal R.R.'s risk with the New York Insurance Exchange, he quipped that he wouldn't reciprocate by placing the Long Island Railroad with the Illinois Insurance Exchange, which is still organizing.

The former bank branch location of the exchange with its large open windows inspired some underwriters to consider taking some marketing tips from that industry. Andy Barile of Aneco Syndicate, whose box is next to one of those expansive windows, jokingly suggested that his company would install a drive-up window.

The concentration on facultative risks, particularly excess lines, had been anticipated for the exchange's early days. Treaty business was also being offered by several brokers including Wohlreich & Anderson and Delaney Offices Inc. But underwriters weren't granted decisions on treaties as quickly as they were for facultative placements, many of which had been prearranged.

"It's a valuable reinsurance facility, but not very useful for direct placements," Kennecott Copper Co. risk manager Edith Lichota said of the new insurance exchange. Ms. Lichota, who served on the Committee of 13 that drafted the exchange's constitution and by-laws, is one of the first risk managers to use the market, with Kennecott's Carborundum subsidiary's cargo risk reinsured in the exchange.

The high excess coverages that dominated the exchange's first day are the only types of coverage for which it can compete because of legislative limits on the type of direct business the exchange can write.

"I'm quite sure, however, there will be many carriers happy to arrange to reinsure a policy on the exchange if an insured wants it done that way," Ms. Lichota said.

The concentration on reinsurance is consistent with the development plans for slow, steady growth pushed by the exchange's supporters. "We won't go pell-mell for volume," Mr. Learson said in remarks at an opening ceremony.

"We're not out to get Lloyd's. We're here to establish the same type of facility here," he continued. "Our objective is to gain a reputation equal to Lloyd's and then go out and try to beat them."

In his opening statement, Mr. Learson read a letter from Lloyd's of London chairman Peter Green, who said he hopes the exchange will "work together with Lloyd's in friendly cooperation."

An array of insurance industry and brokerage heavyweights assembled to hear Mr. Learson's remarks and witness the ribbon cutting. Among them were insurance company chief executive officers including Maurice R. Greenberg of AIG, John P. Ricker of The Continental Insurance Cos., Harold Eckmann of Atlantic Group, B.F. Russell of Crum & Forster and John Cox of INA.

Camaraderie ruled the day as Mr. Greenberg and Mr. Cox posed together for photographs and Johnson & Higgins chairman Richard Purnell and president Robert Hatcher sat next to Marsh & McLennan Cos. chairman John M. Regan and Marsh & McLennan Inc. chairman L. Patton Kline.

The exchange opened with 17 syndicates and 43 brokers after new members were admitted at the March 28 board of governors meeting. ANEX Syndicate Inc., managed by AIG Syndicate Managers Inc. and Fidelity & General syndicate, capitalized by the Fidelity & General Group of Indianapolis, joined 15 other syndicates as underwriting members (*BI*, March 24). Cedar Pine Brokerage, an AIG subsidiary, Sten-Re Cole Associates and Cooklerly Associates Ltd. also were approved as broker members.

Meanwhile New York insurance superintendent Albert B. Lewis has appointed five brokers to advise him on the exchange.

Appointed were: William F. Delaney Jr., president of Delaney Offices Inc.; Geoffrey Hughes, chairman of Lee Hughes Ltd.; Walter Kaye, president of Walter Kaye Associates Inc.; Joseph A. O'Conner, president of O'Conner Associates Ltd., and J. Robert Wilson, president and chairman of John P. Tilden Ltd. ■



Photo: M&M

Industry on hand

On hand for the exchange's opening were: Peter Solomon, deputy mayor of New York City (ho ding ribbon, left), Donald E. Reutershan, T. Vincent Learson, and superintendent Albert Lewis.



Photos: Ellis Simon

Risk manager Edith Lichota (above) witnessed the signing of a reinsurance slip on a Carborundum Co. risk at the AIG Multi-Line Syndicate box. John Cox (left) of INA, the insurer, was there with (from left to right) Robert Clements of broker Marsh & McLennan and Maurice Greenberg and John Belcher of AIG. A bird's-eye view (right) catches the layout of the NYIE.



Lloyd's restricts members

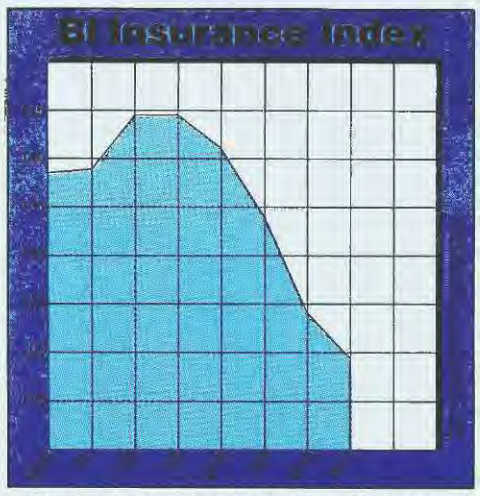
LONDON—Individual members of Lloyd's of London will be allowed to join syndicates on the New York Insurance Exchange but must not use their "show of wealth" required for U.K. activities for any separate capital sums which may have to be pledged for membership in New York or any other U.S. exchange.

Lloyd's members must be prepared to supply these requirements from other resources at their disposal because their agreed commitments to Lloyd's must be unencumbered.

Lloyd's syndicates will not be allowed to join the exchange and Lloyd's brokers are also prohibited from qualifying for it.

Lloyd's says these limitations are necessary to avoid conflict with any regulations which the New York exchange will itself adopt.

"We appreciate Lloyd's brokers must, in their clients' interests, be free to place business anywhere in the world, either directly or through intermediaries," Lloyd's committee said. So affiliated or associate companies of Lloyd's brokers will be permitted to place risks, participate in syndicates or trade as syndicate managers in the New York exchange. Equally, Lloyd's underwriting agents will not be directly allowed to manage New York syndicates, but their affiliated and associated companies may do so. —*John Miller*



Sharp declines in insurance industry stock prices in the last two weeks drove the BI Insurance Index down again. The Index on March 31 was 119.5, down 4.9% from 124.4 on March 18. The base of 100 for the index was at year-end 1978. Insurance industry stocks fell more in the last two weeks than the New York Stock Exchange (down 2.4%), Standard & Poor's (down 1.9%) and The Dow Jones Industrials (down 2%). The biggest of the 16 gainers in the index were Pinehurst Corp., up 18.4% to $7.25, and Chubb Corp., up 12.7% to $35.50. Among the biggest losers of 48 stocks that dropped were: Appalachian National Corp., down 22.2% to $1.75; United Services Life Insurance Co., down 17.6% to $11.12; Ryan Insurance Group, down 14.7% to $14.50; Rollins Burdick Hunter, down 14.3% to $16.50 and E.H. Crump Cos., down 14.3% to $7.50.

British Issues

4/1 Companies	Price pence	P/E	Div. pence	Yield %	2 Week High—Low pence	pence
Comml Union	133	6.0	14.00	10.5	134—	126
Eagle Star	178	6.8	12.64	7.1	178—	156
Genl Accident	232	6.4	17.14	7.4	232—	226
Gdn Royal Exch	234	7.3	18.57	7.9	234—	224
Phoenix	218	6.6	18.57	8.5	218—	210
Royal	325	6.6	30.71	9.4	327—	307
Sun Alliance	544	9.2	39.29	7.2	558—	534
Brokers:						
CT Bowring	138	9.7	8.57	6.2	141—	127
CE Heath	212	8.5	11.83	5.6	212—	195
Hogg Robinson	104	9.4	7.48	7.2	107—	100
Alex Howden	105	8.2	10.00	9.5	114—	102
JH Minet	103	9.6	5.95	5.8	105—	99
Sedg Fb Bl Pn	98	8.6	7.14	7.3	99—	93
Stenhouse Hldg	78	7.4	6.46	8.3	78—	71
Stew Wrightson	190	8.1	16.15	8.5	190—	182
Willis Faber	247	12.3	15.71	6.4	250—	240

Source: Kitcat & Aitken, London

Analysts dismiss bond fuss

Continued from page 1

the deteriorating bond market.

Concern is spreading that the decline of the bond market could foreshadow another capacity crunch like the one in the mid-1970s caused by insurers' then large investments in the troubled stock market.

But most financial analysts say the low price of bonds is temporary and that it will not force any capacity crunch. Insurance company stocks, however, are plummetting in reaction to the falling bond market.

Mr. Low has set deficiencies in deposits for 19 out-of-state companies writing business in Arizona at $400,000. About 100 insurance companies will be ordered to make up the reduced values of their bonds or else face license revocation hearings in late May, he said.

Two insurers have already complied with the commissioner's order. Globe American Casualty Co., made up its deficiency of $42,000 and National Investors Fire & Casualty Co. met its $16,500 deficiency.

Prompting the commissioner's action and stirring concern among regulators and insurance buyers is the drop in the market value of bonds held by insurers.

The market value of bonds held by property and casualty insurance companies has declined an average of 25%, estimates Allerton J. Cushman, an insurance analyst with Morgan Stanley & Co. in New York.

But Mr. Cushman and other analysts argue that the decline in the bond market, while a serious problem, is nowhere near forcing a capacity squeeze.

Crum & Forster is concerned that its $2 billion in bond holdings has dropped in market price by about $150 million since the beginning of the year, said vp Michael Morrissey. But the company "doesn't see it as a serious problem," he added.

"We have never had to sell a bond to pay a loss, not even in the worst period for the insurance industry in '74 and '75," he said. "It is inconceivable—well, that's a strong word—highly unlikely that we would ever have to sell a bond to pay a claim or an expense."

Mr. Morrissey cited a report by Mr. Cushman hypothesizing that a large insurer, on the order of Aetna Life & Casualty Co., would have to operate at a combined ratio of 130% for several months before a liquidity squeeze would force it to sell its bonds.

BI ticker

"That is an underwriting environment that we have never seen before and don't expect ever to see," Mr. Morrissey said.

Myron Picoult, an analyst with Oppenheimer & Co., is also convinced that the worries created by the drop in bond prices are somewhat exaggerated.

"If the casualty industry were forced to liquidate bonds to cover claims, the economic environment that would likely prevail would be such that investors would have to concern themselves with much more than simply the value of bond portfolios," he argues.

"It would mean something that approaches the collapse of the financial system."

It would take a combination of highly unlikely factors, including the complete drying up of company cash flows and a rate of inflation exceeding 30% or 35%, to force insurance companies to sell their bonds rather than hold them to maturity, Mr. Picoult says.

"Could anyone afford a rate of inflation that high? Bonds would become worthless, long-term would mean overnight. Every piece of paper would become worthless," he said. "I suppose it could happen—a lot of strange things have happened in the past—but I can't envision something like this. And I am not one to look at the world through rose-colored glasses."

Crum & Forster's Mr. Morrissey argues that the financial bath taken by insurers in the stock market in the 1970s was not a reflection of having to sell stocks to pay claims. It was an investment decision brought on by worries that the market was headed for a Depression-like drop.

"The decision to sell stocks in 1974 was in almost every case a judgment to take a loss on the market, rather than raising money for liquidity purposes. It wasn't a function of claims at all," he said.

Insurers are also in better financial shape now than they were in 1974 and are much more able to withstand a run on their surplus, he says.

"When our worst liquidity squeeze occurred in '74 and '75, in each of those two years there were two-month periods when our premium flow was not enough to pay claims and expenses. We had to dip into our CDs (certificates of deposit) for a couple of million dollars," he said.

Crum & Forster had $115 million in CDs then. Now the CD cushion is almost double, $240 million. Crum & Forster also has $40 million in cash.

"We have a number of problems these days—the underwriting cycle, workers comp claims—but among our many concerns, liquidity is not one of them. That is pretty far down the list," Mr. Morrissey said.

Mr. Cushman of Morgan Stanley agrees. Insurers' intrinsic value has declined, he says, "but that has not affected any company's capabilities as a risk-bearing entity."

Arizona commissioner Low, however, is concerned about the impact of the bond market on the insurers' financial strengths.

"We have looked at the bonds posted with us as part of the statutory deposits and we have seen a definite decline in their value," he said. "Keeping these bonds at book value is fine if you are sure you have a solvent company. But you don't worry about the 95% solvent companies; you have to worry about the 5% that might be insolvent.

"A few years back, a company writing business here was not ordered to make up its deficiency and it went bankrupt. I don't intend to let that happen again," he said.

Other companies already notified by the commissioner and the amounts lacking in the deposits are: American Bonding Co. ($37,000); Automotive Insurance Co. ($13,000); Avemco Insurance Co. ($14,000); Covenant Mutual Insurance Co. ($6,500); California Mutual Insurance Co. ($10,000); Foremost Guaranty Corp. ($10,000); Highlands Underwriters Insurance Co. ($26,000); Jefferson Insurance Co. of New York ($11,000); Maine Fidelity Life Insurance Co. ($2,000); Merchants Mutual Bonding Co. ($30,000), and Virginia Surety Co. Inc. ($18,000).

These firms "clearly did not have enough" in the deposits to meet state requirements, Mr. Low said. A few other firms, such as Chicago Insurance Co. and Employers National Insurance Co., were notified that they could meet the state's requirements by proving they had sufficient deposits in other states.

Among the remaining firms scheduled to be sent notices by the state, the largest deficiency is $185,000, charged to Industrial Life Insurance Co. of Dallas.

Mr. Low is the only state commissioner to date to take this action on insurers' deposits. But the National Assn. of Insurance Commissioners is watching what happens in Arizona to decide what recommendations, if any, it should make to other members.

Bruce Robb, senior vp at Safeco Life Insurance Co., said he was not surprised that the Arizona commissioner increased deposit requirements. He also expects other states might follow suit as bond prices continue to fall. But putting up additional bonds is "no problem" for Safeco.

NLT Corp.

Net income for the NLT Corp. reached $132 million in 1979, a 13% increase from the $117 million earned in 1978. For the fourth quarter, the company's earnings rose to $35.3 million, a 21% jump over the same period in 1978.

The Nashville-based holding company also recently voted to increase its quarterly cash dividend by 18%, to 33 cents per share from 28 cents per share of common stock.

Gen Re

General Reinsurance Corp. has raised its first-quarter dividend to 70 cents per share from 50 cents, payable March 28 to stockholders of record March 24. The company has also decided to propose a two-for-one split in its stock.

Hartford steam

The Hartford Steam Boiler & Inspection Co. has declared a regular quarterly dividend of 55 cents per share payable April 30 to stockholders of record April 10. ■

BI Industry Stock Report

Insurance Cos.		March 31, 1980 Price	% Chg.	P/E	$ Div.	% Yld.	3-18-80—3-31-80 High	Low	Vol. (000)
Aetna Life & Cas Co	NYSE	32.62	5.7	4.7	2.12	6.5	32.63	30.63	884.8
American Bankers Ins Co Fla	OTC	7.12	-6.6	4.8	0.44	6.2	8.00	6.38*	149.0
American Finl Corp Ohio	OTC	25.50	-1.9	2.8	0.04	0.2	26.25	24.25	92.2
American Gen Ins Co	NYSE	26.25	-2.3	4.0	1.00	3.8	26.75	25.50*	131.3
American Indty Finl Corp	OTC	12.00	-10.3	3.6	1.12	9.3	13.50	11.63*	24.8
American Intl Group Inc	OTC	52.00	-1.9	8.4	0.50	1.0	52.00	48.75*	469.0
American Natl Ins Co	OTC	10.88	-12.1	4.4	0.62	5.7	12.25	10.13*	170.6
American Sts Life Ins Co	OTC	16.50	-8.3	6.8	0.64	3.9	18.00	16.00*	5.0
Aneco Reins Ltd	OTC	5.37	-10.4	0.0	0.00	0.0	6.25	5.25*	92.7
Appalachian Natl Corp	OTC	1.75	-22.2	5.0	0.16	9.1	2.25	1.75*	1.1
Avemco Corp	AMEX	8.75	-9.1	6.5	0.50	5.7	10.13	8.25*	25.5
Banks Iowa Inc	OTC	22.00	-10.2	4.6	1.32	6.0	24.50	22.00*	3.7
Bitco Corp	OTC	22.00	-12.0	3.6	1.68	7.6	25.00	20.00*	13.1
Carolina Cas Ins Co	OTC	5.87	-14.5	3.4	0.32	5.4	6.88	5.88	2.4
Central Natl Finl Corp	OTC	7.25	0.0	2.9	0.50	6.9	7.25	7.25	0.1
Chubb Corp	OTC	35.50	12.7	4.5	2.40	6.8	35.50	31.38	202.7
Combined Ins Co Amer	OTC	16.25	-3.7	4.9	1.40	8.6	16.88	16.13*	274.0
Connecticut Gen Ins Corp	NYSE	32.00	3.2	4.9	1.52	4.8	32.00	29.75	423.2
Continental Corp	NYSE	24.00	1.1	4.5	2.20	9.2	24.50	22.00*	259.9
Crawford & Co	OTC	13.00	0.0	11.1	0.48	3.7	13.00	12.00*	34.3
Crown Life Ins Co	OTC	63.00	-0.4	45.7	2.40	3.8	64.00	63.00	4.5
Crum & Forster	NYSE	45.50	2.8	4.2	2.52	5.5	46.00	42.25*	264.6
Employers Cas Co	OTC	28.50	-1.7	5.1	1.20	4.2	29.00	28.50	9.9
Erc Corp	OTC	48.75	-10.1	5.6	1.40	2.9	53.75	45.50*	195.3
Equifax Inc	NYSE	17.25	-4.2	5.5	2.20	12.8	18.13	17.25*	6.3
Farmers Group Inc	OTC	23.25	-5.1	7.8	1.00	4.3	24.75	23.00*	338.7
First Colony Life Ins Co	OTC	28.00	-1.8	11.8	0.76	2.7	28.50	28.00	18.9
Foremost Corp Amer	OTC	13.88	-5.9	5.9	0.60	4.3	14.75	13.00*	59.1
General Reins Corp Del	OTC	83.00	7.8	6.8	2.80	3.4	83.00	78.00	196.3
Globe Life & Acc Ins Co	OTC	27.62	-0.5	10.1	0.40	1.4	27.63	26.00*	64.4
Great West Life Assurn Co	OTC	141.00	-6.0	6.4	8.00	5.7	150.00	141.00	2.7
Hanover Ins Co	OTC	29.75	-5.6	3.3	0.52	1.7	35.00	28.25*	61.1
Hartford Steam Boiler Insptn	OTC	26.50	-7.0	5.3	2.20	8.3	28.50	23.50*	10.8
Integon Corp	NYSE	18.25	-11.5	7.0	0.48	2.6	20.38	16.63*	142.8
Jefferson Natl Life Ins Co	OTC	26.50	8.2	6.8	0.64	2.4	26.50	21.00*	11.5
Kemper Corp	OTC	22.88	2.8	3.4	1.40	6.1	22.88	20.88*	337.1
Lincoln Natl Corp Ind	NYSE	33.75	-7.2	4.9	2.80	8.3	37.13	33.25*	103.2
Mgic Invt Corp	NYSE	18.75	0.0	5.6	1.12	6.0	18.75	16.63*	749.0
Mission Ins Group Inc	NYSE	26.13	5.6	6.3	0.80	3.1	27.00	25.50	87.5
Nationwide Corp Ohio	OTC	17.75	2.2	5.1	0.66	3.7	17.88	17.38	4.0
Nn Corp	OTC	30.75	-0.8	6.6	2.00	6.5	34.00	29.25	238.0
Northwestern Natl Life Ins	OTC	23.00	-12.0	4.7	1.25	5.4	26.38	22.00*	59.1
Ohio Cas Corp	OTC	30.37	0.8	4.3	1.76	5.8	30.38	29.25*	147.8
Old Rep Intl Corp	OTC	12.50	-10.7	2.9	0.92	7.4	14.00	11.25*	161.8
Pinehurst Corp	OTC	7.25	18.4	7.6	0.00	0.0	7.88	6.13	82.6
Preferred Risk Life Ins Co	OTC	16.75	-4.3	5.9	0.64	3.8	17.50	16.75*	7.0
Provident Life & Acc Ins Co	OTC	34.50	-9.2	4.6	1.88	5.4	38.00	32.50*	19.8
Republic Natl Life Ins Co	OTC	16.25	-5.1	8.6	0.70	4.3	17.13	14.00*	372.6
Ryan Ins Group Inc	OTC	14.50	-14.7	3.6	0.16	1.1	17.00	14.50*	7.2
St Paul Cos Inc	OTC	33.50	1.9	4.6	2.00	6.0	34.38	33.50	472.0
Safeco Corp	OTC	33.38	0.0	4.8	1.80	5.4	34.13	31.75	336.4
Sri Corp	OTC	15.00	0.0	3.0	1.00	6.7	15.50	13.75*	59.6
Seibels Bruce Group Inc	OTC	13.00	-3.7	5.2	0.80	6.2	13.50	12.75	39.2
Southwestern Life Corp	OTC	33.50	-8.5	12.1	1.00	3.0	38.75	31.00*	803.2
Standard Life Ins Co Ind	OTC	21.00	-8.2	13.0	0.44	2.1	23.00	21.00	22.2
Statesman Group Inc	OTC	4.00	0.0	3.1	0.15	3.8	4.00	3.75*	27.7
Tokio Marine & Fire Ins Co	OTC	114.00	-3.4	12.1	0.00	0.0	116.25	109.00*	1.8
Travelers Corp	NYSE	38.25	3.0	4.2	2.48	6.5	38.25	36.38	440.6
United Fire & Cas Co	OTC	25.75	0.0	7.9	0.90	3.5	25.75	25.75	7.2
United States Fid & Gty Co	NYSE	37.00	4.2	4.5	2.80	7.6	37.00	35.38	259.7
United Svcs Life Ins Co	OTC	11.12	-17.6	4.1	0.80	7.2	13.50	11.00*	49.9
Uslife Corp	NYSE	20.75	1.8	5.3	0.68	3.3	20.75	19.13*	373.7
Washington Natl Corp	NYSE	19.75	-4.8	4.2	1.50	7.6	21.25	18.00*	28.2
Zenith Natl Ins Corp	OTC	12.75	-1.9	8.4	0.40	3.1	13.50	12.00*	36.2
INSURANCE COMPANIES	AVERAGE			5.6		4.5			
Agents/Brokers									
Alexander & Alexander Svcs	OTC	27.25	0.0	9.5	1.64	6.0	27.50	24.13*	289.4
Baldwin & Lyons Inc	OTC	21.25	-9.1	4.0	0.70	3.3	23.38	20.50*	26.0
Corroon & Black Corp	NYSE	20.25	-11.0	7.5	1.72	8.5	22.25	20.00*	34.5
Crump E H Cos Inc	OTC	7.50	-14.3	7.3	0.36	4.8	8.75	7.50*	45.7
Hall Frank B & Co Inc	NYSE	22.88	0.0	7.9	1.44	6.3	23.88	21.38	81.6
Integrated Res Inc	AMEX	10.25	-9.9	6.5	0.00	0.0	12.38	8.50*	119.9
James Fred S & Co Inc	NYSE	20.00	-1.8	7.6	1.40	7.0	20.50	19.50*	40.8
Marsh & Mclennan Cos Inc	NYSE	54.00	-7.3	9.2	3.60	6.7	57.50	53.88*	109.4
Penn General Agencies Inc	OTC	1.37	0.0	10.6	0.00	0.0	0.00	*******	0.0
Reed Stenhouse Cos Ltd	OTC	8.12	0.0	6.3	0.48	5.9	8.38	8.00	33.8
Rollins Burdick Hunter Co	OTC	16.50	-14.3	7.4	1.24	7.5	19.25	16.50*	191.7
AGENTS/BROKERS	AVERAGE			7.3		6.0			
Conglomerates/Holding Cos.									
American Express(Fireman's Pd)	NYSE	29.50	12.4	6.1	2.00	6.8	29.50	25.50	667.8
Anderson Clayton(Ranger/PanAm)	NYSE	19.12	-5.6	4.8	1.12	5.9	21.00	18.38*	95.9
City Investing Co. (Home Ins.)	NYSE	15.00	-1.6	3.0	1.50	10.0	16.00	14.75	629.6
CNA Finl Corp (CNA)	NYSE	12.25	-12.5	2.6	0.00	0.0	14.00	11.75*	77.1
Control Data (Comml. Credit)	NYSE	46.25	-5.6	6.7	0.60	1.3	48.63	44.50*	659.9
INA Corp (Ins. Co. of NA)	NYSE	29.50	3.5	4.7	2.20	7.5	29.50	27.00*	647.8
ITT (Hartford Group)	NYSE	24.12	0.0	9.1	2.40	9.9	24.13	23.50*	2,076.3
Reliance Group Inc	NYSE	61.75	1.6	2.6	2.00	3.2	63.00	61.38	1,542.9
Sears Roebuck & Co. (Allstate)	NYSE	16.25	4.8	6.4	1.36	8.4	16.25	15.00*	2,302.6
S & B Co. (Bayly Martin & Fay)	NYSE	12.75	-1.9	4.2	1.00	7.8	13.00	12.75*	13.4
Teledyne Inc (Argonaut)	NYSE	127.50	-5.7	4.6	10.00	7.8	135.25	125.50*	442.6
Transamerica Corp (Occidental)	NYSE	15.12	0.0	4.1	1.12	7.4	15.13	14.63*	559.1
CONGLOMERATES/HOLDING COS.	AVERAGE			4.3		6.2			

System design: Altman Information Systems (Mesirow & Co.)

Corporate aviation flies first class

Continued from page 3

policy if a company lacks a professional pilot or doesn't show evidence of refresher training and attentive maintenance procedures.

"We principally look at the pilot and look at the plane," said Richard Miller, senior vp of Associated Aviation Underwriters. AAU along with United States Aircraft Insurance Group and Insurance Co. of North America write most of the corporate aircraft business. Southeastern Aviation Underwriters of Atlanta. Southern Marine & Aviation Underwriters and the Aviation Office of America Inc. are also active in the market.

Crew report

The key to selling an aviation risk, said Raymond L. Richards, an INA vp, is providing the underwriter with the report he wants when "looking at the crew who will operate the plane, what type of training they get, where they get it and how much refresher training they will receive."

Otherwise, Mr. Richards said, an insurer "can't uprate enough; you simply don't insure those types of risks."

And aviation insurers usually know what it takes to train and maintain an aircraft. At AAU, all underwriting personnel are present or former aviators, said Mr. Miller, himself a former bomber and transport pilot during World War II.

AAU's inspector is a former pilot for Pan American World Airways, and the person who checks in-flight cockpit procedures of pilots employed by its policyholders was a one-time naval aviator.

Minor losses

Still, all premiums are not profits for aircraft insurers. There are losses not as catastrophic as a crash that kills the occupants of a plane and ruins its hull, but which eat up premiums nonetheless.

A piece of machinery as sensitive as a jet aircraft can be extensively damaged by only a lightning strike or a slight nick or dent. Insurers are at times presented with large claims for such things as "hangar rash," where a plane being pushed into or out of a hangar damages another craft.

Another type of damage insurers fear results from a process called ingestion: foreign objects, dirt and sludge sucked into a running jet engine, jamming its works.

"It's not unusual to see a $50,000 to $100,000 loss like that you wouldn't even read about," Mr. Miller said. "The National Transportation Safety Board doesn't even investigate it, but it eats up premium just the same." ■

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Asbestos manufacturer sues insurers

Continued from page 1

More than 100 policies are at issue in the litigation.

Currently The Home Insurance Co. is refusing to indemnify Johns-Manville for $800,000 paid to 12 claimants for property damage. The Home, the first excess insurer for Johns-Manville from 1963 to 1976, is denying coverage. It argues that the Travelers Indemnity Co., comprehensive general liability and product liability insurer for Johns-Manville from 1947 through 1976, is liable.

The Travelers argues that its coverage for those years has been exhausted.

The Home counters that The Travelers has misallocated payment of claims under its policies by using the exposure theory instead of the manifestation theory, which The Home prefers.

Damages asked

Now that The Home is construing the manifestation theory, so are all the other primary insurers, Johns-Manville says in its suit. The insurers are telling Johns-Manville it has uninsured gaps under the manifestation theory.

Johns-Manville is asking for compensatory damages of $1 million and exemplary damages of $10 million from The Home. It is also asking for $1 million on the grounds that The Home is violating the insurance code of California for failing to indemnify and defend.

The primary insurers for Johns-Manville named in its suit are: Commercial Union for 1934 through 1948; Sun Insurance Office Ltd. for 1946 through 1970; Canadian Indemnity Co. for 1970 through 1975, and Rocky Mountain International Insurance Ltd. for 1977 to 1978.

Also named in the suit that involves policies purchased over three decades are: Insurance Co. of North America; Midland Insurance Co.; Northbrook Insurance Co.; Columbia Casualty Co.; American Home Assurance Co.; Puritan Insurance Co.; Lexington Insurance Co.; Granite State Insurance Co.; The Aetna Casualty & Surety Co; American Re Insurance Co.; Highlands Insurance Co.; First State Insurance Co.; Lloyd's of London; National Union Fire Insurance Co. of Pittsburgh; Centaur Insurance Co.; International Surplus Lines; Northeastern Fire Insurance Co. of Pa.; AIU Insurance Co.; Gibraltar Casualty Co.; Prudential Reinsurance Co.; Continental Casualty Co., and Insco International Ltd.

Point of contention

Now that The Home is construing the manifestation theory, so are all the other primary insurers, Johns-Manville says in its suit. The insurers are saying the firm has coverage gaps.

Other cases

Exposure versus manifestation is at issue in about a dozen cases around the country, according to Philip J. McGuire of Dowd, Dowd & Dowd, a Chicago law firm representing Northbrook Insurance Co., one of the insurers named by Johns-Manville.

San Francisco was chosen as a site for this case because California, with major Johns-Manville plants, shipyards and the Rescom cases, has one-third of the cases pending against the firm, assistant general counsel Mr. Von Wald said.

Most notable are the claims against Rescom, a wallboard material. A Nevada jury awarded MGM Grand Hotel of Las Vegas $14.6 million, including $10 million in punitive damages, in a Rescom case. About $5 million in Rescom cases are pending in the San Diego area (*BI*, Sept 3, 1979).

Some of the named defendants, notably Northbrook and The Home, have supported the exposure theory in other cases. But that was regarding the definition of a property damage occurrence stemming from claims against certain Johns-Manville building products, Mr. Von Wald said. ■

Ky. court to rehear mining suit

LEXINGTON, Ky.—A rehearing in federal court is scheduled this summer in a $60 million damage suit filed against Blue Diamond Coal Co. by widows and families of 15 victims of the Scotia mine disaster.

The trial was set for Aug. 18 in federal court in Frankfort.

The suit was filed against Blue Diamond of Knoxville, Tenn., by widows and families of 15 miners killed March 9, 1976, at Blue Diamond's subsidiary, Scotia Coal Co. of Oven Fork, Ky. The suit did not apply to an explosion two days later that killed 11 men who entered to investigate the first blast.

The widows' suit—accusing Blue Diamond of negligence in failing to maintain a safe mine—was first heard by U.S. District Judge H. David Hermansdorfer in 1977. He ruled that Blue Diamond was immune to a suit by the widows because of a state law that says employers or contractors liable to pay benefits under Kentucky's workers compensation laws are immune from other liability.

Blue Diamond lawyers had argued that Blue Diamond and Scotia were legally one and the same and were both protected by the state workers compensation law.

Attorneys for the widows argued that the two were separate companies, and that the workers compensation law protected Scotia against the damage suit, but not Blue Diamond.

The 6th U.S. Circuit Court of Appeals upheld that position, ruling in March 1975.

After the reversal, Judge Hermansdorfer stepped down, but retains jurisdiction over a criminal case against the Blue Diamond for alleged safety violations. ■

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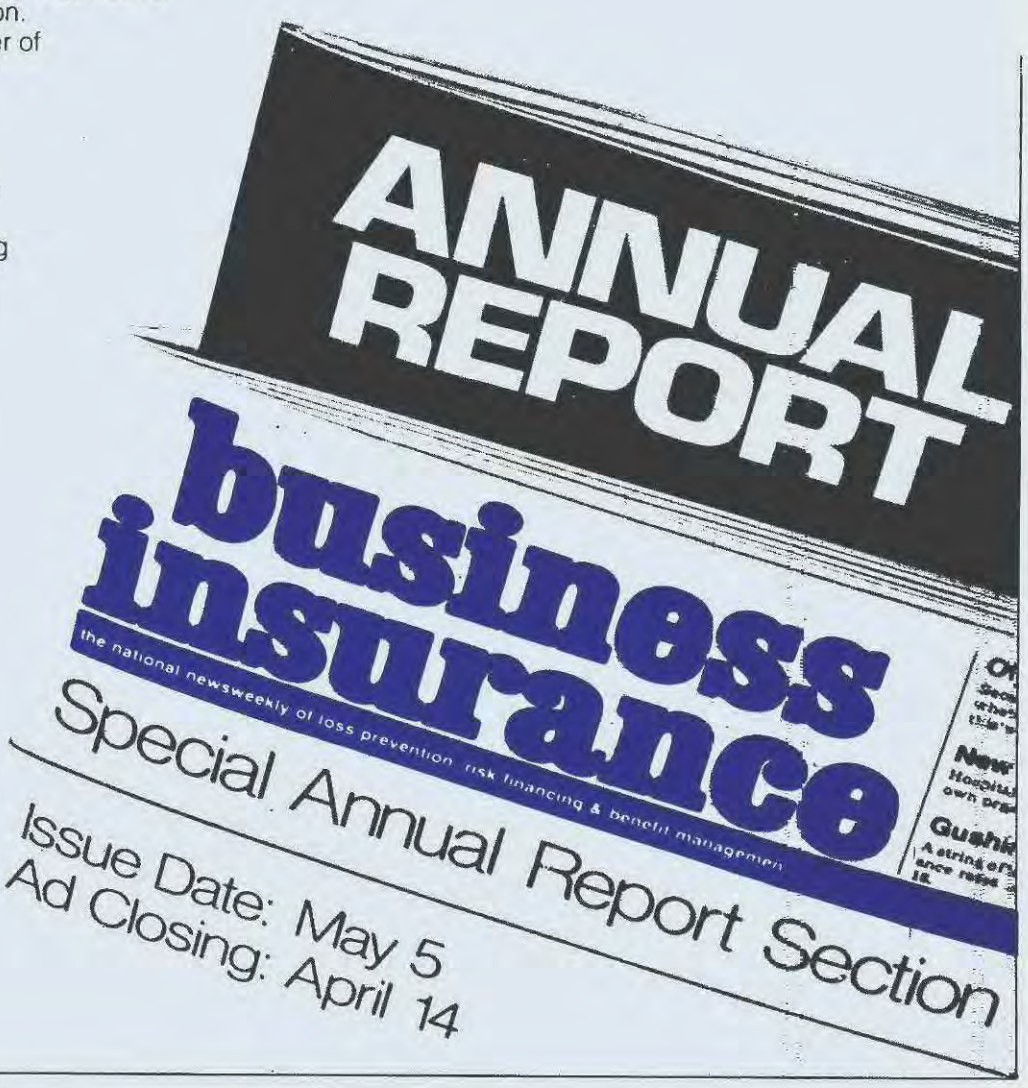
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Kahlert moves up

Mead Corp. names Reiff risk manager

Mead Corp. in Dayton, Ohio, has named **Terrence A. Reiff,** 41, manager and **Sally E. Schamp** assistant manager of the risk management and insurance department. The department is responsible for analyzing risk exposure, designing protective systems and placing insurance coverage for Mead and affiliate companies. Mr. Reiff is assuming duties formerly performed by **George Kahlert,** who was promoted to president of Mead Reinsurance Corp., a subsidiary. Mr. Reiff joined the company in 1978 as assistant insurance manager after working for NCR Corp. in a similar capacity. He has also been in the insurance business with McCleary Jones Inc. and Marsh & McLennan Inc. He has a B.A. degree in business administration from Michigan State University and a CPCU. Ms. Schamp joined Mead in 1959 and has held several positions in the firm's insurance department, including insurance analyst and insurance supervisor. She attended Insurance Institute of America and is a Certified Professional Insurance Woman. Mr. Reiff reports to treasurer James Samartini; Ms. Schamp reports to Mr. Reiff.

comings & goings: buyers

* * *

Gary Lindsey, 36, is the new director of risk management at Itel Corp. in San Francisco, replacing **Steve Hause,** who has joined the risk management consulting and services firm ISU. Mr. Lindsey, who reports to treasurer Richard Bachman, was previously U.S. regional manager for Genster Ltd. in San Francisco. He has a business and finance degree with a minor in engineering from California State Polytechnic University and is working for a CPCU designation.

* * *

Richard W. Feder, 26, has been named to the newly created position of insurance analyst at Merrill Lynch & Co. Inc. in New York. Mr. Feder will be responsible for loss prevention, safety programs and risk control. He previously worked as insurance coordinator in casualty/property administration at Becton, Dickinson & Co. in Paramus, N.J., a position still vacant. Mr. Feder, who reports to Charles Mullen, director of insurance and risk, has a bachelor's degree in business administration from Rutgers University.

* * *

Marcus B. Harden, 30, has been named benefits representative at The Louisiana Land & Exploration Co. in New Orleans. Mr. Harden, who reports to Charles J. Canepa, supervisor of employe benefits administration, was previously manager of pension administration at Tenneco Inc. He has a B.S. degree in accounting from Sam Houston State University.

* * *

Karl Trommler, 30, has been named loss prevention manager at Essex Chemical Corp. in Clifton, N.J. Mr. Trommler was previously national accounts supervisor for loss control at The Home Insurance Co. in New York. He has a master's degree in safety from the University of Southern California, an associate degree in engineering from Pennsylvania State University, a bachelor's degree in economics and management from West Chester State College and CSP and ARM designations. He reports to Michael Appelbaum, assistant treasurer and insurance director, in this new position, formerly a loss prevention specialist spot that had been vacant.

* * *

Burndy Corp. in Norwalk, Conn., has named **Nancy Morales,** 25, to the newly created position of benefits administrator. Ms. Morales, who reports to Eric Cooper, manager of employe benefits, was previously compensation specialist at United Brands in New York. She has a B.A. degree in government from Smith College.

* * *

William D. Dodge, 42, has been promoted to vp-insurance at Fuqua Industries Inc. in Atlanta, Ga., where he previously served as director of insurance. Before joining Fuqua, Mr. Dodge was risk manager for measurement and control for the North American operations of Schlumberger Ltd. in Atlanta and has held risk management positions with Lockheed



Dodge

Georgia Co. and Liberty Mutual Insurance Co. Mr. Dodge is a graduate of Georgia Tech University and has a master's degree in risk and insurance from Georgia State University, and holds ARM and CPCU designations. He reports to Lawrence Klamon, senior vp-finance and administration.

•

We'd like to report on staff changes in your risk management or employe benefits department. Just drop a note to Mary Ann Matlock, Business Insurance, 708 Third Ave., NY., N.Y., 10017 or call 212-986-5050. We'd also like to receive pictures of the people.

Investment income cuts ADA rates

Continued from page 1
ting interest of 14% to 15% on the reserves, he said.

The main difficulty is agreeing on an interest rate. Buyers argue that they should receive marginal or current interest rates; insurers are willing to recognize a portfolio rate, or average of interest rates over a long period of time.

Most major insurers are now gauging investment income when pricing policies, Mr. Scalise said, naming American International Group, Royal Globe Insurance Co. in New York and Insurance Co. of North America in Philadelphia.

Buyers ask

The Travelers Insurance Cos. in Hartford, Conn., is handling a greater number of large accounts in which investment income is coming into play, said Travelers casualty/property vp C.J. Clarke. "Buyers are becoming much more aware of the value of money," Mr. Clarke said.

The Travelers most often shares investment income on large accounts, such as $1 million and up, Mr. Clarke said. "There is much more competition to accommodate that kind of customer."

"There is a need to do this more or insurers will not write the account at all," Mr. Scalise said. "Insurers are better off offering investment income discounts and keeping the account. It's better not to bargain—insurers are going to lose money."

Even though insurers are sharing income from investments they will not be losing profits on the deal, Mr. Scalise said. "There's a lot of cake out there. Interest rates are so high there's a lot to share."

"Half a loaf is better than none," Reed's Mr. Farver added.

Insurers are much more likely to consider investment income in the ratemaking process when handling large premiums and risks with a long payout period, such as professional and product liability.

"If it's a large chunk of money, the underwriter is going to be a lot more flexible. Most insurers start getting excited when premiums are going to be $1 million and up," Mr. Scalise said.

Sophistication

Royal Globe won't consider taking investment income into account in the ratemaking process unless premiums are $7 million to $10 million or more, says company vp John E. Derby. "We have not seen a great thrust to have investment income reflected in rates or premiums," he said.

The practice is becoming no more common in the face of today's soft market or high insurance rates, nor is there increased pressure being exerted on insurers by the buyers, he said.

The pressure on other insurers is probably due to a concerted effort by sophisticated buyers to retain the investment income or outstanding loss reserves, Mr. Derby said.

Better to be big

Royal Globe won't consider taking investment income into account in the ratemaking process unless premiums are at least $7 million to $10 million, says vp John E. Derby.

"We feel the pressure in an indirect way," said Paul Jurgens, vp at The Hartford Insurance Co. While Hartford is not sharing investment income with policyholders, Mr. Jurgens admitted that investment income is considered when determining rates.

"Sure it comes into our thinking that we're making an investment income. But there isn't anyone who will say they will reduce a price 10% because they're going to make an investment income."

Mr. Jurgens said pressure from corporate buyers has forced Hartford to offer pricing on an individual risk basis, rather than to modify rates for investment income.

"We do have to price competitively, but we price to underwrite a profit," Mr. Jurgens said.

Mr. Jurgens argues against reflecting investment income in ratings, for several reasons.

"It takes many years to determine the cost to pay losses incurred and interest rates are a varying kind of thing. One can't know what the rate will be in four to five years," he said.

"Investment income is a kind of correcting device, not something you can plan one risk at a time," Mr. Jurgens added."

Competition

Insurers competing most heavily for large accounts are those most likely to turn to investment income sharing as a way to lure premium dollars.

But Poe & Associates, administrator of the ADA plan, denies competition has anything to do with the new rate determination on the ADA plan. We could do without sharing the investment income. We could just accept the loss ratio that many points higher," said Robert Smith, the Poe executive on the account.

"Because the ADA is a valued client with whom Chubb has had a 10-year relationship, Chubb is willing to go a step farther and share its income," Mr. Smith said. ■

Oil rig disaster may raise rig rates

Continued from page 2
noted Robert Quinn, president of J.H. Blades in Houtson.

"We've never had this kind of problem before and it's very likely it could be a freak occurrence resulting from something like metal fatigue," he says. "It was through a hell of a lot worse storms than this."

The impact upon insurance markets cannot be predicted until investigators determine the accident's cause, Mr. Quinn said. There will probably be a significant impact, however, if the loss is blamed on design, he noted.

Waiting game

"We will have to wait for the cause of the disaster before making any major decisions, but there will certainly be no weakening of rates," Peter Wingett, chairman of the London master drilling rig contract, told *Business Insurance*.

Possible causes of the disaster, believed to be the biggest loss of its kind, include metal fatigue and corrosion or possibly some underwater collision with another rig. Tests on the rig and its broken-off leg are underway in Norway.

The Kielland was built in France in 1976 and was bought by Stavanger Drilling Co. of Norway. It was leased by Phillips Petroleum, which used it to provide a hotel and recreation center for some of its North Sea oil rig workers. It was one of 11 floating hotels of its kind in the world, but numerous drilling rigs and other crafts use similiar systems to maintain buoyancy and stability in high seas.

Lloyd's insurers anticipate that U.S. attorneys may offer their services to European next-of-kin in hopes of getting contingency awards, although no Americans were killed in the catastrophe. The dead include 83 Norwegians, 35 Britons, three Finns, one Spaniard and one Portuguese.

"There may well be legal battles in several countries to establish blame, and no one would be surprised if some U.S. lawyers are not already over in Europe offering facilities to relatives in the hope of high court awards in the U.S., if they can bring the Phillips Corp. interest in the U.S.A. into the affair," said U.K. insurance lawyer Denis Marshel.

More losses

The Alexander Kielland loss came less than a week after an explosion aboard a fixed platform in the Gulf of Mexico claimed two lives and injured 29 workers Pennzoil operated the platform, in which it shared interests with five other firms.

Both AIG Oil Rig and All American Marine Slip, the two largest U.S. offshore markets, said they had major shares in the hull coverages purchased by some of the partners in the Pennzoil oil rig platform.

The value of the platform was believed to be around $6 million, said Robert Lowry, All American Marine Slip president.

Although a drilling rig aboard the platform was destroyed, the platform itself sustained little damage, he said.

Offshore losses have increased in frequency and severity during the past year, Mr. Lowry said. Drilling rig barges involved in losses during the past 12 months include Atlantic Pacific Marine Corp.'s Ranger I, Salem Energy II, SEDCO 135, SEDCO 135-c, Western Oceanic's Western-Triton and Zapata's Topper I.

Increased offshore oil exploration, spurred by higher prices, has contributed to the increase in rig losses, Mr. Lowry said. Drilling companies are having a hard time finding experienced crews and human error could be a big factor in the rash of expensive and tragic losses. ■

Pa. mulls tax hike for pension funds

Continued from page 1

at INA Corp., which could be badly hurt by the law. "The punishment doesn't fit the crime."

The 'crime' in Pennsylvania and all across the country is that public pension plans not subject to funding requirements have failed to set aside funds to pay for the benefits of future retirees.

This is also believed to be the first time a state has proposed raising a premium tax specifically to bail out financially strapped public pension plans, and insurance buyers are up in arms.

"It's not just to impose a tax on a specific group to aid a non-related group," said L.J. Hofnavel, manager of the tax and risk management department at G.C. Murphy & Co. in McKeesport.

The proposal is "not based on sound economic logic," complains Thomas Rittenhouse, manager of property and casualty insurance at H.H. Robertson Co. in Pittsburgh. "It's nothing but a political attempt to open the public cash register."

Insurers fearful

Insurance companies incorporated in Pennsylvania intend to lobby against the law, fearful of its consequences for their business. They worry that the disparity between the premium tax proposed for foreign out-of-state insurers and themselves could make them the target of retaliatory action in other states where they write business.

So-called retaliatory laws are on the books in most states. The laws provide that if an insurance company pays a higher premium tax in another state as a foreign insurer than the tax imposed in the state where it is domiciled, then its home state retaliates against foreign insurers by raising its premium tax.

For example, if the tax were raised to 3% for foreign insurers, Pennsylvania insurance companies writing business in Illinois, where the premium tax is 2%, would be forced to pay 3% of premiums in taxes in Illinois. Insurance companies domiciled in Illinois would continue to pay 2% there.

The premium tax in most states is 2%, leaving the door wide open to this retaliation.

"Pennsylvania insurance companies issuing policies in other states would be at a distinct disadvantage," worries Frank Holtzman, a lobbyist with the Insurance Federation of Pennsylvania. "We hope the legislation would be defeated because it would place a burden on domestic insurance companies."

Passage uncertain

Insurance Co. of North America, a major commercial insurance underwriter, is domiciled in Pennsylvania.

Whether the Lewis legislation will pass remains unclear. The proposal by Sen. Lewis won't be considered until the state legislature returns from its current recess.

Root of problem

The 'crime' in Pennsylvania and elsewhere is that public pension plans not subject to funding requirements have failed to set aside funds to pay for the benefits of retirees.

The Pennsylvania legislature is clearly determined to do something to shore up the weak financial condition of its 1,400 public pension plans. The plans, 25% of the nation's total public pension plans, have amassed more than $2 billion in unfunded liabilities.

"A number of plans are teetering on financial disaster and could plunge into bankruptcy," says Vince Carocci, an aide to Sen. Lewis. "The question is: Do we do something now or do we wait until the system goes broke?"

The Pennsylvania legislature late last year set up a special select senate committee to come up with a solution to avert Pennsylvania's impending public pension crisis. It was headed by Sen. Lewis and aided by Howard Kline, former special counsel to the U.S. House of Representatives Pension Task Force.

Other alternatives

The committee spent eight months looking at a variety of alternatives to save the plans from bankruptcy. But none of the proposals, such as tapping general state revenues, was politically acceptable.

Boosting the premium tax was "the most realistic way to go," said Mr. Carocci, observing that a portion of the existing 2% premium tax paid by insurers domiciled outside the state already is tapped to help pay for municipal fire and police pension programs.

The additional $47 million collected from foreign property/casualty insurers under the additional 1% tax would be allocated to the ailing municipal pension plans.

The legislation would establish a state municipal pension commission to administer the funds as well as to set new financial and fiduciary standards to see that the funds are managed in a fiscally responsible way.

"Pennsylvania has allowed the system to grow without an overall policy, and that is the crux of the problem," Mr. Carocci says. ■

School group gets dividend

PHILADELPHIA—Market Dyne International paid $4.2 million in cash dividends to school safety group insurance participants in 1979, representing 30% of the total $14 million in dividends paid during the year.

The school safety group package policy includes fire, theft and liability coverages for school boards and buses and excess liability insurance. ■

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