

business insurance

update:

Trial judge is appointed for four asbestos cases

SAN FRANCISCO—Superior Court Judge John Benson has been named the trial judge for four coordinated asbestos insurance coverage cases pending in California.

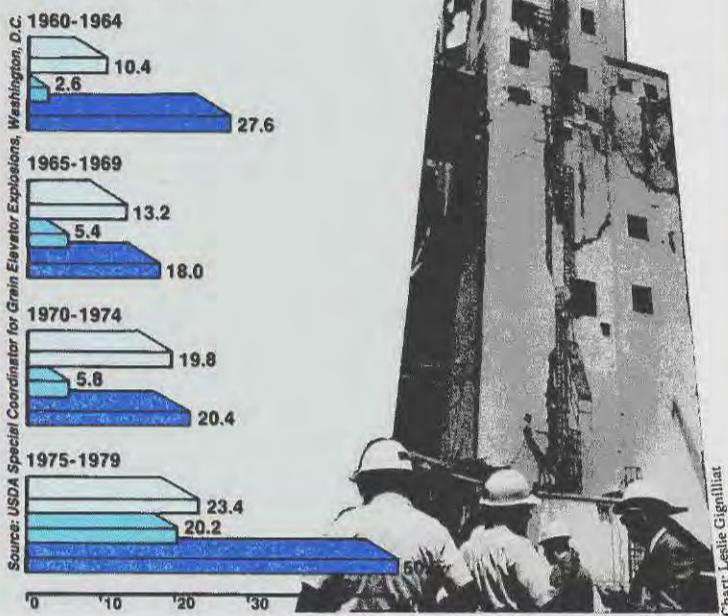
Supreme Court Chief Justice Rose Bird, who made the appointment, also ruled on the alignment of the parties in the cases.

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Grain elevator accidents

Explosions per year
Deaths per year
Injuries per year



Exploding problem

As accidents increase, experts strive for safer grain elevators

By STEVE SHERWOOD

CORPUS CHRISTI, Texas—It starts with a spark: A welding arc or a hot bearing in the machinery at a grain elevator ignites a small but dense cloud of grain dust. The shock waves raise dust from the elevator's walls and floors and this, in turn, ignites. Succeeding explosions spread through the housing and storage bins. Steel-reinforced concrete walls burst open like cardboard, raining tons of debris. Grain is set on fire, people are killed and millions of dollars of damage is done. How these catastrophes happen is understood, but preventing them baffles safety experts and grain elevator operators. Although safety technology is advancing and elevators are being improved to reduce the risks, statistics show the number of explosions and re-

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But insurers take second look

CAMP HILL, Pa.—A major underwriter of grain elevator risks says his reinsurance market is tightening because of large, frequent grain dust explosions. Too many direct writers take business to gain cash flow without making sure elevators are safe and then lay off most of the risk on reinsurers, particularly in the London market, says Albert Townsend, president of National Agra Underwriters Inc., a specialist in grain elevator insurance. Elevator operators are protecting their facilities through insurance rather than safety measures and reinsurers are stuck with bad risks, he points out.

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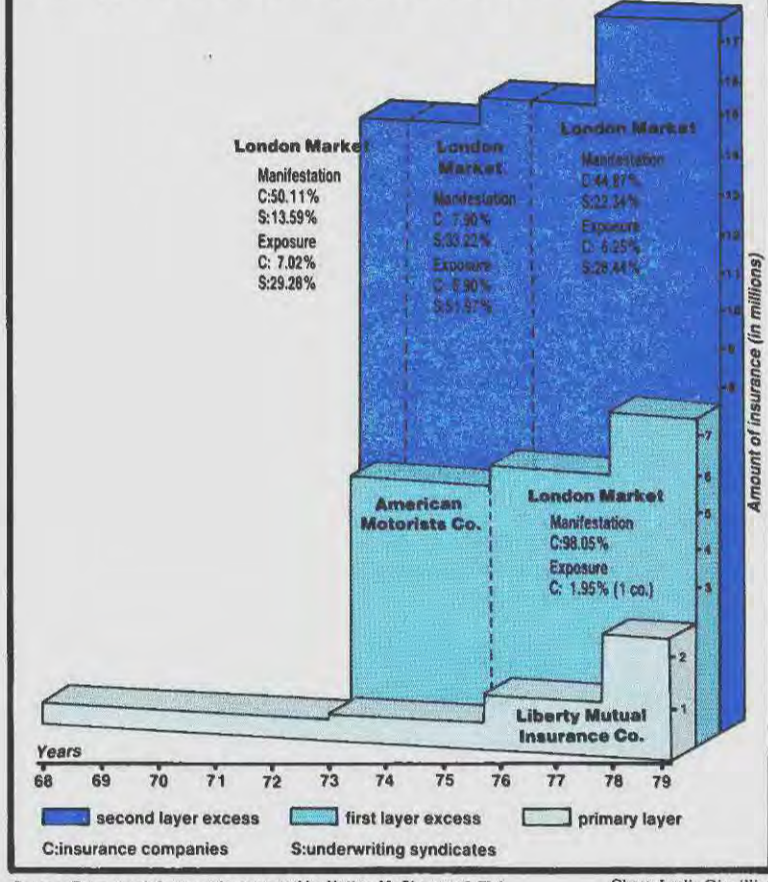
Court reverses trend to maximize coverage

By RHONDA L. RUNDLE

BOSTON—In a carefully written opinion that contradicts other recent court decisions, the U.S. District Court here ruled that the date of diagnosis of an asbestos-related disease should determine insurance coverage. The Aug. 14 decision maximizes insurance for Eagle-Picher Industries, whose comprehensive general liability policies date from 1968 with first and second layer excess coverage added in the mid-1970s (see chart). Most of Eagle-Picher's insurers were pleased with the ruling, which adopts the manifestation theory of bodily injury for asbestos claims. Liberty Mutual Insurance Co., its primary insurer, has been an especially strong proponent of this approach. American Motorists Insurance Co. and some London insurers that believe insurance should be triggered when an injured claimant is exposed to asbestos are expected to fight the decision. If post-trial motions fail, they will appeal the case to the First Circuit Court of Appeals before Sept. 14. Legal experts mulling over the Eagle-Picher outcome do not agree on the decision's significance. Some hail it as a major victory for manifestation supporters. Others continue to believe that the exposure theory will prevail.

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Eagle-Picher asbestos insurers



Employers might join forces to fight new pension liabilities

By JERRY GEISEL

WASHINGTON—Employer trade groups will meet in Washington next month to map out a possible attack on the Multiemployer Pension Amendments Act. Representatives of the American Meat Institute, the National Meat Assn., the Food Marketing Institute, the American Trucking Assns. and the National Automobile Dealers Assn. will discuss what action to pursue to change the law. The meeting, tentatively scheduled for Sept. 17, could be the first step by employers to form an association or action group to lobby for changes in the 1980 law, which has saddled employers with massive pension liabilities they never bargained for when they joined multiemployer plans.

"Different groups may have different ideas on how to handle the problem or what to do," said Richard Taylor, a lobbyist for the National Automobile Dealers Assn. in McLean, Va. "We want to find out if a common approach can be taken." Some employers are becoming concerned as they discover that the Multiemployer Pension Amendments Act of 1980 can add millions of dollars of new pension liabilities to their corporate balance sheet if they withdraw from a plan. Trucking firms have bombarded Capitol Hill with hundreds of letters beseeching their congressmen to scrap or overhaul a key provision of the law. The provision makes employers liable for a share of a multiemployer pension plan's unfunded liabilities if they leave

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update:

Asbestos trial judge appointed

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Asbestos makers and two captive insurance companies will constitute one side; all the other insurers will form the other.

Either side may file a challenge to Judge Benson's appointment before Sept. 3. According to court rules, each side may file one challenge apiece before an appointment is final.

Illinois work comp pools begin

CHICAGO—The Midwest Industrial Management Assn. and the Chicago Midwest Meat Assn. are Illinois' first two workers compensation group self-insurance pools to get off the ground.

By the end of their first year, both pools hope to have 50 member employers. The Aug. 1 start-up date for the pools follows a revamping and easing of Insurance Department regulations for pooling, which were established last September when the state's workers compensation reform measures were enacted.

Other pooling arrangements by employers interested in sharing risks may be in the works, but none has made formal application to the Insurance Department.

Illinois takes over insurer

CHICAGO—Poor reserving practices for long-tail casualty risks drove Security Casualty Co. into state-controlled rehabilitation, according to the Illinois Insurance Department.

Security Casualty, founded as a mutual insurer in 1913, was dominated by Swift & Co., now owned by Esmark Inc., in the early 1960s. Esmark gave up control of the company in 1971.

From 1960 through 1968, however, the insurer underwrote a series of excess-of-loss workers compensation and general liability reinsurance contracts, which are now beginning to show losses. Current claims, on mostly per-occurrence, \$1 million limit contracts, are being paid, but questions about future losses prompted an Insurance Department review.

The department received a rehabilitation order from Cook County Circuit Court last week when analysis showed the firm is ill-prepared for future claims on these contracts, explained Deputy Director Kenneth Smith.

Security Casualty late last year attempted to avoid rehabilitation proceedings by converting itself into a stock insurer with the help of now-defunct investment bankers John Muir & Co. The offering, however, failed to bring in the necessary capital.

Settlement of TMI suit proposed

HARRISBURG, Pa.—A federal judge may rule soon on a proposed \$25 million out-of-court settlement for alleged economic damages following the 1979 accident at the Three Mile Island nuclear power plant.

U.S. District Court Judge Sylvia H. Rambo held a hearing on the proposed settlement Aug. 24 and may give her findings as early as mid-September, according to her law clerk.

The suit names General Public Utilities Corp., Metropolitan Edison Co., Jersey Central Power & Light Co., Babcock & Wilcox Co., J. Ray McDermott & Co. and Catalytic Inc. as defendants. The suit represents all people and businesses within a 25-mile radius of the nuclear plant.

American Nuclear Insurers and Mutual Atomic Energy Liability Underwriters are providing liability coverage for the defendants.

If approved, the settlement will provide \$20 million for economic expenses and \$5 million for radiation monitoring, medical research and public education.

New Illinois exchange rules

CHICAGO—Gov. James R. Thompson has signed amended legislation designed to "clear up questions" and speed the opening of the Illinois Insurance Exchange.

With the amendments, exchange syndicates will be permitted to incorporate under the Illinois Insurance Code to operate on the exchange only, without being considered domestic insurers.

It also gives the Insurance Department authority to liquidate insolvent syndicates, something which had never been spelled out, an exchange spokesman said. Reinsurance intermediaries also will be allowed to operate as exchange brokers.

Louisiana official convicted

NEW ORLEANS—Former Louisiana Commissioner of Administration Charles E. Roemer and Carlos Marcello, a reputed crime syndicate figure, have been convicted of conspiring to use kickbacks and bribes to obtain a state insurance contract.

Evidence gathered through the FBI's Brilab probe and introduced during the four-month trial showed that the men were involved in a scheme to award state contracts to a phony insurance company through a \$25,000 bribe.

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Vol. 15, No. 35—*Business Insurance* (ISSN 0007-6864) is published weekly at 740 Rush St., Chicago, Ill. 60611. Second-class postage is paid at Chicago, Ill., and at additional mailing offices. Postmaster: Send address changes to *Business Insurance*, circulation department, 740 Rush St., Chicago, Ill., 60611. Copyright 1981 by Crain Communications Inc.

Lloyd's '78 global results show big aviation losses

By STACY SHAPIRO

LONDON—The aviation market at Lloyd's of London has taken its first dive since 1957, according to the newly released Lloyd's 1978 global results.

The aviation market's underwriting loss ratio hit 100.9% in the 1978 underwriting year. Claims soared to 162 million pounds, with only 160.5 million pounds in net premium to cover the losses.

But while the aviation market experienced underwriting turbulence, the overall 1978 global account shows a profit, which has taken underwriters and a few stockbrokers by surprise.

With a new premium income of 2.16 billion pounds and claims of 2.05 billion pounds, Lloyd's members "against all predictions in returns for 1978, the last closed year of account, show a profit in excess of 174 million pounds, which in money terms is the highest to date," according to Lloyd's Chairman Peter Green.

Investment income played a strong role in buoying

that profit, however. Over a third of the profit—about 64 million pounds—was earned from investment income, Mr. Green said.

He added that if any profit is shown for the 1979 and 1980 accounting years, investment income will be the determining factor.

All of which is good news and bad news, Mr. Green said.

"Paradoxically, revenue from investment can depress insurance rates while at the same time keep profit margins at a reasonable level, and acceptable though it is as a means of temporary relief, it is no substitute for a soundly based structure," he said.

"But that being said, the fate of the open years 1979 and 1980 will depend almost entirely on investment as, at this state, an underwriting profit for either of these accounts appears extremely unlikely."

And although investment income is an important factor, Lloyd's underwriters have always tried to steer

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CNA presses its suit against former client over retro coverage

By LISA BERGSON

PITTSBURGH—Despite one court ruling against it, CNA Insurance Co. is pressing a curious and, by all accounts, unprecedented case against former policyholder National Steel Corp.

The insurer claims to have made an oral pact with National Steel that it would pay additional premiums on losses incurred but not reported between 1974 and 1978—a so-called retrospective rating agreement. National Steel, which has left CNA for INA Corp., flatly denies there was any kind of retro program, saying the insurance policy written by CNA was a guaranteed cost contract.

"I never heard of an insurance company selling a retroactive cover by oral agreement; they usually like to get everything in writing," remarks Clyde Armstrong, an attorney with Pittsburgh-based Thorpe, Ried and Armstrong, representing National Steel in the litigation.

"It's a unique case," concurs one witness, Duane Allen, assistant treasurer of Hanna Mining Co., who ran the captive to which CNA ceded 90% of National Steel's basic coverage in 1978.

Nonetheless determined to recover the estimated \$3 million that CNA paid for the steel company's long-tail losses, largely stemming from comprehensive general liability that included auto, the insurer recently filed a motion for a new trial in Western Pennsylvania's U.S. District Court. The move comes just weeks after a judge of that same court directed a verdict for National Steel

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Guard ready to put bite on jewel thieves

By STACY SHAPIRO

LONDON—A sly, silent, slithering sentry, standing 4 feet 6 inches and carrying no gun, guards the third-largest star sapphire in the world.

The guard, at the Sri Lanka festival in London, is a coiled cobra, which is posted at the glass display case containing the jewel.

The snake was hired by Sri Lanka's State Gem Corp. to guard the blue, 393-carat stone that is worth more than \$2.7 million.

"We arranged to get the cobra," said a spokesman for the Commonwealth Institute in London, where the gem is on display. "Apparently, it is traditional for gems and jewels to be protected this way."

The early residents of the island of Ceylon, which is now the nation of Sri Lanka, used cobras and other snakes to guard caves and underground passages that contained hidden treasure, according to experts at the British Museum.

Today, however, a cobra guards the sapphire only when it is on display outside Sri Lanka, says Bandula Weerasinghe, as-

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POSA fights state efforts to investigate its records

NEW YORK—Panamanian reinsurance agent Promotora De Occidente de Panama S.A., its New York service office and consultants Karnew Intermediaries are fighting state Insurance Department efforts to examine their records as part of an ongoing investigation.

The department has subpoenaed books and records of the group to track business production, premium volume, fronting insurers, retrocessions and balances for the Panamanian intermediary, which provided reinsurance for a variety

of Latin American and European fronting reinsurers during the market crunch in the mid-1970s.

POSA records released earlier by Promotora De Occidente (New York) Ltd., a service firm managed by the principals of Karnew Intermediaries, Raymond Karlinsky and Maurice Newman, indicated the firm handled about \$80 million in reinsurance premium, but industry sources have charged the managing general agency in Panama was the focal point for more than \$500 million (BI, July 13).

The former principal of POSA of Panama, Pedro Reyner, allegedly abandoned the firm in 1980 when Messrs. Newman and Karlinsky and other associates offered to buy it from him. Since then, Promotora De Occidente of New York has been managing the accounts and payments from reinsurers.

Reinsurance payments, however, have been slow, according to Mr. Newman, and reinsurers have raised questions about their responsibility for some of the contracts.

Last week, POSA representatives filed a motion in New York County Supreme Court to quash the Insurance Department subpoena seeking their records, according to Paul Altruda, associate attorney for the Insurance Department. The motion asked the court to decide whether the Insurance Department has the authority to demand the records.

Meanwhile, a New York grand jury continues to investigate POSA's operations, both inside and outside the United States, and for-

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errors & omissions

• Investment income less expenses in 1980 for the First State Insurance Co. was \$10.7 million, not \$133 million as stated in the Aug. 10 Excess/Surplus Spotlight Report. The \$133 million is the company's investment portfolio in 1980. First State Insurance Co. and its underwriting manager, Cameron & Colby Co., were purchased by The Hartford Group in 1971, not 1977 as stated.

• The Central National Insurance Co. of Omaha, Neb., says it is not underwriting back-dated liability insurance for the MGM Grand Hotels as reported in BI Aug. 24.

Insurers form pool for toxic waste risks

By EILEEN NORRIS

CHICAGO—A number of leading insurance companies are breaking ground for what they hope will be an olympic-size reinsurance pool to accommodate hazardous waste liability risks.

And, while this exclusive club wants only solvent and reputable insurers as members, the entire American insurance industry is being invited to join.

The Pollution Liability Insurance Assn., a newly formed organization of eight as yet undisclosed property/casualty insurers, has plans to lure another 20 to 30 insurers into the pool, says Ambrose Kelly, acting secretary of the association. Mr. Kelly is manager of the Mutual Atomic Energy Reinsurance Pool in Chicago and general counsel for the American Mutual

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Samsonite sues insurer for larger comp dividend

By RHONDA L. RUNDLE

DENVER—Claiming it was misled by policy renewal letters, Samsonite Corp. is suing Liberty Mutual Insurance Co. for a larger dividend on a California workers compensation policy.

Samsonite believes it is owed \$50,404 in dividends based on a premium adjustment formula and other factors used by Liberty Mutual in a 1975 renewal letter, prepared at the start of a three-year policy term.

"We are also fighting for a principle—that we had a contract with our insurer," says Glenn Worrell, director of administration and risk management for Samsonite. "We feel we were misled even if the law is on their side."

The policy, which covered workers compensation and employers liability for a Samsonite subsidiary in California, included a standard participating provision. Under such a provision, a policyholder with favorable loss experience may earn a partial premium return, called a

dividend, which is paid out of an insurer's surplus.

Mr. Worrell claims that Liberty Mutual is hiding behind a California statute that prohibits insurers from promising to pay dividends when a policy is signed. "Our renewal letter never points out that factors they used to adjust the premium are examples only," Mr. Worrell says.

But Liberty Mutual denies that its renewal letter to Samsonite was misleading. One of two explicit statements in the letter reminds Samsonite that: "No right to a dividend can accrue until the directors have determined that California-earned surplus is available and have declared the dividends by resolution after the policy has expired."

"Dividends are highly speculative, they are not a binding agreement," says Richard W. Laugesen, Liberty Mutual's attorney in the case. "Companies cannot rely on a dividend; if they do they are very naive."

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Pulling a switch

Bringing therapy to employees

By EILEEN NORRIS

BRISTOL, Conn.—The General Electric Co. plant in Plainville, Conn., estimates it has saved at least \$33,000 since it decided a year ago to pull a switch.

General Electric had been paying for its injured employees to take taxi cabs to a nearby hospital for physical therapy. That cost the company about \$11 a round trip, not including the hospital's charge for the treatment.

The expense didn't stop there. The employee was usually off the job about three hours, at an estimated cost to the employer of about \$40 an hour.

Then GE signed up with New Frontiers Medical Associates, a firm that prides itself on bringing rehabilitation treatment, complete with therapist and equipment, right to the industrial worker's daytime doorstep.

Rather than have the employee take public transportation or drive to a doctor's office an hour or more away, the worker need only walk steps to the in-house treatment room, says Bruce M. Worley, a physical therapist who started the business a year ago with industrial engineer Wendell R. Smith.

"The employees seem to love it," says Bill Gantt, manager of environmental health, safety and protection for the Plainville GE plant. "They like the fact that it's an independent opinion of the injury and they especially like the fact that they can get treatment for injuries not related to their job—even if it means making up the time on the job."



Photo: New Frontiers Medical Associates
Bruce Worley uses an ultrasound instrument to treat an employee's sprained knee.

The plant, which has a \$19 per employee visit agreement with the medical group, saved the \$33,000 in lost time and taxi fares.

New Frontiers also treats workers at United Technologies Corp., a subsidiary of Pratt & Whitney, in North Haven, Conn., where some 2,000 workers are

charged with light to heavy lifting of expensive aerospace products.

The in-house therapy has saved the company in lost time, said its medical director, Dr. Robert Newton, and it also allows workers the incentive to have in-

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Weber

Erickson

Hallett

Allen

Know a great risk manager? Nominate him for BI's award

CHICAGO—The competition for the 1982 Business Insurance Risk Manager of the Year and Risk Manager Honor Roll is under way.

Nominating forms are now available to individuals who want to nominate an outstanding risk manager to be the 1982 Risk Manager of the Year or to be named to the Risk Manager Honor Roll.

The winner of the competition, now in its fifth year, will be selected by a panel of 10 outstanding judges who will score the candidates on how well they fulfill nine criteria established for determining the performance of a risk manager (see box, page 23). The candidate with the highest overall score based on information submitted in the nomination will be named Risk Manager of the Year.

As instituted last year, all the nominations will then be segregated by type of employer: corporations with sales exceeding \$300 million and more than 1,000 employees; small corporations with less than \$300 million in sales and fewer than 1,000 employees; government entities; and not-for-profit or tax-exempt institutions.

The highest scorer in each of the three areas not represented by the Risk Manager of the Year will be named to the Risk Manager Honor Roll, guaranteeing that all candidates have an equal chance to be recognized for their exemplary performance.

Business Insurance created the Risk Manager of the Year competition in 1978 to increase recognition of the risk management profession and to single out outstanding performances in risk management. The risk management programs of each of the winners is described in articles in Business Insurance and each winner is presented with a plaque.

Previous winners of the Risk Manager of the Year honor are:

- Howard T. Weber, director of insurance for 3M Co. in St. Paul, Minn., in 1978.
- Edward L. Erickson, director of insurance for American Broadcasting Cos. in New York, in 1979.
- Thomas V. Hallett, director of risk management for General Motors Corp. in Detroit, in 1980.

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Tax break makes child care benefits more attractive

By MARGARET LeROUX

WASHINGTON—A provision in the recently enacted tax-cut law makes child care financial assistance a more attractive employee benefit.

That's the assessment of benefit consultants who say they will recommend it to their corporate clients.

The provision makes monetary assistance from employers to their employees for child care expenses a non-taxable employee benefit. Previously, such assistance to employees was considered taxable income by the Internal Revenue Service.

"It means child care assistance can be treated like any other employee benefit," said Michael B. Jones, a partner with Hewitt Associates in Lincolnshire, Ill. "It makes it more attractive for employers who were hesitant to offer the benefit because of taxability questions."

"The new legislation makes child care assistance ideal for a flexible benefit situation," said James Brennan, vp at Towers, Perrin, Forster & Crosby in New York. "It should be popular with employees who can take advantage of it."

TPF&C will recommend child care assistance as a benefit to their corporate clients, Mr. Brennan added.

The provision "certainly is an impetus to offering child care assistance as an employee benefit," said Carole Rogin, executive director of the National Assn. for Child Care Management, a Washington-based trade association of professional child care providers.

"In our discussion with corporate purchasers of professional day-care programs, the issue of taxability was a problem," Ms. Rogin said, "because child care assistance was not referenced in the IRS list of fringe benefits."

"The new legislation clarifies it," she continued. "It goes a step or two toward making child care assistance more affordable for employees and an

Continued on page 24



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Rail workers to pay into pension system

By **STEPHEN TARNOFF**

Employees of the nation's railroads will begin contributing a portion of their wages to help make their pension system solvent again.

Under the plan, agreed to by employers and union officials and authorized by recent federal legislation, the employees' unions will contribute 2% of a maximum \$1,850, or a maximum \$37 per month. Employers will provide an additional 2.25% to the 9.5% of payroll they already contribute—a maximum of \$40.75 extra per month.

The pension system was operating at a 4% deficit caused by "insufficient funding to cover benefits coupled with immediate cash-flow

problems," said Richard I. Kilroy, new president of the Brotherhood of Railway & Airline Clerks.

The shortfall was fueled by increasing pensions, a stagnant railroad industry, inflation, cost-of-living hikes for pensions and the failure of the government to meet certain financial obligations, he said.

He said employees had contributed to the plan on a 50-50 basis until 1974 when they were no longer required to make financial contributions.

All railway employees, union and non-union, are affected.

BRAC and five other unions also are reportedly considering withdrawing from the current group health insurance program with The Travelers Insurance Cos. and obtaining their own coverage.

BRAC is the union most committed to withdrawal, though the five others have served notice to the railroads that they are considering the same action.

The five unions reportedly include the International Brotherhood of Electrical Workers, the International Assn. of Machinists & Aerospace Workers, the Brotherhood of Railway Carmen of the United States and Canada, the Sheet Metal Workers International Assn. and the Brotherhood of Maintenance of Way Employees.

Mr. Kilroy said some of the unions whose employees face less risk believe they can get more insurance or a reduction in premiums by going out on their own.

"We feel we have been subsidizing other groups and that we can do better by going elsewhere," said another BRAC official. Despite the assumption that BRAC might change its position with the recent succession of Mr. Kilroy to the union presidency, BRAC officials confirmed this week that the union was still "very much" interested in withdrawing from the national health plan (BI, March 2).

Mr. Kilroy said negotiations with employers could break down over the health benefits issue.

He said the union has conducted studies and received proposals from several insurance companies.

Spokesmen for the other unions were not as committed as BRAC to leaving the group plan, but said they seek additional benefits.

"We're not necessarily seeking to withdraw," said George DeHague, railroad coordinator of the International Assn. of Machinists & Aerospace Workers.

However, Mr. DeHague said the union's course will depend on negotiations and what the union feels is in its best interest. If the feeling is that more benefits can be achieved by going to an individual plan, it could do so.

Jerry Myford, director of employee benefits for the National Railway Labor Conference, the railroads' bargaining arm, said that besides BRAC, "no unions per se have stated categorically that they wish to withdraw."

Approximately 17 railway unions have been covered under one national health and welfare policy since 1955.

Another BRAC union official said that his union as well as other unions are seeking approximately 17 standardized changes in the current health insurance and medical coverage package.

Among them are full payment for ancillary hospital charges (miscellaneous hospital expense allowance), a prescription program, reductions in the deductible on major medical benefits, elimination of restrictions on maternity benefits, an extension of the benefits to spouses and dependents, a dental plan and a vision care program.

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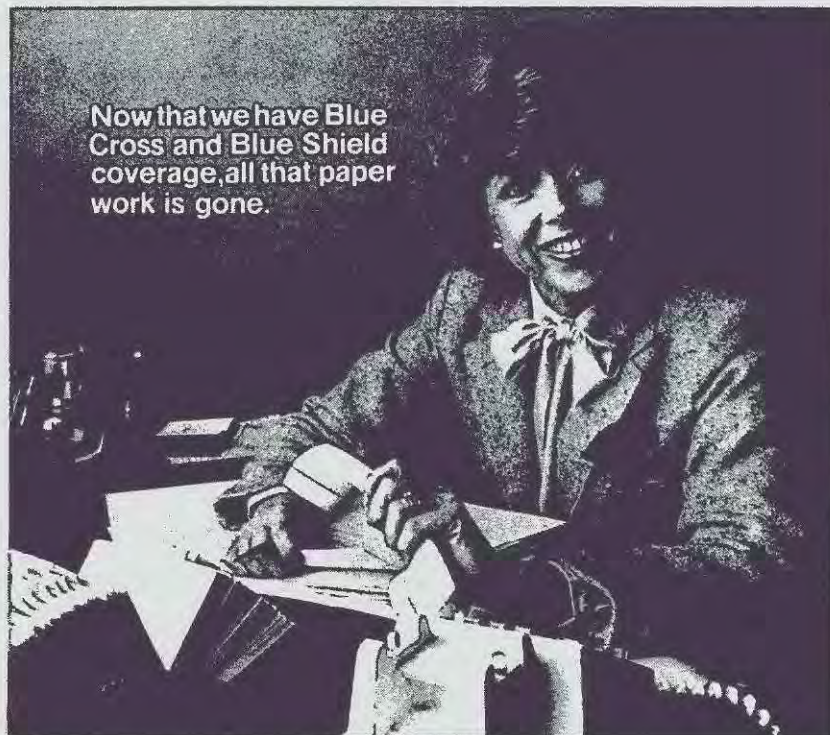
Now, the use of electronic systems to receive and transmit claims information is rapidly expanding among Blue Cross and Blue Shield Plans and is eliminating paperwork in a new way. Last year, more than 48 million claims were received using the new system. Through relationships with hospitals, physicians, and pharmacists, computer terminals and other data exchange systems are linked up with Blue Cross and Blue Shield Plans, allowing for this advance.

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editorial opinions



A modern fable

REMEMBER THE LITTLE BOY who cried "Wolf" once too often?
Nobody listened.

The federal government may find itself in much the same situation if it continues to postpone the compliance deadline for hazardous waste liability insurance.

As reported last week by Associate Editor Eileen Norris, the deadline for the nation's several thousand hazardous waste treatment, storage and disposal facility (TSDF) operators to buy sudden and non-sudden pollution liability coverage has been pushed back again—the third time in a year.

This time the Office of Management and Budget has "raised some questions" about the Environmental Protection Agency's requirements. But, claiming that the information is confidential, no one at the EPA or OMB will say what kinds of things are now being questioned.

But the rationale behind the delays really doesn't seem too important. With or without a logical explanation for the compliance delays, TSDF operators are reacting like the villagers in the wolf fable. They aren't listening.

No one, not the large operators who hope to win EPA approval to self-insure or the small and medium-sized operators who most likely will have to purchase the coverage from commercial insurers, is willing to make any moves toward compliance until the EPA can say once and for all what it wants.

In the meantime, it's possible more Love Canal situations are brewing at unsafe disposal sites while the EPA dallies on its regulations, and some TSDF operators take advantage of the procrastination to let their

responsibilities slide.

As Ms. Norris reported last week, few TSDF operators have lined up outside consultants to perform the elaborate risk assessment testing most insurers are expected to demand before accepting a hazardous waste risk.

There are an estimated 8,000 to 40,000 companies that will need pollution policies under the EPA regulations, but experts estimate that fewer than 100 companies have contracted for an independent risk assessment survey of their premises.

Several large TSDFs have said they plan to self-insure for pollution liability risks and, therefore, are doing their own risk testing, but that still leaves many TSDFs doing nothing yet.

Do these TSDF operators need a government order to take the responsible step of assuring that the waste stored at their sites is not posing a threat to the environment, and more importantly to future generations of nearby residents?

We think not.

In fact, we think TSDF operators should be embarrassed that the government has had to step in to order them to do what is just good risk management: Make sure their operation is safe and provide for proper relief of those injured if there should still be an accident despite necessary precautions.

It's just like the villagers in the wolf fable. Sure, the little boy was wrong to mislead the townsfolk about the danger of a wolf preying on the flocks. But if the shepherds were doing a good, responsible job, shouldn't they have made sure the grazing area was safe? Did they need an outsider to tell them?

letters

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

The challenge of self-funding

To the editor: Your recent editorial, "Worst suspicions" (BI, Aug. 10), concerning the San Jose reserve fund raid, raises some serious concerns.

Stating that the argument against government self-funding will be fueled by this event is undoubtedly true. However, your editorial also appears to fuel that argument. There is no question that the San Jose City Council exercised poor judgment in this instance, but to catapult the argument against government self-funding because of only one instance poses a serious threat to a very important option for local governments.

For many large entities, self-funding is the only way to escape the excessive overhead and administrative costs of first-dollar cover-

ages, not to mention improving the quality of services through unbundled programs.

SIR and self-funded programs are vital to help reduce or contain the tax burden on local citizens, and for many entities they are just plain good business.

The challenge to government risk managers is to develop justifiable reserve practices and educate their boards and councils on the dangers and, in some cases, illegalities of tampering with these funds.

Incidentally, has anyone thought about the potential liability of public officials who jeopardize their entity's fiscal soundness through this type of action?

John F. Janzen

Risk Education & Research Center
Eugene, Ore.

Risk manager gets royal treatment

To the editor: A very nice gesture was made by Liberty Mutual Insurance Co. in response to my being named to the *Business Insurance* Risk Manager of the Year Honor Roll in the public entities category.

On July 6, Liberty Mutual Assistant Vp James Schaarsmith, account representative Frank Donohue and I boarded Liberty Mutual's corporate jet at Westchester County Airport and flew to Boston, followed by a lovely dinner at Pier 4.

The next day we met Melvin B. Bradshaw, chairman of the board and chief executive officer, at Liberty Mutual's home office.

Mr. Bradshaw congratulated me on the honor bestowed upon me by *Business Insurance* and for about a

half-hour we discussed the various insurance issues affecting the country.

Mr. Bradshaw also presented me a certificate which reads:

"In recognition of the outstanding accomplishments of Robert M. Bieber as director of risk management, Westchester County, and in honor of his selection to the 1981 *Business Insurance* Risk Manager of the Year Honor Roll—Public Entities."

We then proceeded to the airport and flew back to Westchester County Airport on the corporate jet, ending a very nice overnight trip.

Robert M. Bieber

Director of risk management
Westchester County, N.Y.

Pictured risks may not be so obvious

To the editor: You fooled me. The Aug. 3 issue of *Business Insurance* posed the question "What's the risk pictured here?" with a photo of a man jumping into an air bag.

I presumed a trick question so I started looking for the less-than-obvious and answered the apparent traffic hazard posed by the activi-

ties pictured (constricted traffic, restricted driver vision and driver diversion of attention... all with no apparent special traffic controllers present).

I guess there's more than one risk pictured.

Warren D. McPherson

Insurance consultant
Fredonia, N.Y.

Mandate distorts rehabilitation efforts

To the editor: Emphasis on state-mandated rehabilitation programs in California (BI, July 6) represents a situation where compliance obscures and distorts true rehabilitation efforts.

Rehabilitation can and has succeeded to the benefit of all parties in a voluntary setting. In this context, programs and services are

designed to satisfy both the disabled worker and the referring insurer or self-insured. To ignore the interests of either brings the rehabilitation effort to a halt.

Eric Wissel

Assistant vp
General Rehabilitation
Services Inc.
Villanova, Pa.

Tort reform makes gains in some states

To the editor: Despite "cold-water treatment" by some legislatures, it would seem that more states are considering tort reform legislation at every session, with many states apparently getting the two opposing sides at least to the conference table (BI, July 27).

One of the provisions that should be given attention is if the production of an article is in compliance with mandatory government contract specifications. It seems to me that the states should pass mandatory state contract specifications. If the state acts are pretty much the same as the federal act, the state courts should within reason decide along the same line as the federal cases.

There seems to be no doubt that a 10-year prescription is pretty much acceptable to both sides with a 20-

year prescription on jobs arising from federal regulations.

Even slight gains should not be allowed to go by the wayside. The consensus seems to be that legislatures need a better understanding of the issue.

We would hope that the state bar associations as well as the independent insurance agents would appoint leaders to let no legislator feel that he will not be given full information on the subject. The plaintiff lawyers are actually in a minority and simply have a lot more money to spend on defeating reform legislation. Now that we are at a talking stage, we hope that all right-thinking agents and attorneys will lend their active support.

John Singreen

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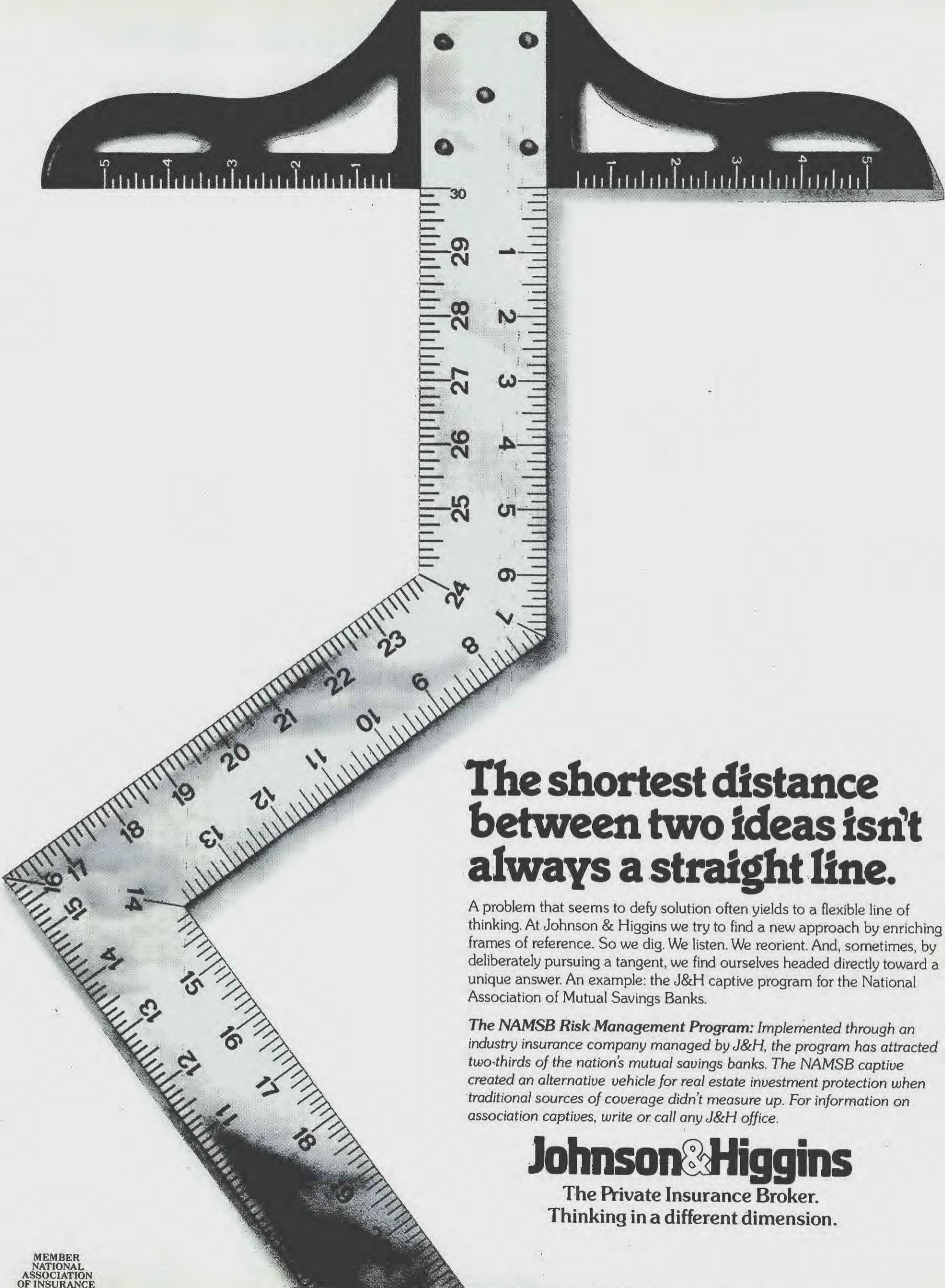
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Published by Crain Communications Inc., Chicago. TODD E. FANDELL, Corporate editor. ALFRED MALECKI, J.J. GRAHAM, S.E. COHEN, LOUIS F. DE MARCO, WILLIAM STRONG, ROBERT W. KRAFT, STEPHEN D. GILKENSON, ARTHUR E. MERTZ, JOE CAPPO, CHUCK LAUER, ERNIE ZIELASKO, vice presidents; JAMES M. FRANKLIN, vp-finance and administration; MERRILEE P. CRAIN, secretary; MARY KAY CRAIN, treasurer.

Published weekly at 740 Rush St., Chicago, Ill. 60611 (312-649-5200). Offices: 220 East 42nd St., New York, N.Y. 10017 (212-210-0100); Suite 515, National Press Building, Washington, D.C. 20045 (202-638-5300); 6404 Wilshire Blvd., Los Angeles, Calif. 90048 (213-651-3710); 5327 N. Central Expwy, Suite 200, Dallas, Tex. 75205 (214-528-3561). \$1 a copy. \$30 a year in U.S. Canada and all other foreign add \$14 for surface mail. Europe and Middle East only add \$32 for air delivery. First-class mail to Canada only, add \$36. WILLIAM STRONG, vp-circulation. BARBARA RANDICK, circulation manager. ROGER DIGREGORIO, fulfillment director. Circulation dept.—Chicago (312-649-5227). Four weeks' notice required for change of address. Send subscription correspondence to Circulation dept., Business Insurance, 740 Rush St., Chicago, Ill. 60611 or phone 312-649-5221. Telex 25-4248; Cable CRAINCOM. Microfilm copies are available from University Microfilms, 300 Zeeb Rd., Ann Arbor, Mich. 48013. Microfiche copies available: Bell & Howell, Micro Photo Division, Old Mansfield Rd., Wooster, Ohio 44691.



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Texas court limits product liability suits

AUSTIN, Texas—The state Supreme Court has ruled that people injured by products manufactured by dissolved corporations can only sue shareholders for three years after dissolution.

The decision, handed down last month, involved a repairman who was permanently injured when a defective valve in an elevator pit caused an elevator to fall on him.

The injury occurred 11 years after the manufacturer went out of business. In a suit against the original shareholders, the Supreme Court interpreted the Texas Business Corporation Act to prohibit such actions.

It also rejected applicability of the long-standing "trust-fund" doctrine that permitted creditors to

around the states

pursue corporate assets held by shareholders upon dissolution.

"Article 7.12 expresses a legislative policy to restrict the use of the trust-fund theory to pre-dissolution claims and to protect shareholders, officers and directors of a dissolved corporation from prolonged and uncertain liability," the court said.

Interim increase

SACRAMENTO, Calif.—Yielding to pressure from the governor's office and the medical profession, the California Division of Industrial Accidents has granted an interim 30% hike in the official medical fee schedule, effective Sept. 1.

The division had ordered a 33% increase to begin Jan. 1, but the decision reportedly angered doctors who argued that it did not comply with the statutory requirement of biennial adjustments. The most recent change was July 1, 1979.

The change reportedly creates problems for insurers and employer claims personnel who will be forced to use three sets of conversion factors for payment of medical treatment over the next several months. The increase will reportedly cost \$40 million in additional medical costs in the last four months of the year, according to the California Workers Compensation Institute.

The proposed 33% increase would have increased payments by insurers to physicians \$130 million above the 1981 level and increased employers' compensation costs an average of 6.8%, according to the Workers Compensation Rating Bureau. The impact on employers would have been mitigated, however, by an overall decrease in workers compensation premium rates scheduled for Jan. 1.

Third-party liability

DENVER—The state Court of Appeals has ruled that bystanders who help a drunk start a car may be liable for damages if it is later involved in an auto accident.

The court ruled on a suit filed against two tavern owners by a man seriously injured in an auto accident. The owners had refused service to the man responsible for the accident because he was drunk, but they helped start his car.

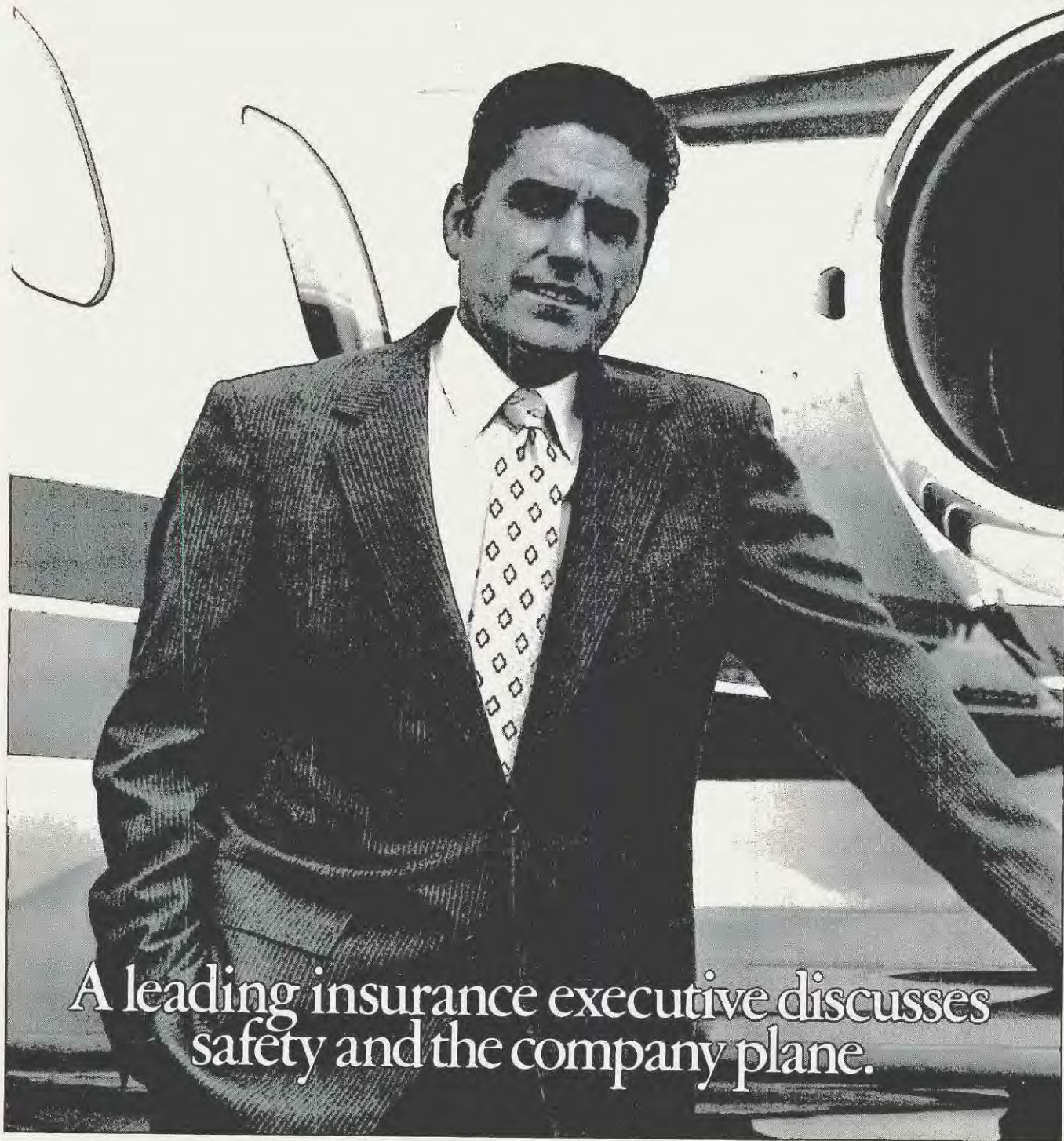
The man subsequently rammed the car in which the plaintiff was riding, seriously injuring him and killing the driver. According to the court, the man was driving at a high speed and was on the wrong side of the road.

The decision said that in this case the defendants performed an affirmative act that could be construed to have set in motion forces involving an unreasonable risk of harm to the plaintiff.

Official promoted

LITTLE ROCK, Ark.—Reva Fletcher, who was hired by the state Insurance Department as a secretary in 1957, has been named deputy commissioner by Commissioner W.H.L. Woodyard III.

Mrs. Fletcher has served as licensing supervisor, administrative assistant for property/casualty and assistant commissioner in charge of compliance. As assistant commissioner, she assisted in the department's implementation of the competitive rating system and "easy-to-read" insurance policy legislation. ■



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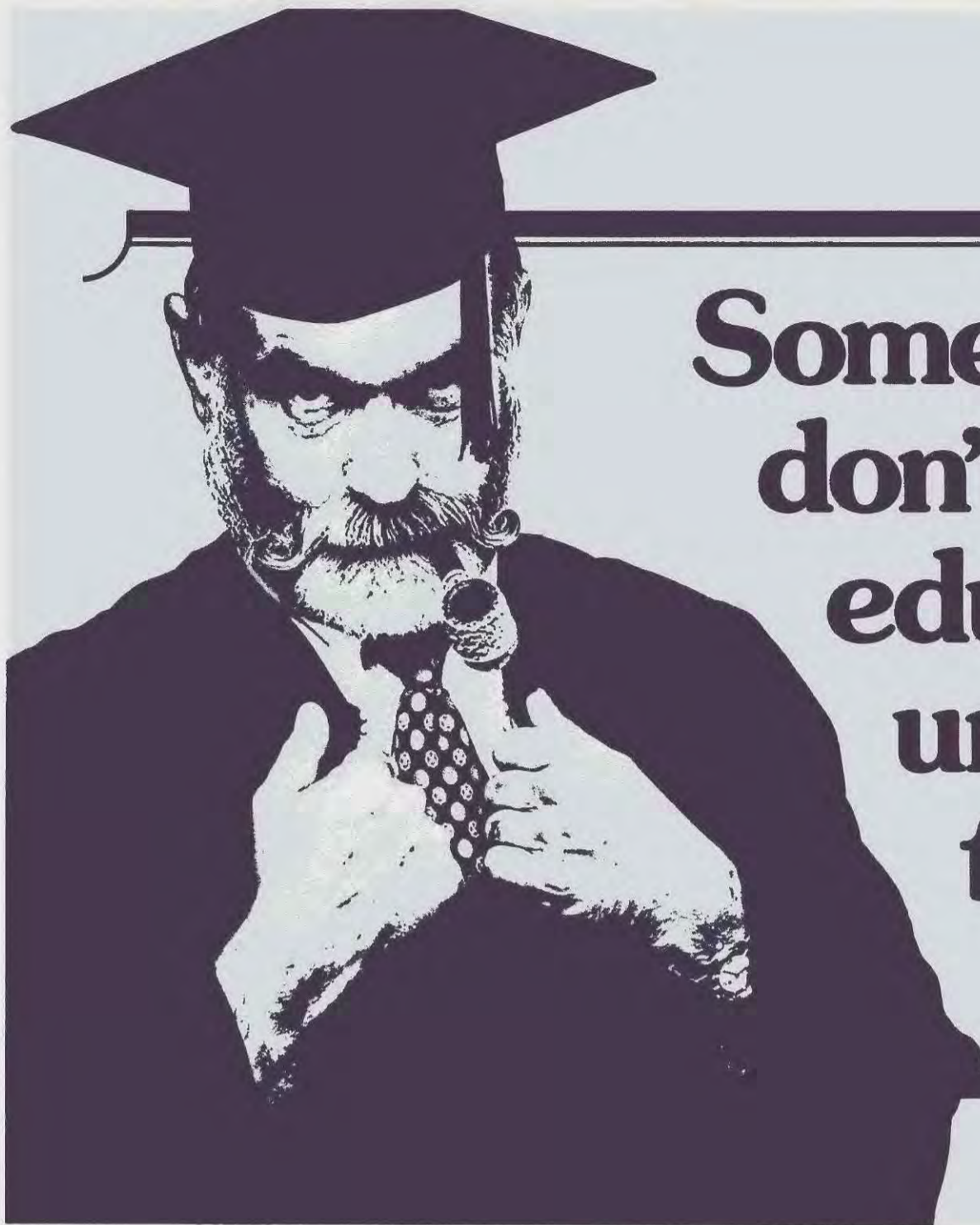
shows that simulators are the safest possible training environment. They enable pilots to practice and perfect all normal and emergency procedures under controlled conditions. The alternative of training in the aircraft is hazardous and necessarily incomplete—in addition, it wastes fuel.

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Labor Department drafts abortion benefit rule

By JERRY GEISEL

WASHINGTON—Proposed regulations would require federal contractors to provide limited abortion benefits to employees.

The Labor Department last week proposed that federal contractors pay for abortions, if the woman's life is in danger, on the same basis they cover other sicknesses.

The proposal essentially follows Equal Employment Opportunity Commission guidelines on the 1978 Pregnancy Discrimination Act, which requires firms to provide equitable health insurance benefits for pregnancy-related conditions.

Employers also would be required to pay for medical complications that can result from an abortion.

The abortion proposals are part of the Labor Department's massive anti-discrimination rules governing contractors who serve the federal government.

Those rules, proposed by the Carter administration, were scheduled to take effect Jan. 29 (BI, Jan. 12) but were delayed several times to give the Reagan administration time to review them. The abortion rules were not changed by the new administration.

Employers who refuse to pay for abortion-related costs could be barred as federal contractors.

The rules, which will apply to some 300,000 businesses that do more than \$10,000 of business with the federal government, will be felt most by employers that exclude coverage for abortion on moral grounds.

Employers have until Oct. 25 to comment on the proposed rules, which were published in the Aug. 5 Federal Register.

Comments should be sent to James Cisco, Acting Director, Division of Program Policy, Office of Federal Contract Compliance Programs, U.S. Department of Labor, Room C-3324, 200 Constitution Ave. N.W., Washington, D.C. 20210; 202-523-9426.

Cause of jet crash

An electrical malfunction probably caused a corporate jet crash last February, which killed Charles Fogarty, chairman of Texasgulf Inc. of Stamford, Conn., and six aides, a federal agency says.

The Feb. 11 accident occurred in bad weather as the Lockheed Jetstar was approaching Westchester County Airport in White Plains, N.Y.

College to offer course in 3 cities

The College of Insurance will offer a two-day seminar, "Quantitative Techniques for Risk Management," in New York, Los Angeles and Chicago this fall.

The seminar is designed for those without in-depth mathematical backgrounds who want to make quantitative decisions on such matters as retention levels, cash-flow programs and retention plans.

The course explains how to compute a probable yearly aggregate loss, how to check computations of paid-loss retrospective plans and the tax ramifications of retentions.

The course will be Sept. 17 and 18 in New York on the college's campus; Oct. 15 and 16 in Los Angeles at the college's Western Division; and Nov. 12 and 13 in Chicago at the O'Hare Roadway Inn. Tuition is \$475 for the New York and Los Angeles sessions and \$495 for the seminar in Chicago.

For information contact the Property/Liability Department, The College of Insurance, 123 William St., New York, N.Y. 10038. ■

washington

The malfunction apparently distracted the crew, which didn't notice that the jet was headed off course until it was too late, the National Transportation Safety Board said.

The jet crashed about one mile short of the runway, killing the seven Texasgulf executives, who were returning from a meeting in Toronto.

"The probable cause of this accident was a distraction of the pilot at a critical time as a result of a major electrical system malfunction which, in combination with the adverse weather environment, caused an undetected deviation of the aircraft's flight path into the terrain,"

the NTSB said.

As a result of its investigation, the board has urged the Federal Aviation Administration to review its approval of a certificate that authorized the Jetstar's electrical system to be modified.

The jet, which was valued at \$5 million, was insured by USAIG (BI, Feb. 16).

Benefit panel

The Labor Department is seeking nominations for five openings on its Advisory Council on Employee Welfare and Pension Benefit Plans. The council advises the secretary of labor on ERISA and

retirement issues.

Individuals or organizations can nominate a pension expert by submitting a recommendation by Oct. 5 to the Secretary of Labor, New Department of Labor Building, 200 Constitution Ave. N.W., Washington, D.C. 20210.

The new members will replace five members whose three-year terms expire this year.

Categories of panel members for which there are vacancies to be filled include multiemployer pension plans, employee organizations, the general public and investment managers.

The council meets at least four times a year in Washington with all expenses paid by the federal government. Each member earns \$192 a day for each day spent on council business.

Longshore Act

Backers of legislation, H.R. 25 and S. 1182, to overhaul the Longshoremen's and Harbor Workers' Act now say they don't expect the Senate Labor and Human Resources Committee to act on the proposals until October.

Supporters had expected action before Congress departed for its annual August recess.

The bills' key provisions include limiting annual benefit increases to 3% and limiting jurisdiction of the act, which covers more than 1 million maritime workers, to the spot where cargo is unloaded from a ship.

The legislation is sponsored in the House by Rep. John Erlenborn, R-Ill., and in the Senate by Sen. Don Nickles, R-Okla. ■

The people at Ernst & Whinney



Tim Peterson leads a discussion of loss reserving techniques with Ernst & Whinney Insurance Executives (L to R) John Majors, Dave Holman, and Wayne Kauth.

Loss Reserving: Property/Casualty Insurance

At Ernst & Whinney we take a hard look at the problems in your business and work at finding the solutions. Five years ago we took an in-depth look at loss reserving practices of major property/casualty companies in the United States. And found that many companies felt there was need for improvement within the industry. So we conducted a major research project to study loss reserving techniques. Tim Peterson, an Ernst & Whinney partner experienced in analyzing and auditing loss reserves, headed up the project. What came out of it is the most comprehensive textbook written on loss reserving. A result that speaks for itself.

Loss Reserving: Property/Casualty Insurance is a 500-page textbook on loss reserving which includes a discussion of many of the different loss reserving theories, an examination of the factors affecting loss reserve levels, and a detailed guide for analysis of loss reserves through projection techniques.

It provides you with tables which illustrate various approaches to projection techniques. The tables are the product of RESCOMP, Ernst & Whinney's computer program for loss reserve analysis and projection.

If you're involved with the complexities of loss reserving, whether you're an insurance company executive, a risk manager, or a consultant you will find this textbook to be a valuable aid.

Loss Reserving: Property/Casualty Insurance is just one of many Ernst & Whinney publications, programs and services for property/casualty and life insurance companies. All have been developed because of Ernst & Whinney's commitment to serving the specialized needs of the insurance industry. They're all based on the experience, knowledge and understanding of the industry's needs which Ernst & Whinney people have gained through serving more than 1,300 insurance organizations all around the world.

Other Ernst & Whinney insurance publications which can be ordered with the coupon in this ad are:

Ernst & Whinney GAAP—Stock Life Companies

A 600-page in-depth analysis of generally accepted accounting principles for stock life insurance companies written by Bob Posnak, a partner in Ernst & Whinney's New York office, and one of the best-known accountants in the life insurance industry. Five years were spent on the research project leading to the book, which has become the industry standard.



Bob Posnak, New York Insurance Partner

GAAP Deferred Taxes—Stock Life Insurance Companies

A 200-page explanation of the application of deferred tax accounting to life insurance companies which was written by a group of Ernst & Whinney tax and audit partners specializing in life insurance operations and taxation. Since its publication, it has become the definitive text on the subject.

Hold the sugar, pass the risks

NEW YORK—A cup of Hawaiian Kona, one brioche with blackberry jam and would you care for a specialist to look at that risk?

Inspired by John Lloyd's coffee club of yore, where the shipowners once bespoke their need for insurance, American International Group has just opened a new profit center.

It's invitation-only to brokers and their clients, who may now enjoy a fine selection of twelve different coffees, eight teas and a basket of French pastries at the center, dubbed the International Coffee House.

The airy white-and-green facility is discreetly housed on the ground level of AIG headquarters at 70 Pine St. No signs, please. You will be buzzed in.

There, between 8 and 10 a.m. you can find an array of domestic and international business publications (including *Business Insurance*), and, perhaps more to the point, AIG professionals ready to write your business while you munch the croissants.

AIG President H.M. Greenberg was recently on hand to greet guests over a cup of Haitian, which he called "the best coffee in town."

The popularity of business breakfasts inspired Mr. Greenberg, with a nod to Lloyd's heritage, to start the gustatory venture.

"It's an opportunity for us to tell brokers about all the things we're doing and to promote friendly communication," he said.

—By Lisa Bergson

Offshore management firm appoints Marsh president

comings & goings: industry

B. Timothy Marsh has been named president of Insurance Services International Ltd., an offshore insurance management company based in the Cayman Islands.

Before joining ISIL, Mr. Marsh was audit manager for Peat, Marwick, Mitchell & Co. in Grand Cayman.

Insurers

Bruce O. Davis elected vp of Liberty Mutual Insurance Co. and appointed manager of the company's Canadian division.

Richard H. Rismiller appointed senior vp and secretary of The Montgomery Mutual Insurance Co. in Sandy Spring, Md. He will man-

age the company's loss-control operation, among other duties.

Great American Insurance Cos. appointed **Edward L. Tubens** ocean marine claims director.

Zurich-American Insurance Cos. announced four appointments. **Thomas R. Bowman** and **Ralph C. Tremaine** named assistant managers of the U.S. branch of Zurich Insurance Co. and vps of American Guarantee & Liability Insurance Co. **Michael A. Cohen** and **Terry A. Salte** named secretaries of the U.S. branch of Zurich and assistant vps of American Guarantee & Lia-

bility Insurance Co.

Neal A. Hebert has joined Philadelphia Manufacturers Mutual Insurance Co. as vp of reinsurance.

Miriam Sweeney promoted to workers compensation claims manager for Fremont Indemnity Co., Orange Division.



Hebert

Sara S. Roblin and **Matthew W. Klimczak** appointed secretaries of The Continental Insurance Cos. in New York. **Kevin Clark** appointed manager of the international department operations for Hong Kong, Macao and Taiwan, in Hong Kong.

Furman K. Stanley Jr. joined Beaver Insurance Co. in San Francisco as senior vp.

Ralph E. Sondag and **Richard E. Ehret** elected senior claims officers of St. Paul Fire & Marine Insurance Co.

Ron C. Anderson elected vp of Unigard Insurance Group.

Other suppliers

Burton A. Selfridge Jr. and **Stephen H. King** appointed senior consultants at Fortune & Co., an independent risk management firm in Kansas City, Mo.

Lynne M. Miller named president of Risk Science International, a division of Frank B. Hall & Co. Inc. **Michael J. Murphy** named chief operating officer.

Agents/brokers

Seth Freudberg joined The Simkiss Agency Inc. of Ardmore, Pa., as assistant to the vp. At the same firm, **Gary Capri** was named vp in charge of safety and loss prevention and **Samuel A. Brand** and **M. Denise Carroll** were named account executives.

Jeanette M. Prato named vp of Richard N. Goldman & Co. in San Francisco.

Russell L. Kiernan named commercial accounts manager of McDonald & Kelley Co. in Oakland, Calif. At the same firm, **Ronald F. Chiappari** was named manager of employee benefits and life insurance. **David M. Diamond** was appointed accounts manager.

Raymond Haynie named manager of the Hot Springs, Ark., office of Atkins Insurance Corp. of Little Rock, Ark.

R.N. McGuire Jr. named vp of Desert American Insurance Agency in Houston.

Richard F. Yeary promoted to managing vp of Molton, Allen & Williams Insurance Corp.'s Mobile, Ala., office.

CIRCL chairman Schwoebel dies

William F. Schwoebel, 69, chairman of Corporate Insurance & Reinsurance Co. Ltd., died Aug. 21 of an aneurysm.

Mr. Schwoebel had been chairman of CIRCL since 1978 when he retired as senior vp of finance at National Steel Co. in Pittsburgh.

Ed Lalley, CIRCL vice chairman, is now acting chairman. Mr. Lalley is president of Ideal Mutual Insurance Co.

CIRCL is a group-owned reinsurance captive in Bermuda.

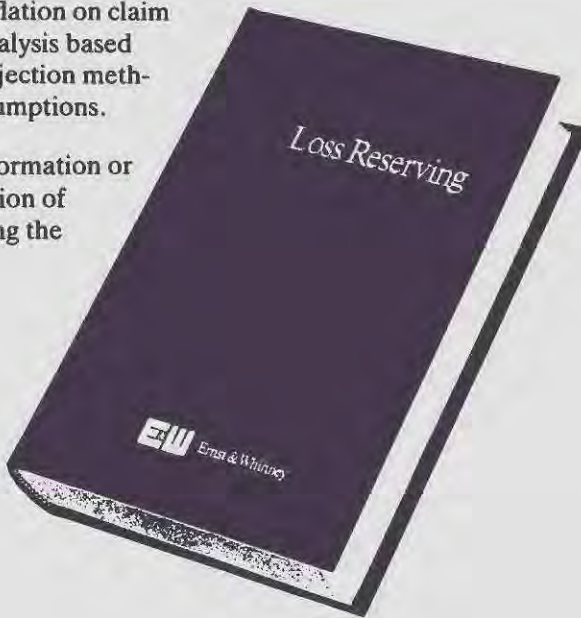
wrote the book on loss reserving.



Jim Zid, National Director of Insurance

frequency, severity, loss development patterns and inflation on claim costs, and permits analysis based upon a variety of projection methods and different assumptions.

You can get more information or arrange a demonstration of RESCOMP by sending the coupon in this ad.



Get in touch with the people who are in touch with your industry

Ernst & Whinney Federal Income Taxes—Life Insurance Companies

A 400-page description of life insurance taxation written by a group of Ernst & Whinney life insurance tax professionals. It is periodically updated for recent court decisions and IRS rulings with supplements which are included in the purchase price.

In addition to these Ernst & Whinney publications, you may wish to receive information on RESCOMP.

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A team of Ernst & Whinney insurance professionals, led by Tim Peterson, spent three years developing and perfecting RESCOMP, a leased time-sharing computer program for analyzing and projecting loss reserves. RESCOMP translates claim and premium data into meaningful analytical formats. RESCOMP gives a lessee the power to evaluate the effects of changes in



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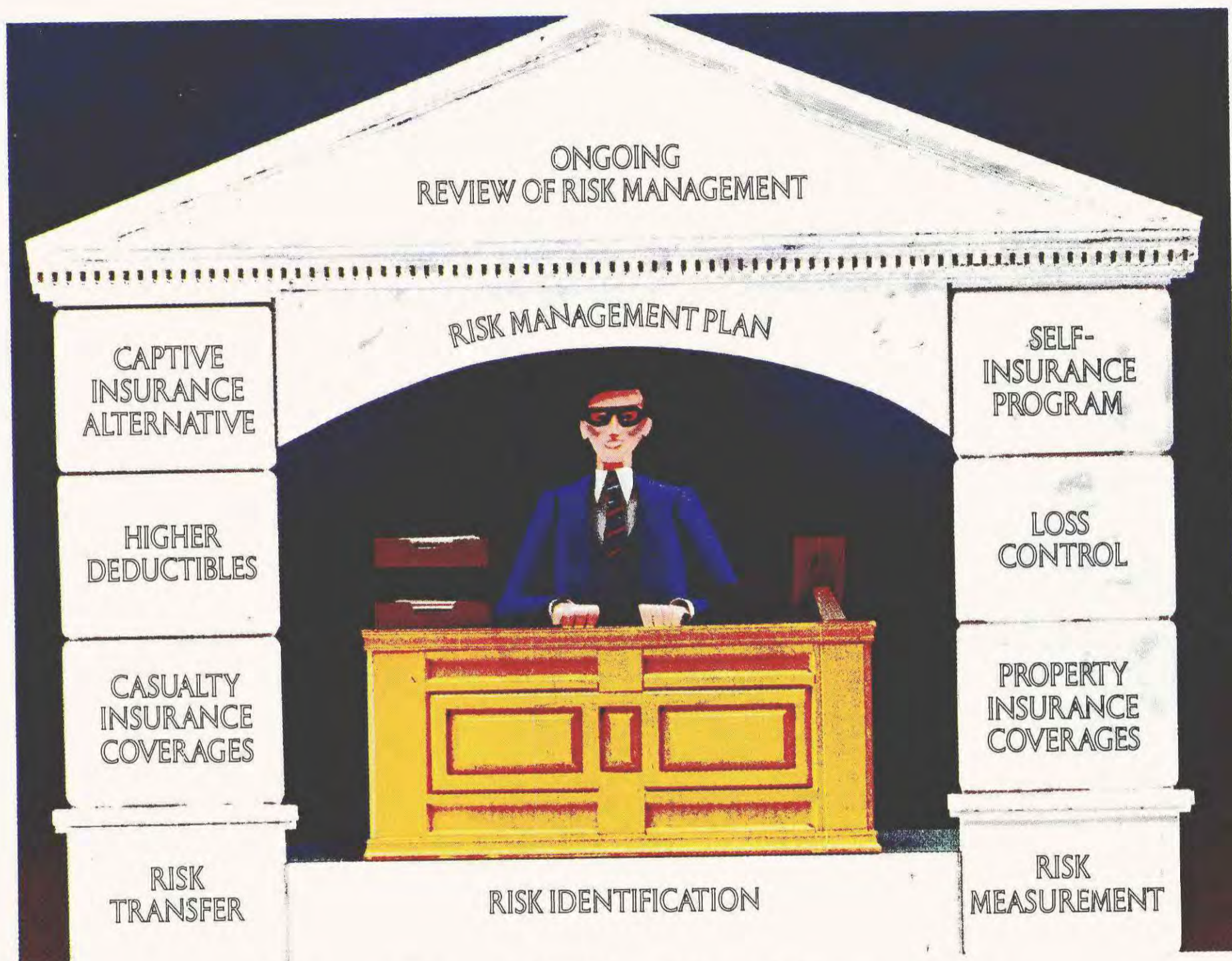
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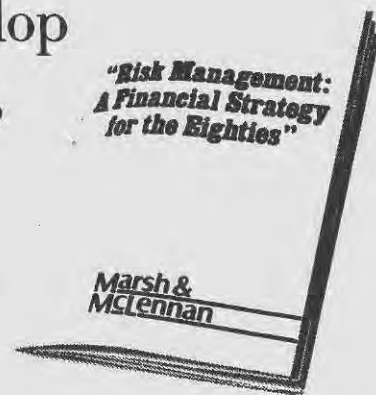
of many options considered in developing a comprehensive risk management program. Risk retention (through higher deductibles, a properly funded self-insurance program, or, in certain cases, a captive insurance company), may enable you to buy *less* insurance than you thought necessary. And loss-control programs to reduce your risks can also lower your costs.

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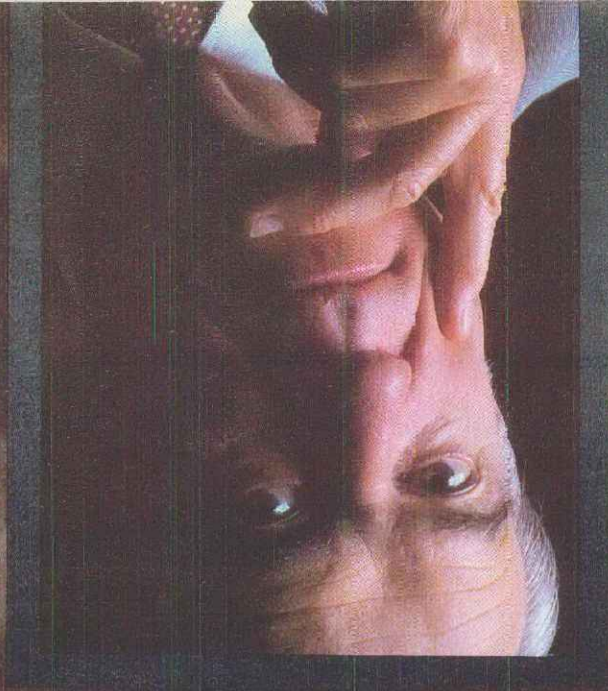
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perspective

One and the same?

Note the difference between retentions, deductibles

By Ronald S. Ohsner

THE TERMS "deductible" and "self-insured retention" are often used interchangeably. However, in actual operation, distinctions often exist that can produce different results after a loss occurs.

Traditionally, deductibles were used to reduce premium charges by eliminating small claims and the high cost of handling them. Thus, customers favored deductibles instead of rate increases and insurers favored deductibles because the nuisance factor was eliminated.

Initially, deductibles were small and written on a per-claim basis on physical damage coverages. Today, however, they are written on both physical damage and liability coverages.

When a deductible is used, all claims must be reported to the insurer regardless of size. The insurer handles the entire loss. If the claim is within the deductible, the insurer can pay the claim and bill the insured or the insurer can request the insured pay.

In either case, the insured absorbs the expense.

If the claim exceeds the deductible, the insurer can either pay the entire amount and bill the insured for the deductible portion or pay only the amount in excess of the deductible and have the insured pay the deductible amount.

Generally, most deductibles are a lower dollar amount than self-insured retentions because conventional insurers don't like to write high deductibles due to pricing difficulties. The rate credits for large deductibles are very unscientific because of the great variance in claim expenses and the actual rating process. In calculating deductible rate credits for conventional companies, the rate manuals only contemplate basic limits.

Ronald S. Ohsner, CPCU, CLU, is an independent risk management and insurance consultant in Columbus, Ohio.



Photo: Mary Cairns

The terms "self-insured retention" and "deductible" cannot be used interchangeably.

Thus, deductible credits are constrained by the fact that higher limits are not considered.

Additionally, these lower amounts at risk are eliminated by high deductibles, and the cost of the actual risk carried by the insurer is difficult to obtain.

Recently, some insurers have introduced deductibles that don't include claim expenses.

These deductibles produce a lower premium, but after a loss the insured is charged for both the deductible amount and a pro-rata share of the claim expenses.

The self-insured retention can be used on all lines of insurance. Normally, the minimum self-insured retention amount is \$10,000.

The concept of self-insured retention first appeared in umbrella policies and has rapidly spread to other lines because of

rate discounts. Essentially, the insurer doesn't become involved until the loss exceeds the limit.

If the loss is totally within the SIR, the claim doesn't have to be reported to the insurer. However, as soon as the insured can reasonably presume that the loss will exceed the SIR, the insurer must be contacted.

In most cases, the claim expenses plus the actual loss amount can be used to satisfy the self-insured retention limit. Furthermore, the entire SIR can be met by only claim expenses. Regardless of how the SIR is satisfied, it is the maximum amount the insured will pay.

SIR can be written on a per-claim or per-occurrence basis along with annual aggregates or stop-loss provisions.

Many companies with large self-insured retentions employ servicing organizations

that reserve for and pay incurred losses until the retention is reached and the insurer takes over.

The future of the present-day SIR is uncertain because of an April 1980 ruling by the California Supreme Court. The court held in *Commercial Union vs. Safeway Stores* that an insured need not settle a liability claim within its retention in order to protect the interests of an excess insurer unless such obligations are written in the policy.

This decision could not only change the wording of current policies utilizing self-insured retentions but also could change the claim reporting requirements.

Both deductibles and SIRs are proven methods of risk retention, but their applicability and operation are sufficiently different that it is necessary that the basic distinctions be understood.

Ad agencies may explain your benefits best

By Dennis Hommel

Last of three parts

HERE ARE THE three remaining steps to successfully market your benefits package to employees as outlined in excerpts from the "Employee Benefit Communications Handbook":

- Step Five: Selecting the creative source.

The choice of how you intend to produce your benefits advertising campaign is perhaps the most challenging one you will face. You have a lot of options, and in the final analysis the choice is really a subjective one because you are dealing with subjective topics. How your company's attitudes, policies and benefits are presented to your sensitive audience is a very subjective matter.

Yet the foremost requirement for obtaining good creative work is to find a source that wants to do the work and is technically and creatively capable of producing effective materials.

Dennis Hommel is president of Hommel Associates, consultants. This series is from his *Employee Benefit Communications Handbook*.



In-house training or advertising departments are technically capable of producing the work, but may not be sophisticated or creative enough to develop an effective motivational approach. They are probably overworked and understaffed, and therefore could not give the projects the attention they deserve.

Management often feels that in-house capabilities are preferable for benefit communications because, in management's opinion, there are minimal out-of-pocket expenses involved.

Full-service insurance consultants, brokers and insurers

often offer communication services. But they can be too close to your benefits program to see the entire communication problem or to offer effective, creative solutions. Self-interest may influence their judgment. After all, their primary income is usually derived from commissions on their products.

Audiovisual production companies are staffed with specialized talent, yet they rarely offer enough depth to handle all phases of your communication needs, especially in the preparation of handbooks, ads and publicity.

Advertising agencies or advertising creative services are the most qualified professionals to produce your benefits advertising campaign. They possess the creative expertise, awareness, insight and technical know-how to create and coordinate your entire campaign and maximize positive employee attitudes.

When selecting a creative source to handle your benefits campaign, it is imperative to choose a smaller firm where

Continued on next page

perspective

Communicating benefits can reduce indirect costs

Continued from previous page you will work directly with one of the principals.

What's more, smaller advertising agencies are much more likely to want your work if you have been successful in convincing your management to invest in an ongoing campaign.

● **Step Six:** Developing the creative approach to help make benefit cost containment a reality.

The Employee Retirement Income Security Act demands that employers communicate specific benefit plan details in language and formats that can easily be understood by all employees.

But as we have seen, complying with legal requirements does not necessarily result in improved understanding or appreciation of employee benefits.

In order to help ultimately contain benefit costs, the creative approach must be structured to change specific employee attitudes in a given order of ascending significance.

First of all, you must create a new level of employee interest in the whole subject of your benefit package by developing an appropriate theme that is suited to the majority of your employees.

Because benefits probably deal with serious subjects, such as sickness, disability, old age and death, the theme must be somewhat light and entertaining, but never make the plan's theme whimsical or comical.

Now that you have captured your audience's attention and have created a proper environment for acceptance, benefit details must be presented as concisely as possible using coordinated

materials in order to maximize benefits understanding.

It is important to organize plan details according to a given event, not by each insurance policy's coverage. Explain things as they would occur.

For example, under the heading "What happens if I am disabled and unable to work?" you should first state that accumulated sick leave would be paid, then explain your short-term disability coverage, long-term disability coverage (if applicable) and then show how Social Security would take over.

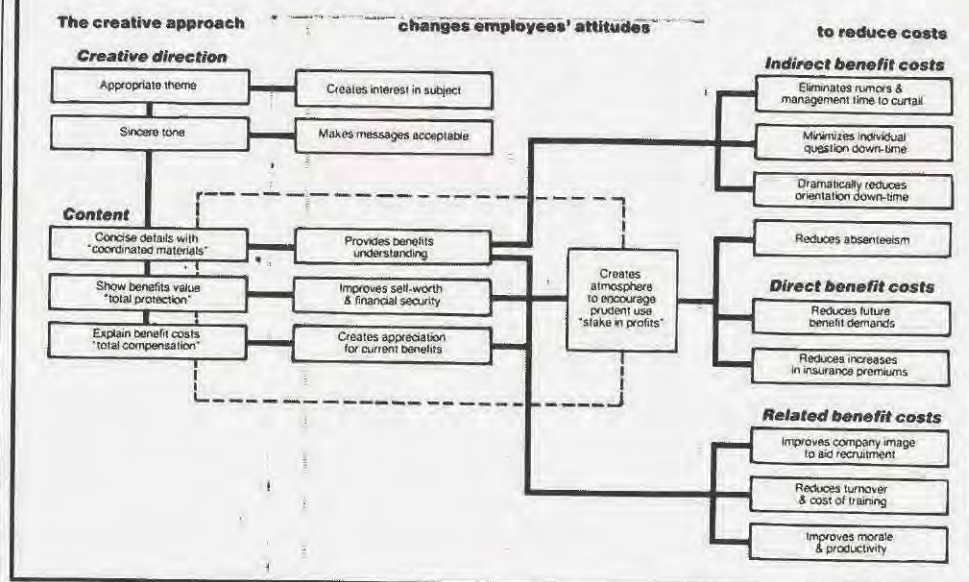
Employers too often hide Social Security benefits in a separate section of the handbook or presentation or some simply omit them altogether, thinking that the employees should somehow automatically know what particular benefits Social Security provides.

Benefit value should not be confused with benefit costs. Value should be explained in terms of policy limits and show total protection for each eligible employee and family member. Value can also be expressed in terms of what the same benefits might cost if purchased on an individual basis by an average employee.

For example, employees should be made aware that their contribution for dependent medical coverage is only a fraction of what the cost would be if they had to purchase the same protection entirely on their own.

All costs for statutory payments, voluntary payments and payments for time worked should be revealed. You should compute your company's average cost per employee for all of these benefits

Developing benefit advertising reduces future benefit costs



Source: Adaptation from The Employee Benefit Communications Handbook

to illustrate total compensation. They can be compared with a 1978 U.S. Chamber of Commerce survey of the total average cost of benefit payments (see chart).

When efficient communications materials are used to give employees a good understanding of their benefits, the employer discovers that many indirect benefit costs can be vastly decreased (see chart).

By eliminating rumors and the time spent by management to curtail them, the employer realizes improved productivity of the workforce.

● **Step Seven:** How to determine the true cost for your benefits advertising campaign.

The actual cost for a comprehensive benefits advertising campaign is the cash required to implement it, minus the value of the savings the company will enjoy as a result. The savings that will be appropriate for your company will depend on your

situation.

To determine potential savings, benefit managers will most likely need to gather data from other departments regarding recruiting, training, absenteeism, productivity and turnover. It is quite possible that when you compute this formula, you will find that the savings are greater than the cash flow invested.

If such savings occur, your benefits advertising campaign has made a contribution to your company's overall profit performance.

Because your employees will come to expect regular benefit messages, they will not be alarmed when you introduce a somewhat modified plan that may have been implemented to reduce benefit costs.

Just as large advertisers are continually re-researching their image in the marketplace, so must you. An annual spot survey of prevailing employee attitudes towards benefits should be conducted.

Security problems storm the computer age

By Z'ev Kronish

"Computer Security: A Management Audit Approach"

By Norman L. Enger and Paul W. Howerton
ANACOM, 135 W. 50th St., New York, N.Y. 10020
264 pages, \$21.95

THE COMPUTER is in the eye of a security storm. Thorny issues are far from resolved as debate continues over ways to lessen the computer's vulnerability. The urgency is deserved. Data security and business stability are now indivisible.

The principal threats stand out:

● Practically an entire operation depends on computer wizardry. Data processing failure can tie a company in knots. Cases of financial disaster are not unknown.

● The potential for computerized crime is enormous without anyone engaging in violence greater than pressing a set of

Z'ev Kronish has worked in corporate risk management and benefits administration and is currently in the claims department at the National Health & Welfare Mutual Life Insurance Assn. in New York. His book reviews appear regularly in BI.

books & ideas

telephone or terminal keys.

Disagreement centers on the impact of such crime and, above all, on how deal with such threats.

On the proposed federal Systems Protective Act and other anti-computer crime legislation, Norman L. Enger and Paul W. Howerton write:

"Companies that depend on computers for much of the administrative work would be well-advised to maintain close watch on the progress of these bills so as to preclude the inclusion of language which could inhibit the expeditious operation of their businesses. There is no doubt that security is an inhibiting function, so no more security than necessary to adequately protect the interests of the company should be installed."

Specialists in data processing, security, accounting and risk management are sending out alarms that a crisis is brewing. They represent a consensus that the problem is pressing but do not agree on the specific steps to curb abuses.

Risk analysis is reserved for the final chapter. When data managers see themselves in the vanguard of loss-control efforts, it demonstrates something about

the isolation of the risk manager.

Obviously a leadership vacuum exists.

The authors seek to interpret the computer crisis to management. They tell us at the outset that the security challenge requires a fresh, broad effort. "No longer can data-processing managers be expected to be responsible for decisions which affect the corporate well-being."

As the authors see it, top management has to be shaken out of its apathy. And they want to prod computer professionals to share the burden with others in the firm: to seek relief from the strains of responsibility for security. With an insider's vision of all the things that can go wrong, theirs is an honest appeal for broad collaboration.

Compounding the security problem is the spread of wiretapping to steal information or to alter it to confound unsuspecting management. Sophistication increases the stake and the challenge for those seeking to test a system's vulnerability.

"Computer Security" recommends procedures to prevent illegal access. The authors' plan for security alertness includes the use of voiceprints. By itself, however, voice security is inadequate, they note. Coupled with a password or fingerprint, it might prove useful.

Laxity by management is partly to

blame for the rise in computer crime. The offender perceives computer mischief as a safe bet: It is punished with a slap on the wrist. The FBI reports that only one of 22,000 criminals ends up in jail. Ironically, it is the employer as victim who shows fear of humiliation. Not only will an employer refrain from pressing charges, but the dismissed embezzler walks away with "favorable references," the authors say.

A backup plan in case of computer crime is a must. It prepares the company for quick resumption on some scale. The flow (of data) must go on. Risk managers understand that business interruption is not to be taken lightly. Contingency planning involves specific alternate arrangements—the use of an off-site facility and duplicate sets of software, programs and files. Despite these efforts, the plan can go wrong if someone neglects to check whether the emergency system's hardware is compatible.

A formal backup agreement can prevent misunderstandings. The negotiations have to spell out the exact details: equipment, time, security provisions and cost. You don't lock the agreement in a vault and forget about it. It has to be reviewed periodically. A perfect plan could turn out to be unworkable in the face of subsequent changes in the backup installation.

Burt Schechter named risk manager at Disney

Burt Schechter has joined Walt Disney Productions in Burbank, Calif., as director of risk management, replacing Harold W. Horton who has retired. For the past three years, Mr. Schechter was corporate risk manager at AM International Inc. He has a bachelor of science degree in insurance and finance from Ohio State University. He will report to Assistant Treasurer Donald Tucker.

Michael R. Feldman, 34, has been named director of risk management for Eastern Cooperative Services in Baltimore, a newly created position. Mr. Feldman will be responsible for managing the insurance programs for 13 hospitals operated by the Daughters of Charity. He previously was a member of the corporate insurance departments of CertainTeed Corp. in Valley Forge, Pa., and Firestone Tire & Rubber Co. in Akron, Ohio. Mr. Feldman received his undergraduate degree in industrial engineering from the University of Pittsburgh. He has a master's degree in business administration from Akron University.

Joseph V. Amanno, 27, has joined American Cyanamid Co. in Wayne, N.J., as supervisor of liability insurance. Mr. Amanno earned a bachelor of arts degree from the State University of New York and worked as an assistant account executive at broker Rollins Burdick Hunter in New York. He also worked as an account representative at Marsh & McLennan. Mr. Amanno reports to T.A. Caldwell Jr., director of corporate insurance. He replaces Donald Sullivan who joined Harris Corp. in March 1981.

C. Wayne Gano Jr. has been appointed director of risk management at IC Industries Inc. in Chicago. Mr. Gano, 40, joined IC after 14 years with Sundstrand Corp., where he was most recently general insurance manager. In the newly created position, he will re-

comings & goings: buyers

port to John P. Fagan, senior vp of finance. Mr. Gano graduated from Grinnell College in Grinnell, Iowa, in 1963 with a bachelor's degree in physics. He earned an M.B.A. in finance and management in 1967 at the University of Iowa.

We'd like to report on staff changes in your risk management or employee benefits department. Just drop a note to Stephen Tarnoff, Associate Editor, Business Insurance, 740 N. Rush, Chicago, Ill. 60611 or call 312-649-5482.

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OCT. 19-21. **The Improvement of Product Safety** course Cambridge, England, sponsored by Product Liability International; 180 pounds (about \$360). Also Oct. 29-30 in London. Lesley Parkinson, Product Liability International, Lloyd's of London Press Ltd., Sheepen Place, Colchester, Essex CO3 3LP, England; 01-206-69222.

OCT. 20. **Legal Trends and Their Impact of Products Liability, Bodily Injury, Workers Compensation and E&O** workshop in Norfolk, Va., sponsored by the Society of CPCU, members, \$85; non-members \$95. Society of CPCU, Providence and Sugartown Roads, Malvern, Pa. 19355.

OCT. 20. **Business Interruption/Time Element Coverages** workshop in Grand Rapids, Mich., sponsored by the Society of CPCU, members, \$85; non-members, \$95. Society of CPCU, Providence and Sugartown Roads, Malvern, Pennsylvania 19355.

OCT. 21-24. **International Benefits Seminar** in Montreal, sponsored by the International Foundation of Employee Benefit Plans; members, \$440; non-members, \$515. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005.

OCT. 22-23. **Human Error Reduction Techniques** course in Chicago, sponsored by Don Petersen, management consultant; \$275. Don Petersen, 9236 East Walnut Tree Drive, Tucson, Ariz. 85715; 602-749-2319.

OCT. 23-24. **Hospital Liability and Risk Management** seminar in New York, sponsored by the Practising Law Institute; \$275. Also Nov. 20-21 in Miami. Practising Law Institute, Dept. SWC, 810 Seventh Ave., New York, N.Y. 10019.

NOV. 15-17. **Business Insurance Communicative Employee Benefits** conference in Chicago, sponsored by Business Insurance. The latest tips and techniques to effectively communicate benefits to employees. Valerie Adams, Crain Educational Division, 740 N. Rush St., Chicago, Ill. 60611; 1-800-621-6877; in Illinois, 312-649-5242.

NOV. 16-18. **Analyzing Safety Performance** course in Tucson, Ariz., sponsored by Don Petersen, management consultant; \$375. Don Petersen, 9236 East Walnut Tree Drive, Tucson, Ariz. 85715; 602-749-2319.

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Elevator blasts increase

Continued from page 1

lated deaths and injuries have grown dramatically over the past two decades.

From 1975 to 1979, an average of 23.4 explosions was recorded per year, more than double the 10.4 reported per year from 1960 to 1964, according to statistics from the U.S. Department of Agriculture's Special Coordinator for Grain Elevator Explosions.

Related deaths have increased even more dramatically. In 1975 to 1979, an average of 20.2 deaths per year was recorded; in 1960 to 1964, the figures show an average of only 2.6 deaths per year—almost eight times fewer.

Safety experts once believed that controlling the amount of dust in the elevator would control the number of accidents, but that now does not seem to be enough, as proved by an explosion April 7 in the Port of Corpus Christi's public grain elevator that killed nine people and injured 30.

"It was supposed to be the safest elevator around," one insurance industry source commented after the blast. "Just last year, the port installed an improved dust collection system to prevent this sort of thing from happening."

A port official echoed this, saying, "The system was renovated a year ago for nearly \$2 million. We completely rebuilt the truck and rail car dumping sites and installed two large vacuum systems that remove and filter dust. We were able to provide an exceptional level of dust control with it."

Investigations into the cause of the accident are still under way.

Port officials estimate that 50% to 70% of the \$50 million facility was destroyed and say it will be two years before the elevator will be back in full operation. Another

source says property and business interruption losses have already topped \$50 million and liability damages have yet to be assessed.

Spurred by seemingly inexplicable accidents such as the Corpus Christi blast, teams of scientists, researchers, grain company safety managers and industry associations have been working feverishly since 1977 to develop methods to prevent dust explosions in this nation's 10,000 to 15,000 grain elevators.

In 1977, a severe explosion at a Continental Grain Co. of New York's export elevator in Westwego, La., killed 36 people, and another at an export facility in Galveston, Texas, killed 18.

A spokesman for the USDA's Special Coordinator for Grain Elevator Explosions estimates losses since the Westwego explosion to be in the hundreds of millions of dollars.

James Manness, technical coordinator of the National Grain & Feed Assn., which has sponsored much of the research into grain elevator explosions since 1977, says the Westwego and Galveston explosions helped make the public more aware of the problem.

"Westwego really disturbed people because it had the most modern safety and detection equipment," Mr. Manness says. "If the best goes up, what do we do with all those that are less than the best?"

Grain dust explosions are four-sided affairs, says Robert Hubbard, vp and manager of plan operations for Cargill Inc., one of the largest grain handlers, which passes about 20% of the U.S. yield through 175 domestic elevators a year.

For an explosion to occur, he explains, there must be dust, an ignition source, air and a confined space. Take away any of these ingredients and an explosion will not happen.

Until the last three or four years the grain industry has concentrated its efforts on eliminating dust and ignition sources, says Mr. Hubbard, who is a member of the National Academy of Sciences panel on prevention of dust explosions. But experiments have indicated that an estimated 70% of all grain dust explosions originate in the bucket elevator legs of "headhouses." That's where grain is scooped up by elevator buckets and carried aloft to be distributed in storage bins, often giving off dense clouds of dust.

By preventing a primary explosion in the elevator leg or by isolating it there, the more devastating secondary explosions can be avoided, he says.

Now, more emphasis is being placed on taking conveyor and elevator equipment out of the concrete headhouses and moving it into the open, away from storage areas.

Cargill has done this at several grain facilities, including an elevator in Houston.

"We have literally taken the walls down and purposely built bucket elevators outside the main building on new projects," Mr. Hubbard explains. "We haven't had any major explosions. We had two minor ones in bucket elevators, but since they were built outside, they blew out the casings. That's all."

Eliminating oxygen in storage areas through injection of inert gases is too expensive to be practical at this time, Mr. Hubbard says. Therefore, "we concentrate on eliminating ignition sources, cutting the concentration of dust and getting away from confinement."

Controlling dust is essential, Mr. Hubbard says. "If an elevator should be unfortunate enough to get a primary explosion, it can get by with a small loss if it has taken

care of dust accumulation to prevent a second explosion." But even if an elevator has the best dust collection system, it's necessary to sweep the walls and floors regularly.

Two elevators, one owned by Ralston Purina in Wichita, Kan., and another owned by the Peavey Co. of Minneapolis and located in Alton, Ill., had bucket elevator explosions within the past year, but housekeeping was so good that they did not have secondary explosions, Mr. Hubbard says.

Most experts agree that the one sure way to prevent dust explosions is to eliminate dust. This, however, is more easily said than done: Just a little dust can cause a devastating blast.

"If dust is not removed, it settles and accumulates, then all you need is an ignition source—a cutting or welding torch, a hot bearing on a conveyor, anything like that," says John Coons, senior engineer in special hazards for The Factory Mutual System, whose member companies write grain elevator insurance.

"Theoretically, a layer of dust 1/16th of an inch thick on the floor, if disbursed into the air, can cause an explosion," he says.

Some say the Environmental Protection Agency has aggravated the dust problem by ordering the grain industry to stop venting fine dust particles into the atmosphere. These critics say the filters installed to catch particles emitted from the elevators impair dust collection equipment and force the return of light, fine, explosive dust to the plant.

But Mr. Hubbard discounts this, saying the EPA only requires that elevators meet certain qualifications for air purity and that states put them into practice.

"It is a management decision to control dust emission by keeping it in the elevator," he says. "A rather poor management decision."

Mr. Coons agrees that EPA regulations "are probably not that much of a factor."

Breeding new varieties of grain that cause little or no dust could be a solution to reducing the problem, Mr. Hubbard suggests. "If we can develop new wheat and corn strains to make them yield more, we could also develop ones that would crack up less easily and produce less dust," he says. "That would be a step in the right direction."

But experts say elevator operators can now take the following steps to prevent explosions:

- Slow conveyor and elevator equipment to reduce dust and cut heat.
- Install heat and motion monitoring equipment on machinery to warn of potential ignition sources.
- Tighten preventive maintenance practices and carry out frequent close inspections.
- Install efficient dust collection equipment.
- Set up good firefighting and emergency evacuation procedures.
- Improve housekeeping.
- Prevent bad welding practices.
- Educate employees in safety and prevention of dust explosions.

Operators also are encouraged to redesign structures to eliminate bucket elevators and install incline belts, Mr. Manness says. "You get fewer malfunctions and less dust, but you need more land, which may make this impractical for some facilities."

Many elevators have installed explosives vents in roofs or other areas of elevators. These vents are essentially weak spots that would give way during an explosion before the main structure would, hopefully preventing major dam-

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age. The effectiveness of venting has been questioned by experts who say there is no sure way to know what path an explosion will follow. However, venting, as well as design changes, is often impractical for existing elevators.

"If it's a new building, a great deal can be done, but most facilities already exist and there is not much that can be done to modify them because it is so expensive," says Charles Martin, a researcher at the U.S. Department of Agriculture's grain marketing research laboratory in Manhattan, Kan.

Explosion suppression might be

one answer. Some elevator operators have installed or will soon install devices designed to almost instantly douse the fires that follow primary explosions to prevent secondary explosions.

A spokesman for the Fenwal Corp. of Ashland, Mass., says his company will soon begin marketing an explosion suppression device called X-PAC.

X-PAC senses pressure that develops in the early stages of an explosion and sends signals to a container of an extinguishing agent that injects the agent into the air in about 1/1,000th of a second.

The self-contained battery-

powered device "is really an ultra-fast automatic fire extinguisher," the spokesman says. "X-PAC, which will cost roughly \$1,500, would be installed in the boot and head sections of bucket elevators, where we know 63% of explosions originate." An estimated eight to 16 of the devices would be needed per elevator.

Conrad Ihrle, divisional manager/director of corporate safety for the Bunge Corp. in West Memphis, Ark., says his company has taken a corporate-wide approach to dust explosion prevention. Bunge operates more than 100 elevators throughout the United States.

"We've had some explosions in the past, but none in several years," Mr. Ihrle says. "Our management is totally committed to safety."

Although he is not sure anyone really knows how to prevent a dust explosion, he says his company attacks the problem through extensive safety programs, planned maintenance, housekeeping, dust collection equipment and heat detection systems.

"We have full-time housekeeping crews and each individual is responsible for maintaining his own area," Mr. Ihrle says.

Bunge's more than 1,500 employees are taught during monthly

safety meetings to recognize symptoms of potential hazards—noises, smells, heat—and to notify the manager immediately if something doesn't look normal. In addition, Bunge operates a training center for managers that offers four days of formal classes on subjects like emergency evacuation and maintenance of elevator legs.

"All new facilities in the past three years have been built with elevator legs outside the main buildings, something most experts feel is advisable," Mr. Ihrle says. "We are doing everything we know of to prevent explosions, knock on wood."

Frequent explosions tighten market

Continued from page 1

Mr. Townsend, who is a member of the National Academy of Sciences' panel for the prevention of grain elevator explosions, estimates the London market is behind 60% to 70% of the reinsurance of grain elevators in the United States. He says large American insurers keep little of the risk.

"They keep less than 5% on most cases," he says, adding that National Agra also heavily reinsures its risks.

"This allows the grain industry to use insurance as a cheap way to avoid cleaning up their elevators and it isn't doing the grain industry or the insurance industry any good."

A grain elevator owner, at today's insurance rates of 25 cents to 30 cents per \$100 value, can insure his facility for less than the interest he would pay on the cost of a dust collection system, he says.

A \$50 million elevator buying a policy at the 30-cent rate would pay an annual premium of about \$150,000. An efficient dust collection system, on the other hand, may cost millions.

"The grain industry is in a squeeze and if it can buy insurance more cheaply than it can install a dust collection system, it will buy insurance," he says.

Insurance rates have gone up to present levels from around 20 cents per \$100 value six months ago because reinsurers are becoming wary, he says.

"We want to keep the reinsurance market open for good elevators. There is the danger of losing London because of bad experience."

A Lloyd's reinsurer broker and a Lloyd's underwriter agreed that the London market is tightening for grain elevator risks.

Lloyd's underwriters are requiring better engineering reports, charging higher rates and writing smaller lines on the risks, a North American reinsurer broker said.

"There have been some horrendous experiences," he said. "Underwriters are generally regarding them (grain elevators) with suspicion."

And Lloyd's underwriter Ray Rokeby-Johnson has refused to write grain elevators at all.

"I stopped writing elevators five years ago. They were very under-rated," he said, adding they have been a bad risk for years.

Even though elevators were exploding frequently five years ago, they were rated at 6 cents or 7 cents per \$100 of value "as if they were HPR property, and they are not."

"Underwriters now are looking for proper rating, and I don't think the rating of the old days will ever come again," he said. "As a consequence, the rates they are having to pay are high—if they can find anyone to take the risks."

Placement of grain elevator policies is so scattered that there is no consolidated figure for losses, Mr. Townsend says. "All I can say is that the loss ratio is horrendous."

A spokesman for the U.S. De-

partment of Agriculture's Special Coordinator of Grain Elevator Explosions in Washington, D.C., also said the industry does not keep comprehensive records on grain elevator losses; at least, he says, those records have not been made available to his office.

Elevators can be worth up to \$125 million, Mr. Townsend says. Large export elevators, like those at Westwego, La., and Galveston and Corpus Christi, Texas, are generally the most expensive and can cost \$50 million to \$125 million to build. Smaller country elevators often cost \$10 million to \$15 million.

National Agra Underwriters currently insures two worth \$105 million and a number of lesser value.

"Most bad explosions are in export terminals," Mr. Townsend says. "The amount of dust created is about proportional to the flow-through of grain. Export elevators don't have huge storage capacity, but they do have constant flow-through."

"There is no mystery about what causes a grain elevator explosion. It is simply what occurs when fine particles of organic matter are suspended in the air in certain quantities and are ignited."

But he says the operators don't understand that even 1/16th of an inch of dust on the floor of an elevator building is enough to feed an explosion.

"We are going to have more explosions. There is no question."

National Agra's 15 staff members spend 80% of their time with their clients, engineering to prevent dust explosions, Mr. Townsend estimates.

"We issue very few policies because very few elevators are safe enough," he says. "We won't insure one where there is the possibility of a major explosion. Where the management is sincere, we will help with engineering to prevent explosions from the ground up."

Other grain elevator insurers besides National Agra Underwriters include INA Special Risks Department, Dallas; Mission Insurance Group, Los Angeles; Fireman's Fund Insurance Cos., San Francisco; St. Paul Fire & Marine, St. Paul, Minn.; Farmland Insurance Co., Des Moines, Iowa; Mill Mutuals, Chicago; and Lexington Insurance Co., Boston.

"Specialty underwriters like National Agra, Mill Mutuals and INA Special Risks obviously have more expertise than some of the others involved," says a grain elevator specialist at Marsh and McLennan.

Tom Joseph, property manager at INA Special Risks, says his company is extremely active in grain elevator coverage of well-engineered risks.

"We have several engineers who know the grain industry well and do inspections for us," he says. "Special Risks got into it a little over three years ago, shortly after the Continental Grain Co. loss (in Westwego), which we were heavily involved in. The decision was made then to get totally into the market."

Mr. Joseph says the reinsurance market has not tightened because of losses. INA uses reinsurance, but Special Risks is in the underwriting market and takes a large part of the risk, depending on the facilities' engineering and loss-prevention programs, he says.

He also says he has seen no jump in rates, adding that they are not high enough.

"I feel a fair rate for an exposure should be charged and this is not being charged now," Mr. Joseph says. Rates have remained low due to the availability of facultative reinsurance.

One underwriter working for a major grain elevator insurer says his company stopped insuring large

export elevators after several heavy losses and returned to the small country elevator insurance.

"We had really beaten our reinsurers to death with the large losses," he says. However, he says reinsurance and insurance people have short memories and have thrown wise underwriting out the window in favor of increased cash flow.

"We have seen companies come in during the last 16 months that have never been in the business before," the underwriter says. "Some of them are undercutting established rates by 50% to 70% just to get investment money. I would guess most wouldn't know a grain elevator leg from a hammer mill and

don't have any earthly idea of what they are writing."

His company, well-established in the grain elevator insurance business, was recently undercut by a large insurer and lost a long-term account, he says.

"We were writing a feed mill for \$15,000 (premium), strictly for named-peril fire and expanded coverage. The other company offered them an all-risk policy, including workers compensation and general liability coverage, for \$6,000."

"When the customer called and asked if we could beat that, I told him we couldn't and that I probably wouldn't write such a policy even if I could."

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Employers may fight pension liabilities

Continued from page 1
the plan.

The truckers' fears have been fueled by the enormous withdrawal liability claims filed against trucking companies in North Carolina and Indiana after they went out of business and withdrew from the Central States, Southeast and Southwest Areas Teamsters' pension fund.

Johnson Motor Lines Inc. of Charlotte, N.C., and Transport Motor Express Inc. of Fort Wayne, Ind., each were hit with withdrawal liability claims more than double their net worth. The two firms are suing the Teamsters, charging that the multiemployer law is unconstitutional (BI, July 20 and Aug. 24).

Fears about the impact of the new law are mounting in other industries, too. "You can hear the screams all across Southern California as employers leaving multiemployer plans are being hit with withdrawal liability claims that are in some cases many times their net worth," said Claude Dorais, a Los Angeles attorney and pension ex-

pert.

Sources say next month's meeting of the five trade associations will include discussion of these issues:

- What is the status of present litigation?
- Who is involved in the litigation?
- Should employers press for congressional hearings on the new law?
- Can something be done as a group?
- Should counsel be retained?
- Should legislative or regulatory changes be sought?

But even if the trade groups band together in an attempt to overhaul the law, they will face an uphill battle.

Congressional committees that have jurisdiction over pension issues are unlikely to want to consider changes only one year after they formulated the law.

Furthermore, employers are badly split on who should pay for multiemployer pension liabilities.

Large, successful companies that participate in the nation's 2,000

multiemployer pension plans oppose a return to the pre-amendment provisions.

Under the earlier law, employers could skip out of a multiemployer plan and escape paying a share of its liabilities if the plan didn't collapse within five years of their withdrawal.

The stronger companies feared they would be stuck holding an enormous bag of pension liabilities as weaker competitors dropped out of business and left the multiemployer plans.

Easing withdrawal liability requirements would pit what Washington attorney Frank Cummings refers to as "the survivors and non-survivors."

"Somebody is going to have to pay. The question is who," Mr. Cummings said. Large successful firms say, "I don't want to pay the debts of my unsuccessful competitor'... I don't see the kind of a coalition developing you need to pass (changes)," he said.

Other pension experts say altering the act's withdrawal liability penalties should be altered so the

interests of employers and the plans are more evenly balanced.

Withdrawal liability should be stiff enough so that employers cannot skip out of a plan to save money without being so burdensome that new employers won't join the plan or that participating employers do not get socked with astronomical claims.

Richard Fay, a pension attorney with Reed Smith Shaw & McClay in Washington, suggests establishing a sliding scale of withdrawal liability charges.

Withdrawal liability penalties would be greater for members of multiemployer plans that are in financial trouble. "Make the amount of withdrawal liability contingent on the health of the plans," Mr. Fay said.

But Robert Nagle, executive director of the Pension Benefit Guaranty Corp., the federal agency that guarantees workers' vested pension benefits, said a sliding withdrawal liability scale would be difficult to administer.

Mr. Nagle also questioned if such a system could respond quickly to

pension emergencies. For example, employers in a plan considered healthy might sense economic troubles ahead and pull out of a plan while the withdrawal liabilities are still low, the PBGC chief said.

A growing number of experts are questioning if the act, passed to shore up the financially ailing multiemployer plans, is causing more harm than good.

"Multiemployer plans offer to employees in the same industry the advantages of portability of benefits when they change jobs," Mr. Dorais said. "You do no good if you scare employers away from these plans."

But the PBGC's Mr. Nagle said if Congress had not passed the Multiemployer Amendments Act last year, a substantial number of multiemployer plans could have collapsed and termination insurance premiums could have been raised to "exorbitant levels."

Multiemployer pension plans now pay \$1.40 annually per participant to PBGC for termination insurance.

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Lloyd's report shows aviation loss

Continued from page 2

clear of depending on it for profits, a Lloyd's spokesman said.

"Lloyd's lives by underwriting," he said. "As professional underwriters, they like to make underwriting profit. They don't like to depend on investment managers for their success."

Lloyd's traditionally uses a three-year accounting system, which is why the 1978 results were just released. The report is based on an audit of 14,091 Lloyd's members doing business in 1978 in the aviation, marine, non-marine, motor and short-term life markets.

Yearly accounts are left open for three years so that all premiums can be received and many claims can be paid before the books are closed, the spokesman said. Such a system presents a more accurate picture of results, he said.

Lloyd's income—other than premiums—totalled 170.6 million pounds in 1978. That figure included investment income, profit on currency exchange and interest on underwriting funds. Lloyd's reported 107 million pounds in other expenses, including annual subscriptions, guarantee premiums, central fund contributions, depreciation on investments and underwriting management expenses.

Partial results are available for the 1979 and 1980 account years, but they don't give as accurate a picture as when the ledgers are closed in the third year, the Lloyd's

spokesman said.

So far, the reports for 1979 and 1980 show a surplus of premiums against paid claims. For example, the 1979 results, at the end of the second year of the accounting cycle, show a balance of 1.77 billion pounds, with 2.5 billion pounds in collected premium and only 687 million pounds in claims. The 1980 first-year results show premium of more than 1 billion pounds, with 250 million pounds in claims and a total balance of 762 million pounds.

But most of the claims usually appear in the third year of the accounting period, the Lloyd's spokesman said. "Still, that's not the whole story. There can still be liabilities." Lawsuits often take more than three years before they are settled, and thus the losses do not appear on the books.

To close the Lloyd's accounts after three years, the underwriters pay a reinsurance premium in the following year. "Instead of reopening the accounts, they pay reinsurance," he said. This "reinsurance to close" is carried over to the next year's account every year. "It rolls on and on and on."

The aviation market plunged in 1978 and will probably continue its descent in 1979 and 1980, says Barry Coleman, chairman of Lloyd's Aviation Underwriters' Assn. In 1980 alone, 23 Western-built jets were destroyed and 745 passengers and 70 crew members killed. The cost of the lost hulls totals \$190 million dollars. In addition, the world market insured four Eastern-built jets that crashed that year, worth \$25 million. The premium collected after the first year of the accounting cycle is less than \$200 million.

These heavy losses have caused the Lloyd's aviation market to harden, sources say. In July, underwriters increased rates about 15%, with deductibles increasing as much as 300%, they say.

The marine market's profitability has also been sinking in 1979 and 1980 because of record losses like the \$300 million Avondale claims, the largest loss under a single marine insurance contract in Lloyd's history.

"The steadily increasing profits of the last decade have reached a plateau during the years '76, '77 and '78 and all the indications point to a downturn in the next few years of accounts," said Malcolm Rumsey, chairman of Lloyd's Underwriters' Assn.

But 1978 marine accounts did not

suffer from any major catastrophe or shipping losses, he said.

"The marine figures show that the 1978 account has closed with an underwriting profit of 69.3 million pounds compared with 76.4 million for 1977 and 75 million pounds for 1976," Mr. Rumsey said. "However, this profit derives from a premium income of 764 million pounds, which is 10% higher than for 1977."

Marine claims in 1978 totalled 695 million pounds.

The 1979 accounts premium income has increased by 9% compared to the 1976 account at a similar stage, but settled claims have ballooned from 190.9 million pounds to 264.8 million pounds, Mr. Rumsey said. This 40% increase in claims is due to the worst year for shipping losses, both cargo and hull, ever recorded, he said.

He said he doesn't expect 1980 to be a good underwriting year because of substantial losses from the Iran-Iraq War, Mr. Rumsey said. After one year of accounting, premium income in 1980 increased 14% over the corresponding 1979 account, but claims shot up 13%.

The 1978 non-marine account was helped by investment earnings as net premium totalled 1.05 billion pounds and claims came to 1.02 billion pounds. Overall profit came to 72.2 million pounds.

But "senseless competition" around the world will worsen future non-marine results and continue the soft market for the moment, said Rodney Wace, chairman of Lloyd's Underwriting Non-marine Assn.

"Obviously this cannot continue forever and it is an open question as to whether its end will be brought about by a spectacular catastrophe or the collapse of some spurious reinsurance markets," Mr. Wace said.

"The activities of new and unproved groups of reinsurers do much to promote the unwanted excess capacity available today," he said. "At the same time, some of these people display a philosophy which seems to say that if the claim is large enough you do not pay it until finally cornered in the legal process."

Thus, until the market hardens, underwriters will have to depend on investment earnings to offset worsening underwriting results, Mr. Wace said.

"But history has proved that to rely on such earnings to the exclusion of all else is a blueprint for trouble," he said.

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Outstanding risk managers are eligible for BI's award

Continued from page 3
 ● Duane C. Allen, assistant treasurer of Hanna Mining Co. in Cleveland, in 1981.

The first Risk Manager Honor Roll in 1981 included:

● William Ryan, insurance and risk manager for the University of Michigan in Ann Arbor, representing not-for-profit institutions.

● Bob Bieber, director of risk management for Westchester County, N.Y., representing public entities.

No award was made in the small-business category because no risk managers for corporations with less than \$300 million in annual sales and fewer than 1,000 employees were nominated.

Anyone involved in risk management for a corporation, institution or government entity can be nominated, regardless of title.

The candidate need only to be responsible for the risk management function in the organization, either full- or part-time.

Individuals who have been nominated in previous years may be nominated again, but the nominating form must be updated and re-submitted.

The nominations may be submitted by anyone who works in the field of risk management or commercial insurance: superiors, co-workers, agents or brokers, consultants or insurance company personnel.

The nomination must include a resume and job history of the candidate, documentation addressing each of the nine criteria for judging risk management professionalism, a letter of endorsement of the candidate by a corporate executive from his company and a nominat-

ing statement written by the sponsor of the nominee.

The judges, who will be announced in the Sept. 14 issue of *Business Insurance*, are leaders in their fields, including representatives of the risk management community, risk management educators, financial executives, insurance brokerage firms, insurance companies and risk management consultants.

All nominations are kept confidential. Only the winners are announced.

The deadline for submitting nominations is Dec. 7. The winners will be announced in the April 19 issue of *Business Insurance*.

To request a nominating form and instructions, write Risk Manager of the Year Competition, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611. ■

Criteria for judging

The 10 judges will use nine criteria to select the 1982 *Business Insurance* Risk Manager of the Year and Risk Manager Honor Roll.

- The judges will score each candidate on how well he or she:
- Established and implemented an effective risk management program for the organization.
 - Tackled and solved one or more major problems.
 - Innovatively applied the diverse tools of risk management and insurance.
 - Creatively and effectively used insurance markets.
 - Established a workable intelligence system inside and outside the organization, culminating in access to a flow of information about events and activities that affect the organization's risk management and insurance.
 - Skillfully applied management principles in the overall organization and within the risk management/insurance department.
 - Achieved the most effective program at the optimum cost over the long term.
 - Developed technical expertise in any or all of the broad categories included within risk management (insurance, safety, law, industrial hygiene, claims control/administration, underwriting, communications, information systems, etc.) leading to a better managerial grasp of the operations aspects of the job.
 - Exhibited an attitude and performs activities fostering the advancement of the risk management profession.

Samsonite sues for comp dividend

Continued from page 3

Most, if not all, California workers compensation insurers are believed to follow the dividend guidelines outlined by the state Insurance Department, but industry observers concede that sales presentations using historical examples of previous dividend payments raise strong expectations about future dividends.

The fine line between examples and promises is increasingly being crossed, one broker told *Business Insurance*.

If insurers are not obligated to apply the factors quoted in their renewal letters to calculate dividends after they are voted by directors, there is nothing to prevent them from using highly attractive but unrealistic factors to sell a policy, Mr. Worrell argues.

The specific factor that Samsonite is disputing, called the basic premium factor, is multiplied by an audited dollar premium amount and combined with the product of actual losses and another factor to figure the total adjusted premium.

Even as his fight with Liberty

Mutual continues, Mr. Worrell has received a new renewal proposal, showing dividends declared on expired policies of similar size to be larger than those awarded to Samsonite. The premium factor was highly favorable to policyholders.

Samsonite's previous policy was written in October 1975 for a three-year term. The policy provided workers compensation coverage for a subsidiary, John Hancock Furniture Manufacturing Co., which has been dissolved.

According to Samsonite, Liberty Mutual proposed in writing to apply a premium factor of 0.149 to the policy, noting that the dividend consideration would be on the basis of three years' experience and would be determined by a vote of the insurer's board of directors 10 months after expiration of the policy term.

But instead of applying the agreed premium factor of 0.149 at the end of the policy period, Liberty Mutual applied a factor of 0.283, resulting in double the premium total and an added expense

to Samsonite of \$50,404.

A Liberty Mutual underwriter's memo to the Denver office shows that the insurer and its policyholder understood it had an agreement to use certain factors in calculating the adjusted premium, Mr. Worrell says.

He also says that he was assured by Liberty Mutual during the policy term that although the original factor of 0.149 was not used to make interim adjustments at the end of 1977 and 1978, it would be reflected in the final premium adjustment.

"If we had known in advance what the actual factor would be, we would have chosen to self-insure rather than buy insurance," Mr. Worrell says. Beatrice Foods, Samsonite's parent company, self-insures most of its workers compensation exposures.

Before it started to self-fund most of its workers compensation risks several years ago, Samsonite had been insured by Liberty Mutual and dividend returns had always met expectations, Mr. Worrell says. ■

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THE SPECIALISTS

Insurers form pool for toxic risks

Continued from page 3

Reinsurance Co. The first public meeting of the group is planned for Sept. 17 in Chicago, but some preliminary legwork already has been done by the participating insurers and the three insurance associations—the American Insurance Assn., the Alliance of American Insurers and the National Assn. of Independent Insurers—that are supporting the pooling effort.

It is estimated that the pool will have a net capacity of \$10 million, with the syndicate able to arrange \$50 million in limits on top of that, said Mr. Kelly.

The Environmental Protection Agency has said that hazardous waste, treatment, storage and disposal facility (TSDF) operators must have pollution liability insurance for sudden and non-sudden incidents in the future, but the agency has not yet approved the final insurance requirements (*BI*, Aug. 24).

Only five insurers are known to have actually written the coverage, but many more companies with affected policyholders have been looking into the market and are waiting for the EPA to finalize the coverage requirements.

It is estimated 8,000 to 40,000 companies will need pollution in-

urance policies under the EPA's proposal, but very few have yet to make arrangements for it, sources say.

An Oct. 13 deadline has been established for all TSDFs to have sudden pollution liability insurance, for which most companies are covered under their general liability policy.

But that deadline and the April 12, 1982, deadline for the largest owners and operators of TSDFs to have non-sudden liability insurance may be delayed 30 to 90 days because the Office of Management and Budget has questions on the EPA proposals.

Mr. Kelly says the liability insurance capacity will be needed with or without the EPA regulations.

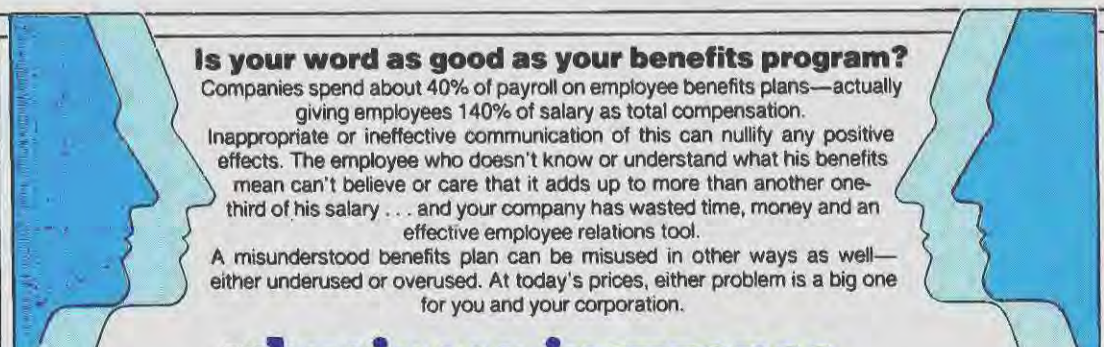
The PLIA is a move by "orthodox, rather than surplus line carriers" to prepare for a high demand for hazardous waste liability insurance, he said.

"PLIA will reinsure hazardous waste policies issued by individual member companies and thus redistribute a portion of the financial burden to a broader insurance industry base," he said.

The new association also expects to offer specialized risk services for companies with pollution exposures, including risk evaluation,

underwriting and claims handling activities.

But, he said, the reinsurance pool "won't fly" unless it is spirited on by the insurance industry. ■



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Tax reform affects child care benefits

Continued from page 3
attractive benefit for employers."

The child care assistance legislation is included in Section 129A of the new tax law and states that the "gross income of an employee does not include amounts paid or incurred by the employer for dependent care assistance provided to such employee..."

The legislation states that such assistance must be part of a written benefit plan and be non-discriminatory. It cannot be offered just as an incentive for executives and officers. The child care assistance can only be for work hours; payments to babysitters for after-hours entertainment don't count.

There are other qualifications. The non-taxable provision does not apply if the child care provider is a member of the employee's family. In the case of a two-income family, the total payments for child care assistance can't be more than the income of the lower-paid spouse.

The child care assistance legislation was sponsored by Sen. Howard M. Metzenbaum, D-Ohio, and originally contained a 50% tax credit for employers and employees that would have greatly enhanced its

value as an employee benefit.

A House-Senate conference committee, however, eliminated the tax credit for employers and reduced the employee's tax credit.

The new legislation allows employers to deduct payments for child care assistance to employees as a business expense as allowed under current tax law.

Employees earning less than \$10,000 a year can take a tax credit

of 30% of their child care expenses under the new legislation and those earning more than \$10,000 can take a 20% credit up to a limit of 20% of \$4,800 per year for two or more children.

While employee benefit consultants at five leading firms noted the potential benefit value of the non-taxable child care assistance, most echoed the assessment of Lloyd Kaye, a vp at William M. Mercer,

who said not many employers are asking about it.

"In today's economy, employers aren't looking to add new benefits," TPF&C's Mr. Brennan added.

The benefit manager for a West Coast-based corporation noted, "The legislation will certainly make it easier to offer child care assistance, but I doubt that it will cause child care benefits to be jumped to the front burner."

Slithering sentry guards sapphire

Continued from page 2
sistant general manager of the State Gem Corp.

"Generally, the gem is not taken out of the country," Mr. Weerasinghe said.

But while the precious stone is on display in London, the highly venomous cobra, recruited from a private collection in Britain, is unlikely to be charmed away from his duty.

"Suffice it to say we are satisfied with the security," said the spokesman for the Commonwealth Institute.

However, modern electronic

equipment also surveys the star sapphire and the other Sri Lanka jewels on display, which are valued at more than \$22 million.

Although the Commonwealth Institute is pleased with the security precautions it waived all liability for the jewels by requiring the State Gem Corp. to sign a disclaimer.

"We have accepted no liability for the jewels," the institute's spokesman said. Mr. Weerasinghe said the State Gem Corp.'s insurance policy covering the jewels is underwritten by insurers in Sri Lanka.

The Commonwealth Institute, however, has insured the rest of the Festival of Sri Lanka, an exhibition commemorating 50 years of suffrage and contemporary life in Sri Lanka.

The institute is indemnified by the British government against all losses and injuries because it is supported through a government grant.

The jewels, including yellow, orange and pink sapphires, star rubies and many other types of gems, will be returned to Sri Lanka soon but the festival continues until Sept. 12.

Business Insurance

Circulation Breakdown*

Commercial Consumers	
Administrative Management: owners, presidents, vps, etc.	6,635
Financial Management: chief financial officers, vps of finance, secretaries, treasurers, etc.	9,335
Insurance Management: vps, directors, managers of insurance, risk, benefits, compensation, safety, security, etc.	5,112
Government, Associations, Unions, Educational Institutions	952
Commercial Consumers Sub-total	22,034
Insurance Agents & Brokers	
Insurance Cos.	4,486
Financial Institutions	292
Actuaries, Attorneys, Adjusters, Appraisers & Consultants	2,135
Others allied to the field	752
TOTAL	39,105

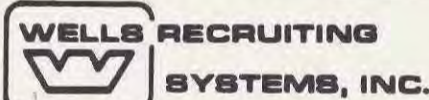
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Asbestos decision debated

Continued from page 1

They point out that the courts have tended to adopt whatever theory favors the policyholder in the case at hand. Eagle-Picher may be the only asbestos coverage case pending in the courts whose insurance was maximized under the manifestation approach, noted one attorney.

Two circuit courts of appeal that have ruled on the issue have adopted the exposure rule, upholding the lower court in *INA et al. vs. 48 Insulations* and reversing the lower court in *Porter vs. American Optical Corp* (*BI*, Nov. 3, 1980; June 29, 1981).

The U.S. District Court in the District of Columbia also recently espoused this view in *Keene Corp. vs. INA* (*BI*, March 2).

Although insurers will pay more to Eagle-Picher under the Boston court's decision, it is generally believed that the manifestation approach provides less coverage to asbestos makers in the aggregate.

Hundreds of millions of dollars are at stake for asbestos manufacturers as well as a principle of claims treatment that could eventually be applied to long-latent diseases caused by DES, Agent Orange and other substances.

After three courts reached similar conclusions on the coverage question, some legal experts suggested that the thorny issue was near resolution. Two major asbestos insurers, Aetna Casualty & Surety Co. and The Travelers Insurance Cos. recently announced they would pay claims according to the exposure approach.

But the long-awaited Eagle-Picher decision clearly boosts the spirits, if not the prospects, for insurers fighting to establish the manifestation rule.

"This takes some of the steam out of the exposure juggernaut," observed Christopher C. Mansfield, attorney for Liberty Mutual. "The court recognized that the manifestation theory had validity."

District Court Judge Rya Zobel reached the decision by giving plain meaning to Eagle-Picher's various insurance policies, Mr. Mansfield explained. "She had the courage to rule that you can't use an electron microscope or talk to a pathologist to find out what bodily injury means."

Other attorneys in the case agreed that Judge Zobel based her decision on a careful examination of the policy language with special attention to the terms "bodily injury," "personal injury" and "occurrence."

The coverage language leads to the conclusion that exposure to asbestos results in personal injury when it produces clinically evident diseases that can be diagnosed, the judge wrote in a 17-page memorandum opinion.

But the ruling goes against all the other cases decided so far, stressed Francis J. Bousquet, a Boston attorney representing American Motorists Insurance Co., a member of the Kemper Group based in Long Grove, Ill.

He suggested that the conflicting decisions could spur the U.S. Supreme Court to grant the Insurance Co. of North America and Liberty Mutual's petition for review of the Sixth Circuit's 48 Insulations decision.

"If there is a justice on the court who wants to nip this litigation in the bud so that underlying claims can be paid, he might seize the Eagle-Picher case as reason to grant review," said Mr. Bousquet.

But other attorneys did not think the high court would be swayed by the Eagle-Picher decision. They argue that the various courts have been applying the laws of different states. Therefore, their decisions are not really conflicting.

"I do not believe the wave of exposure decisions will be stopped by this case," said Victor B. Levit, a San Francisco attorney active in asbestos litigation. "In 99 out of 100 cases the insured is better off under exposure—the Eagle-Picher case is the exception."

Mr. Levit said that the thread weaving recent court rulings together is the courts' tendency to construe coverage to favor the policyholder. One result of the decision, he adds, is that insurers ready to throw in the towel on the manifestation approach may now be encouraged to drag out litigation.

"I wouldn't quarrel there is a common thread, but I believe the tendency is to maximize coverage not so much for the policyholder as for the injured asbestos workers," explained Charles R. Parrott, Eagle-Picher's attorney with the

law firm of Nutter, McClennen & Fish in Boston.

In the text of the Eagle-Picher decision, Judge Zobel acknowledges that other courts have affirmed the exposure theory. But she notes that "it is the manifestation theory which is like (sic) to maximize the coverage provided to Eagle-Picher in the underlying lawsuits."

She emphasizes that the court's adoption of the manifestation theory is grounded on the relevant text of the insurance policies and the medical evidence.

"An additional strand of support for this conclusion, however, is provided by the fact that application of general rules of insurance policy construction, with their public policy underpinnings, provides the same result," she writes.

Supporters of the manifestation theory are likely to grasp onto the judge's assertion that it is the correct approach, whereas exposure proponents clearly believe public

policy considerations were controlling in the case.

Eagle-Picher has been named as a defendant in about 5,500 lawsuits in which plaintiffs allege they contracted asbestos-related diseases as a result of contact with products made by the company between 1931 and 1971.

Before 1968, Eagle-Picher was uninsured against asbestos disease losses. From January 1968 through 1979, Liberty Mutual provided primary general liability insurance with varying limits. From June 1973 to 1979 Eagle-Picher obtained first one and later two layers of excess insurance.

Liberty Mutual and most of the London insurers and underwriting syndicates participating in the excess coverage espouse the manifestation theory. American Motorists and other London insurers maintain that only policies in effect at the time of exposure provide coverage.

Eagle-Picher's London market insurers favoring the manifestation

theory include: Walbrook Insurance Co. Ltd., Winterthur Swiss Insurance Co., Southern American Insurance Co., Mutual Reinsurance Co. Ltd., St. Katherine Insurance Co. Ltd., London & Edinburgh General Insurance Co. Ltd., Bermuda Fire & Marine Insurance Co. (U.K.) Ltd., Dominion Insurance Co. Ltd., Yasuda Fire & Marine Insurance Co. (U.K.) Ltd., Bellefonte Insurance Co., Mentor Insurance Co. (U.K.) Ltd., Assicurazioni Generali London, Stronghold Insurance Co. Ltd., London & Edinburgh Insurance Co., National Casualty Co. of America Ltd., Accident & Casualty Insurance Co., Argonaut Northwest Insurance Co., Slater, Walker Insurance Co. Ltd. and John Basil Thomas Bird, a representative underwriter.

The company's London market insurers favoring the exposure theory include Turegum Insurance Co. Ltd., Excess Insurance Co. and Philip Alan Froude, a representative underwriter.

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42.	OCT 19	Oct 7
43.	OCT 26	Oct 14
44. REINSURANCE	NOV 2	Oct 20
45.	NOV 9	Oct 28
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CNA presses premium suit

Continued from page 2

on CNA's suit dating back to mid-1979.

A "disagreement" with CNA's account manager over such matters as premium price led National Steel to terminate its seven-year relationship with the insurer in 1978, according to Mr. Armstrong.

National Steel's \$20 million coverage (with no deductible or self-insured retention) consisted of a guaranteed-cost annual premium program for general liability and workers compensation, he says, noting that the workers compensation business was audited annually.

A decision on whether to reopen the case will take at least another two to three months, as Mr. Armstrong sees it. And, if its request is denied, CNA still can pursue the matter before the Third Circuit Court of Appeals.

Noting that the case is "still in progress," CNA refused to comment.

Reinsurance course offered

The College of Insurance will offer its six-hour "Brief Course in Reinsurance" 16 times in the next 12 months. The course will be held in New York, Chicago and Los Angeles.

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the details of pro rata, excess and catastrophe plans.

The course has been offered by the college for the past six years.

For dates and information about the New York and Chicago programs contact Margaret Wilder, The College of Insurance, 123 William St., New York, N.Y. 10038. For information about the session in Los Angeles contact Gilda Hazan, The College of Insurance, 3142 Wilshire Blvd., Los Angeles, Calif. 90010.

Company brings therapists to patients at workplaces

Continued from page 3

injuries not related to work taken care of at no charge to them.

The idea for New Frontiers was conceived when Mr. Worley was treating Mr. Smith for an injured elbow. At the time, Mr. Smith was in charge of cost containment for an industrial firm.



Smith

The two men started talking and decided their professions could be a winning combination. Not quite a year has passed, but the two-man team has saved thousands of dollars for their first few clients.

New Frontiers provides the staff and equipment for the therapy facility at no cost to the employer. Treatment provided by licensed professional therapists includes whirlpool, electro-stimulation, massage, ultrasound, heat, traction

and exercises.

Each employee referred for treatment is charged the same rate, an agreed-upon fee ranging from \$19 to \$24, depending on the size of the company. New Frontiers based their fees on a survey of 40 New England hospitals; competitive charges for physical therapy treatments there averaged about \$29 a visit.

By charging each patient a set rate, regardless of the treatment, New Frontiers can make a profit and still be fair to the employer, Mr. Worley says.

The injured worker never has to exchange money with the therapist because New Frontiers bills the in-

surer directly, he says. The employer need only provide space for the medical on-site facility. Many companies use an existing first-aid station.

As an added incentive, if the company's insurance company will only pay 80% of the treatment, New Frontiers will absorb the other 20% rather than charge the employer or worker, he said.

Mr. Worley also explained why New Frontiers goes the extra step and treats employees for non-work related injuries. If the company is not self-insured, the non-work related injury is paid by the group health insurer. For an injury sustained at work, the company's workers compensation insurer is billed, says Mr. Worley.

"It's an anti-inflationary approach to medical care," Mr. Worley says, "because it reduces all physical therapy treatment charges by about 17%. And that doesn't include the reduction in off-work time, which is the major benefit."

"We're out to revitalize American industry by aggressively treating injuries to either keep the employee working or making sure he gets back on the job as soon as he's able."

By having an independent source treat workers' sprains, strains, back problems or other orthopedic injuries, the employer is less likely to file a workers compensation claim because the worker sees the therapist as an outsider who has no vested interest in the company, Mr. Worley says.

"It's a cheap way for the employer to save money," he adds. "It doesn't cost them a dime—they have nothing to lose."

POSA fights state efforts to investigate its records

Continued from page 2

mer POSA fronts and associates continue to be named in legal actions involving canceled or stalled reinsurance agreements.

A key suit filed in a London court against three POSA fronting insurers was settled earlier this summer.

The United Kingdom's High Court awarded The Insurance Corp. of Ireland \$300,000 plus court costs and interest from Administratia Asigurarilor de Stat of Romania, Aseguradora Mundial S.A. of Spain and Seguros La Republica of Mexico to pay their share of losses from a 1978 North Sea oil pipeline leak.

The total claim for the leak reached \$5 million, of which \$1.25 was insured by the Insurance Corp. of Ireland. The only reinsurers who refused to pay claims were the three represented by POSA, according to court documents.

Mundal, La Republica and the Romanian company had disputed the claim, according to their attorney John Roney, because they thought the reinsurance agreement

had been renewed after the pipeline started leaking without proper disclosure of the damage.

"Our main argument was based on the lack of information which led us to suspect that our clients weren't on the risk," Mr. Roney said. New evidence, uncovered recently in the 3-year old dispute, showed the reinsurers were liable, however.

"The renewal was made in good faith," Mr. Roney said, adding POSA of Panama was the reinsurers' general agent.

La Republica will most likely pay two-thirds of the judgment, added David McIntosh, senior partner of Davies, Arnold & Cooper, attorneys for the Insurance Corp. of Ireland. The other reinsurers are liable for about \$50,000 each.

La Republica is also suing six reinsurers for losses on several 1976 reinsurance agreements, according to court documents. The reinsurers

include Commonwealth Insurance Co. of Canada, which had been on a list of POSA securities in the mid-1970s.

CJV Associates, the reinsurance intermediary that solicited clients for POSA fronting insurers, also is involved in other legal action in the United States.

Argonaut Insurance Co., in actions filed as early as March, is suing the Israeli Halvanon Insurance Co. and Korean Reinsurance Co. for losses allegedly covered under a variety of reinsurance contracts.

The complaints charge that CJV was a legal agent for Korean Re and Halvanon and responsible for claims payment and processing. CJV principal Myron Patt, who participated in the attempt to buy POSA of Panama, denied the legal agent connection, but confirmed in court papers that CJV provided service to Korean Re and Halvanon.



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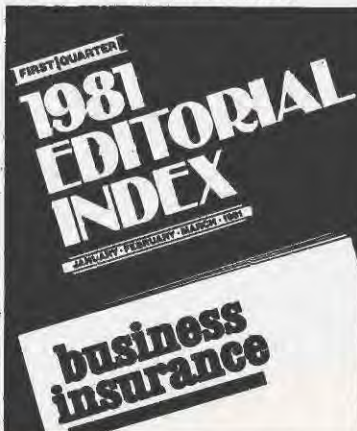
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Inflation, high interest rates take toll on insurance stocks

By JAMES LAWSON

FINANCIAL ANALYSTS predicted an insurance stock boom several months ago, but so far that boom has turned out to be more like a dud.

High interest rates, lingering inflation and a soft insurance market that has reduced many insurers' earnings have kept insurance stocks in a depressed state, too.

And the outlook, some Wall Street analysts say, isn't bright, especially in the near future. While they feel insurance stocks eventually will come around, they warn market players to "avoid the industry for the short term and be panicky for the long haul. Don't do anything until you see a clear sign interest rates are coming down—for good."

High interest rates affect insurance stocks negatively because the value of insurers' bond portfolios tend to be lower during periods of high interest.

Many analysts predict that insurance stock prices won't recover this year and possibly won't rebound until the first or second quarter of 1982 when interest rates are expected to soften.

"We have a cautious approach to (insurance issues)," says June Hoffer, insurance research associate for Bache Halsey Stuart Shields Inc. in New York. "As long as interest rates remain high, you won't see an immediate turnaround."

Lacy Hunt, executive vp and chief economist for Fidelity Bank in Philadelphia agrees. "I'm negative on the stock market. I'm more negative on the interest-sensitive stocks (banks, insurance companies and electric utilities). There's a growing economy and there's a great demand for credit. As long as the demand is great, interest rates will remain high," he says.

Sagging stock prices have been a disappointment to many securities experts who several months ago touted insurance issues as hot properties that investors would snap up when interest rates dipped. Insurance issues, the experts added, were expected to be the beneficiaries of slower inflation.

Interest rates dipped slightly earlier this year, but climbed again in April, when the prime rate nearly approached January's record 21.5%. Some bankers and economists pre-

dict the prime could reach or surpass that mark before it declines dramatically.

And although inflation looked like it was headed downward, the cost of living surged last month. In June, the Consumer Price Index rose only 9.6% over June 1980. In July, it jumped a whopping 15.2%.

While much of the malaise that hurt insurers' results has been attributed to inflation, the high prime rate—the interest banks charge their most credit-worthy corporate customers—and high short-term money rates, many property/casualty insurers also have been hit with underwriting losses, a slump in operating income and fierce competition for commercial lines business.

In addition, insurers with major overseas operations have suddenly been hurt by foreign exchange losses caused by a stronger U.S. dollar.

And investment income, one of the benefits of high interest rates and a savior for some insurers, often has not been enough to offset underwriting losses.

Competition, some industry officials contend, has prompted many insurance companies to keep premiums low in hopes of attracting new business. Inflation, on the other hand, has buoyed the cost of claims.

"The length of the underwriting cycle has been stretched out longer than anyone expected," says James B. Stradtner of Alex Brown & Sons in New York. "It'll be well into 1982 before the pricing structure changes."

"Investors are saying, 'We don't know how long the unfavorable cycle will continue.' Meanwhile, property and casualty companies will mark time."

Analysts say life insurers, too, suffer from the soft market, a higher percentage of policy loans to customers who seek low-cost money, policy lapses and competition to corner a bigger share of a shrinking marketplace.

"When money is tight," one analyst notes, "the insurance premium is the last thing a person thinks about paying."

Mr. Stradtner contends, "There's total confusion of investors of these (life) groups be-

cause they don't understand the new products companies are marketing. They're saying, 'We want to avoid the whole industry.'"

Insurance stocks "have been very sloppy," says Leandro S. Galban Jr., a vp with Donaldson Lufkin Jenrette, a securities firm in New York. "They took off in the spring even though interest rates were high. They've already discounted any (future) drop in interest rates."

Financial Briefs American International Group

Confidence that the housing market will rebound is the basis for American International Group's decision to stake at least \$130 million on United Guaranty Corp., a nationwide underwriter of loan insurance.

The recently announced merger agreement between the two companies gives AIG access to the mortgage guaranty business, as well as a ready-made market for many of its bank division products.

"When the housing market improves over the next decade, we will be nicely positioned," says Gavin Arton, AIG's director of investor relations.

The merger itself experienced some troubles as AIG stock tumbled to less than \$60 per share from the \$62 level first pegged for the deal. To meet a mid-August deadline for soliciting proxies, AIG sweetened its offer to UGC shareholders.

The original terms called for the tax-free exchange of 0.4 shares of AIG convertible preferred stock for each share of UGC common stock. AIG tacked on a conversion rate that takes market fluctuations into account and an alternate cash offer of \$36 per UGC share, limited to a maximum of 1.17 million shares.

The agreement is expected to be approved by UGC's shareholders Sept. 29. The company would become a wholly owned subsidiary of AIG.

Ryan Insurance Group

Ryan Insurance Group Inc. reported net income for the second quarter at \$2.44 million compared with \$2.79 million in the second quarter of 1980. Total revenue grew to \$54.4 million from \$45.2 million in last year's second quarter. The figures include the results from James S. Kemper & Co., which Ryan acquired earlier this year.

Bitco Corp.

Bitco Corp of Rock Island, Ill., has declared a quarterly dividend of 54 cents per share payable Sept. 11 to shareholders of record Sept. 2.

Mission Insurance Group

Mission Insurance Group Inc., based in Los Angeles, has declared a quarterly dividend of 35 cents per share payable Oct. 23 to shareholders of record Oct. 5.

Crum & Forster

Crum & Forster has declared a quarterly dividend of 41 cents per share of common stock and 60 cents per share of Series A convertible preferred stock. Both are payable Sept. 10 to shareholders of record Aug. 26.

Washington National

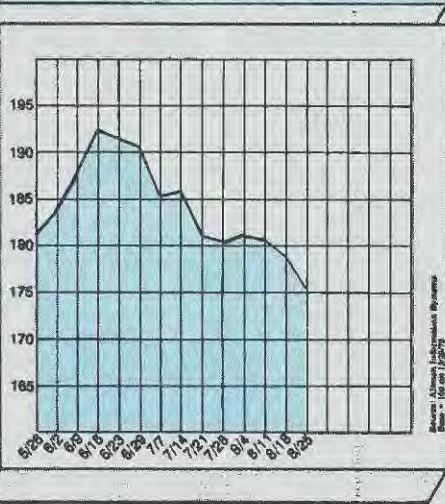
Washington National Corp., a life, annuity and health insurance company based in Evanston, Ill., has reported net income of \$20.8 million for the first six months of 1981, compared with \$20.5 million earned in the first half of 1980.

Poe & Associates

Poe & Associates Inc. has declared a quarterly dividend of 20 cents per share of common stock, payable Aug. 21 to shareholders of record Aug. 14.

BI ticker

BI Insurance Index



Insurance industry stocks took it on the chin again last week as the *Business Insurance* stock index dipped 3.4 points to 175.3 from 178.7. Only 13 issues rose, 48 posted declines and 10 were unchanged. The decline would have been greater without First Colony Life Insurance Co.'s 28.9% increase. Other leading gainers included Poe & Associates Inc., 9.1%, and Frank B. Hall & Co. Inc., 7.0%. The biggest losses were suffered by SRI Corp., 12.1%; Appalachian National Corp., 10%; Gulf United Corp., 9.9%; American Bankers Insurance Group, 9.4%; and American Indemnity Financial Corp., 9.3%. The 1.9% decline in the index was less than the other market averages.

British Issues

8/25 Companies	Price	P/E	Div.	Yield	1 Week High-Low
	pence		pence	%	pence pence
Comm Union	162	10.8	16.07	9.9	166-162
Eagle Star	309	10.3	21.43	6.9	310-309
Genl Accident	378	8.8	21.07	5.6	382-378
Gdn Royal Exch	368	9.4	22.14	6.0	374-368
Phoenix	312	9.2	21.29	6.8	320-308
Royal	405	10.4	35.00	8.6	410-405
Sun Alliance	996	10.0	47.14	4.7	1012-996

Brokers	Price	P/E	Div.	Yield	1 Week High-Low
	pence		pence	%	pence pence
CE Heath	308	12.0	15.00	4.9	312-305
Hogg Robinson	112	9.0	8.57	7.6	114-105
Alex Howden	136	8.8	10.00	7.3	136-128
JH Minet	144	13.1	6.50	4.5	146-143
Sedg Grp	153	12.5	7.14	4.7	154-152
Stenhouse Hldg	96	8.8	6.64	6.9	96-93
Stew Wrightson	218	11.5	17.14	7.9	218-217
Willis Faber	376	13.0	17.14	4.6	380-375

Source: Philip Olsen/Alan Clifton, Insurance Industry Specialists Kitcat & Aitken Stockbrokers, London

BI Industry Stock Report

Insurance Cos.	AUG. 25, 1981				8/19/81 THRU 8/25/81				Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol. (000)			
	Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol. (000)											
Aetna Life & Cas Co	NYSE	35.88	-5.6	6.3	2.32	6.5	37.88	35.88	361.5	Travelers Corp	NYSE	41.63	-6.5	4.8	2.88	6.9	44.50	41.63	328.9
American Bankers Ins Group	OTC	6.00	-9.4	11.3	0.44	7.3	6.50	6.00*	71.0	United Fire & Cas Co	OTC	35.50	0.0	9.3	1.00	2.8	35.50	35.50	0.0
American Gen Ins Co	NYSE	40.88	0.3	6.5	2.00	4.9	41.63	40.88	129.9	United States Fid A Cty Co	NYSE	40.13	-5.3	5.9	3.20	8.0	42.50	40.13	154.3
American Indty Finl Corp	OTC	14.63	-9.3	5.9	1.12	7.7	16.13	14.63	9.1	United Svcs Life Ins Co	OTC	13.50	0.9	5.5	1.00	7.4	13.88	13.50	13.1
American Intl Group Inc	OTC	57.00	-3.0	10.4	0.40	0.7	59.00	57.00	250.3	Wallife Corp	NYSE	23.75	-4.0	5.7	0.76	3.2	25.00	23.75	101.8
American Natl Ins Co	OTC	12.75	-1.0	5.8	0.68	5.3	12.88	12.75	124.3	Washington Natl Corp	NYSE	26.25	-5.4	7.8	1.08	4.1	27.75	26.25	48.9
American Sts Life Ins Co	OTC	19.50	-3.7	6.2	0.72	3.7	20.25	19.50	7.3	Zenith Natl Ins Corp	OTC	16.25	-4.4	9.0	0.60	3.7	17.00	16.25	18.3
Aneco Reins Ltd	OTC	3.00	0.0	0.0	0.00	0.0	3.00	3.00	16.0	INSURANCE COMPANIES	AVERAGE			7.7				4.1	
Appalachian Natl Corp	OTC	2.25	-10.0	6.4	0.00	0.0	2.50	2.25	3.6	Agents/Brokers									
Avenco Corp	AMEX	9.63	-6.1	8.0	0.50	5.2	10.38	9.63	8.1	Alexander & Alexander Svcs	OTC	31.00	0.8	10.7	1.84	5.9	31.75	30.75	122.7
Banks Iowa Inc	OTC	38.00	-5.0	6.0	1.44	3.8	40.00	38.00	4.6	Balfour & Lyons Inc	OTC	39.75	0.0	5.9	0.80	2.3	34.75	34.75	2.4
Bitco Corp	OTC	40.00	2.6	5.6	2.16	5.0	40.00	39.00	3.3	Corroon A Black Corp	NYSE	21.75	-5.4	11.4	1.76	8.1	23.13	21.63	85.3
Carolina Cas Ins Co	OTC	4.75	3.8	4.9	0.32	4.7	6.75	6.50	4.1	Crump E H Cos Inc	OTC	13.25	-6.2	14.9	0.40	3.0	14.50	13.25	58.5
Central Natl Finl Corp	OTC	10.38	3.7	3.8	0.65	6.3	10.38	10.00	3.7	Hall Frank B & Co Inc	NYSE	23.00	7.0	8.6	1.66	7.2	23.75	23.00	65.4
Chubb Corp	OTC	45.50	0.3	5.6	2.68	5.9	46.13	45.50	62.8	Integrated Res Inc	AMEX	15.13	5.2	6.6	0.00	0.0	16.00	14.38	116.0
Combined Intl Corp	NYSE	20.25	-2.4	5.5	1.60	7.9	20.63	20.13	118.7	James Fred S & Co Inc	NYSE	25.25	-1.5	11.6	1.60	6.3	25.75	25.00	48.6
Connecticut Gen Ins Corp	NYSE	48.13	-3.3	6.3	1.76	3.7	50.75	48.13	174.3	Marsh & McLennan Cos Inc	NYSE	35.88	-0.3	11.9	2.00	5.6	36.25	35.88	223.0
Continental Corp	NYSE	24.88	1.0	7.9	2.80	9.6	24.88	24.38	166.9	PennCorp Finl Inc	NYSE	5.88	-2.1	6.8	0.16	2.7	6.50	5.88	159.8
Crawford & Co	OTC	15.75	-3.1	12.1	0.52	3.3	16.25	15.75*	12.4	Poe A Assoc Inc	OTC	12.00	9.1	10.4	0.80	6.7	12.00*	11.00	0.2
Crown Life Ins Co	OTC	105.00	0.0	11.4	2.80	2.7	114.00	105.00	0.4	Reed Stenhouse Cos Ltd	OTC	11.50	3.4	9.1	0.60	5.2	11.50	11.00	21.4
Crum & Forster	NYSE	30.75	-1.2	5.4	1.64	5.3	32.50	30.75	107.3	Rollins Purdick Hunter Co	OTC	23.25	-1.1	12.9	1.24	4.3	23.50	23.25	11.2
Employers Cas Co	OTC	35.00	-4.1	5.7	1.20	3.4	36.00	35.00	3.1	AGENTS/BROKERS	AVERAGE			9.4				5.1	
Equifax Inc	NYSE	23.50	-1.1	5.3	2.40	10.2	24.50	23.50	7.1	Conglomerates/Holding Cos.									
Excelsior Ins Co	OTC	16.50	0.0	17.6	0.70	4.2	16.75	16.50	3.3	American Express(Fireman's Pd)	NYSE	43.43	-2.8	8.0	2.00	4.6	45.25	43.50	677.3
Farmers Group Inc	OTC	26.50	-6.6	8.2	1.12	4.2	28.50	26.50*	145.4	Anderson Clayton(Ranger/PanAm)	NYSE	25.25	-2.0	6.2	1.20	4.8	25.38	24.63	86.1
First Colony Life Ins Co	OTC	62.50	28.9	19.1	0.80	1.3	62.50*	49.50	23.4	Armo Inc	NYSE	31.63	-3.1	7.3	1.80*	5.7	33.38	31.63	240.5
Foremost Corp Amer	OTC	25.75	-8.8	7.7	0.80	3.1	28.25	25.75	22.0	City Investing Co. (Home Ins.)	NYSE	24.88	-5.2	7.2	1.60	6.4	26.13	24.88	338.9
Great West Life Assurn Co	OTC	250.00	0.0	10.1	10.00	4.0	250.00	240.00	0.3	CNA Finl Corp (CNA)	NYSE	14.88	-5.6	5.9	0.00	0.0	15.38	14.88	17.6
Hanover Ins Co	OTC	28.50	-5.0	3.9	0.72	2.5	29.75	28.50	13.9	Control Data (Comml. Credit)	NYSE	67.88	-3.2	8.0	1.00	1.5	70.63	67.88	612.4
Hartford Steam Boiler Insptn	OTC	42.50	-2.3	7.6	2.60	6.1	43.00	42.50	3.6	General Re Corp	NYSE	70.25	-6.0	9.2	1.76	2.5	75.00	70.25	55.1
Jefferson Natl Life Ins Co	OTC	35.50	0.0	28.6	0.64	1.8	35.50	35.50	8.3	Hulf Utld Corp	NYSE	18.13	-9.9	6.6	1.32	7.3	19.88	18.13*	79.3
Kemper Corp	OTC	33.88	-1.8	5.6	1.60	4.7	34.50	33.88	85.2	INA Corp (Ins. Co. of NA)	NYSE	42.25	-2.0	5.9	2.40	5.7	43.38	42.00	209.1
Lincoln Natl Corp Ind	NYSE	38.50	-3.4	5.9	3.00	7.8	40.00	38.50	52.9	LTT (Hartford Group)	NYSE	26.25	-2.8	4.8	2.60	9.9	27.13	26.25*	760.8
Mgic Invst Corp	NYSE	34.38	-1.8	9.0	1.28	3.7	35.00	34.38	282.8	Optimum Hldg Corp	OTC	11.75	-6.0	14.5	0.00	0.0	12.50	11.75*	6.5
Mission Ins Group Inc	NYSE	40.50	-4.4	7.4	1.00	2.5	42.75	40.50	59.4	Nelliance Group Inc	NYSE	87.50	-3.4	9.2	3.00	3.4	90.63	87.50	31.7
Nationwide Corp Ohio	OTC	24.63	0.0	7.0	0.70	2.8	24.63	24.63	2.1	Sears Roebuck & Co. (Allstate)	NYSE	16.50	-2.9	7.7	1.36	8.2	17.13	16.38	1,228.6
Northwestern Natl Life Ins	OTC	25.88	-1.9	6.3	1.36	5.3	26.50	25.88	29.4	S & H Co. (Rayly Martin A Fay)	NYSE	34.88	0.7	13.6	1.00	2.9	34.88*	34.75	25.3
Ohio Cas Corp	OTC	40.00	-0.3	6.1	2.04	5.1	40.88	39.88	63.1	Teledyne Inc (Argonaut)	NYSE	149.50	-2.1	8.2	0.00	0.0	155.00	147.50	187.7
Old Rep Intl Corp	OTC																		

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