

**Steinberg takes command from McCaffrey at Hall**

BRIARCLIFF MANOR, N.Y.—Frank B. Hall & Co. Inc. Friday announced the immediate resignation of Chairman and Chief Executive Officer John F. McCaffrey, succeeded by Saul P. Steinberg, chairman and chief executive officer of Reliance Group Holdings Inc., Hall's largest stockholder.

Days earlier, Hall reported a second-quarter \$2.2 million net loss, *Continued on next page*

# business insurance

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## Purchasing groups' insurers vow fight

By MEG FLETCHER

DES MOINES, Iowa—Several unauthorized insurers that sell or plan to sell insurance to purchasing group members in Iowa will fight the Iowa Division of Insurance's attempts to regulate them.

"We feel (the division) violated an act of Congress"—the Risk Retention Act of 1986, said Thomas S. Duck Sr., chairman of Swanco Insurance Co., a Tucson, Ariz.-based captive owned by Ugly Duckling Rent-A-Car System. Swanco provides rental car liability insurance to a purchasing group of Ugly Duckling franchisees.

"I'd like to know why the Iowa insurance commissioner gets the idea that he could violate an act of Congress and not have to answer for it," Mr. Duck added.

Twenty-one insurers received letters last week from Iowa Insurance Commissioner William D. Hager summoning them to an administrative hearing Sept. 8 to determine whether they have violated the state's Unauthorized Insurers Act by selling insurance to Iowa-based members of purchasing groups. If they are found to have violated the law, insurers could be subject to a \$50,000 penalty and a 2% premium tax (BI, July 27).

All of the summoned insurers had notified the Insurance Division of their intention to write liability insurance for purchasing group members in Iowa. None of the insurers, a few of which already are writing coverage for group members, is licensed in Iowa or approved as a surplus lines insurer in the state.

Many insurers and insurance buyers interpret the federal Risk Retention Act to mean that only the state in which a purchasing group is established—not all states in which group members operate—can require the group to purchase insurance from an admitted insurer or an eligible surplus lines insurer.

However, Iowa regulators contend that purchasing group members in Iowa—even if the groups are established in another state—must buy insurance from Iowa-authorized companies.

While regulators in other states take a similar view, Iowa is the first state to take administrative action against insurers writing coverage for purchasing groups.

*Continued on page 43*

## Ideal, Transit claims set guaranty fund records

By JERRY GEISEL

WASHINGTON—Big recent insolvencies of a handful of insurance companies are responsible for a major chunk of the record-breaking assessments made against insurers by state guaranty funds, according to the General Accounting Office.

While there have been 142 property/casualty insurance solvencies between 1969 and 1986, the collapse of just five insurance companies since 1978 accounts for more than one-third of the \$1.2 billion that guaranty funds have assessed insurers.

The failures of Ideal Mutual Insurance Co. in 1984, Transit Casualty Co. in 1985, Reserve Insurance Co. in 1979, Signal Insurance Co./Imperial Insurance Co. in 1978 and Carriers Insurance Co. in 1986 already have resulted in \$470.8 million in assessments by state guaranty funds.

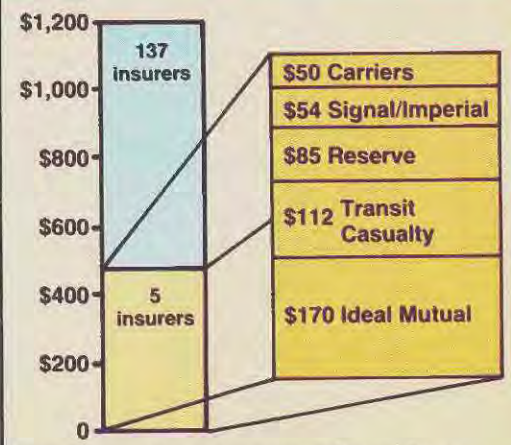
And, these figures exclude the insolvency of Mission Insurance Co. and its subsidiaries, which finally were put into liquidation earlier this year (BI, Feb. 9). The Mission insolvency is pegged at more than \$520 million. However, Mission wrote a great deal of reinsurance, which is not covered by guaranty funds, so the cost of the Mission insolvency in guaranty fund assessments is unpredictable.

Guaranty funds pay claims when insolvent licensed insurers cannot, raising funds by assessing other licensed insurers. Caps on claims payments vary by state, ranging from \$50,000 to no cap.

The 1979 insolvency of Illinois-domiciled Reserve resulted in \$85.2 million in guaranty fund assessments. However, the more recent insolvencies of Ideal Mutual and Transit Casualty already have eclipsed that record.

According to the report, which draws its information

### Guaranty fund assessments (1969-1986; in millions)



Source: National Committee on Insurance Guaranty Funds

Chart: Amy Palmer

from the National Committee on Insurance Guaranty Funds, the 1984 insolvency of New York-domiciled Ideal Mutual has resulted in assessments of a record \$170.4 million, while the 1985 failure of Missouri-domiciled Transit Casualty has led to \$111.5 million in assessments.

"A relatively few firms—because they were large—account for the bulk of the assessments," observed Craig A. Simmons, senior associate director at the GAO.

*Continued on page 41*

## Commonwealth sues Beneficial for fraud

By DOUGLAS McLEOD

NEW YORK—Commonwealth Insurance Co. is suing Beneficial Corp., several of its directors and officers and others, claiming it was defrauded on reinsurance ceded by American Centennial Insurance Co., a former Beneficial subsidiary.

The suit—which charges all of the defendants with common law fraud and some with violations of the federal Racketeer Influenced and Corrupt Organizations Act—also names Barrett Treaty Corp., a former ACIC managing general agency, and Dennis J. Vaughan & Co., a New York-based reinsurance intermediary.

Among other things, the suit alleges the defendants fraudulently concealed disastrous loss experience on business produced by Barrett Treaty and that Barrett Treaty, Vaughan & Co. and others diverted premiums owed to Commonwealth, a Vancouver, B.C.-based unit of The Home Group Inc.

Beneficial sold ACIC and several other insurance units to a management group in May

(BI, April 6, May 25).

The lawsuit does not specify damages, though a source close to Commonwealth has said the reinsurer's losses from the Barrett Treaty book may ultimately reach \$40 million (BI, Oct. 6, 1986).

Andrew M. Kerstein, vice chairman of ACIC and a member of the management group that acquired the Beneficial insurance units, said that losses paid by ACIC and recoverable from Commonwealth on the Barrett book total \$11.1 million to date. Outstanding loss reserves on Commonwealth's participation amount to another \$16.6 million, and Mr. Kerstein confirmed that the losses may ultimately reach \$40 million.

ACIC is not a defendant in the Commonwealth complaint.

James H. Gilliam Jr., Beneficial's general

counsel, declined to comment on the suit other than to say that the fraud allegations against the Beneficial directors are "simply outrageous." Mr. Gilliam is one of 34 current or former Beneficial directors or officers named as defendants.

Separately, *Business Insurance* has learned that Louis Mazzella, a former New York insurance executive recently re-indicted on criminal charges of defrauding ACIC, was involved in a failed attempt to buy the insurer earlier this year.

Mr. Mazzella aided an unsuccessful effort by former Georgia Insurance Commissioner James L. Bentley Jr. to acquire ACIC from Beneficial. The failed Bentley proposal is the basis of a shareholder lawsuit filed against Beneficial directors and officers in May (see story, page 42).

**The fraud allegations against Beneficial are 'simply outrageous,' says Beneficial's general counsel Mr. Gilliam.**

**update**

**Steinberg takes control at Hall**

*Continued from previous page*  
the third loss in the last four quarters. Hall reported net income of \$4.8 million in the second quarter of 1986.

Gross revenues dropped 3.6% in the quarter to \$96.6 million from \$100.1 million in the second quarter of 1986. For the first half of 1987, Hall reported a net income of \$5.6 million, a 150% decrease from \$13.9 million reported in the first half of 1986.

Mr. McCaffrey, who assumed control of the financially troubled brokerage following the forced resignation of Albert J. Tahmouh in August 1985, was traveling when the news was released and could not be reached. Mr. Steinberg declined to comment. However, in a statement issued by Reliance, Mr. Steinberg cited "differences of opinion concerning how to improve the financial performance of the company" as precipitating Mr. McCaffrey's resignation. "We need to re-dedicate the company to serving the needs of its clients and we will quickly implement the programs necessary to make Hall a more vital and effective competitor," Mr. Steinberg said.

Peter T. Pruitt, who continues as president and chief operating officer of the fifth largest U.S. brokerage, said: "There is no change in the management other than this change. Mr. Steinberg has expressed confidence in the operating management."

A Reliance company spokesman said that Mr. Steinberg "plans to put in a significant amount of time at Frank B. Hall. Certainly Mr. Pruitt will be a key member of the senior management team."

Thomas G. Rosencrants, senior vp of Johnson Lane Space Smith & Co. Inc. in Atlanta, says: "What clearly was not being done to the satisfaction of Mr. Steinberg was the enactment of sufficient austerity measures to bring expenses under control and move the company into a profit position."

The Reliance spokesman agreed that "expenses are one area of many where Mr. Steinberg thinks changes could be made."

Mr. Rosencrants added: "Mr. Pruitt will have more responsibility for executing strategy than perhaps he has had in the past. The fact he was asked to stay on with the company shows a vote of confidence for him." And, Mr. Rosencrants stressed that he and the insurance industry hold "very high regard for John McCaffrey's professional capability, integrity and honesty."

Another financial analyst, who asked not to be identified, predicted that Mr. Steinberg will run Hall only "until he finds the best person in the world to do this. I view this announcement as only the first step." And the analyst touted Mr. Steinberg's ability to "turn around every company he's ever been involved in."

Harvey H. Bundy III, a partner with William Blair & Co. in Chicago, said: "If I were Saul Steinberg, I would try to find a way to salvage part of my investment. He might be forced to disassemble the company... and try to salvage the assets. This is clearly a deteriorating situation that is going to become tougher."

Reliance invested \$220 million in Hall in the past three years.

**House approves pool proposal**

WASHINGTON—The House Ways and Means Committee last week approved a provision allowing states to require employers to subsidize state health insurance pools for the uninsurable.

The proposal, approved as part of Medicare reconciliation legislation, would allow states to assess all insured and self-insured employers with 20 or more employees to fund any losses incurred by the pools (BI, July 20). The provision allows states to circumvent the pre-emption clause in the Employee Retirement Income Security Act. Employers that do not participate in the pools could be assessed 5% of their gross annual wages.

The committee also adopted a proposal allowing states to deny pool coverage for abortions.

**\$2.1 million verdict against CNA**

PORTLAND, Ore.—A Multnomah County Circuit Court jury ordered Continental Casualty Co. to pay \$2.1 million for negligently failing to settle a malpractice suit against an Oregon physician.

The July 10 verdict resulted from a suit brought by Dr. Carl Stiff against Continental Casualty, a unit of Chicago-based CNA Financial Corp., after he lost a \$3 million malpractice case brought by a woman who alleged the physician had failed to detect breast cancer despite her repeated assertions that she could feel a lump.

Attorneys for the woman offered to settle the case for the \$1 million policy limits, however, Continental Casualty never offered more than \$150,000, according to Dr. Stiff's attorney.

Of the \$2.1 million award, \$2 million will go to the family of the woman and \$107,416 will go to Dr. Stiff for lost income and emotional distress.

A CNA attorney and a CNA spokeswoman declined to comment.

**House hikes nuclear liability**

WASHINGTON—The House last week passed a version of the Price Anderson Act that increases the liability of the nuclear power industry in the event of an accident to about \$7 billion from its current level of \$700 million.

*Continued on page 41*

**errors & omissions**

• The \$3.2 million settlement paid by the Insurance Exchange of Americas to Cadillac Insurance Co. involved only the 10 syndicates participating on the Cadillac reinsurance treaty, not all 15 formerly active IEA syndicates as reported in the July 20 issue. IEA President Nick Cross said the syndicates not in rehabilitation that participated in the settlement are B.G.H. Syndicate Inc., Pacific Insurance Syndicate Inc., W.F. Poe Syndicate Inc., Administrative Management Services Ltd. Inc. and Usher Syndicate Ltd. The syndicates in rehabilitation that participated are AIB Syndicate Inc., Syndicate One Inc., Syndicate Two Inc., Syndicate Three Inc. and RAM Syndicate Inc.

**Administration criticizes House panel's PBGC bill**

By JERRY GEISEL

WASHINGTON—Legislation approved last week by a House panel to shore up the financial base of the Pension Benefit Guaranty Corp. still could leave the PBGC vulnerable to massive claims, administration officials say.

The legislation, cleared last week by the House Education and Labor Committee, would more than double the annual pension termination insurance premium employers pay the PBGC to \$19 per plan participant from the current \$8.50.

In addition, the legislation, which closely follows a proposal earlier passed by the Labor-Management Relations Subcommittee (BI, July 27), also would require employers terminating pension plans during the next three years to pay a \$200 per plan participant "termination funding charge" to the PBGC.

The premium increase and the new termination funding charge would give the PBGC, which has a \$4 billion deficit, the additional revenue it needs to avert an immediate financial crisis.

This deficit has increased tenfold in the last two years, largely because of the terminations of several massively underfunded plans sponsored by Wheeling-Pittsburgh Steel Corp. and LTV Corp.

However, Reagan administration officials say that provisions in the Education and Labor Committee bill that are intended to improve pension plan funding

are so weak that employers still will be allowed to contribute far less than what is needed to cover benefit promises.

Under the funding provisions of the Education and Labor Committee bill, an employer with an underfunded plan generally would have to contribute the amount required under current minimum funding rules or a new "minimum benefit security contribution," whichever is greater.

This security contribution would be equal to the benefit payments made by a plan in the current year.

But an exception in the proposal's funding provisions would allow employers to contribute far less to their plans than what is needed to fully fund the plans in a short period of time based on a new formula that caps maximum contributions.

The intent of this formula—known as a contribution cap—would be to prevent companies with underfunded plans from being overly burdened by limiting that amount by which the company must improve plan funding each year.

Under the contribution cap, an employer first would subtract the percentage of plan funding from 100. The difference then would be multiplied by 5%, and the result would be the maximum percentage by which plan funding would have to be improved that year.

For example, the maximum contribution that would have to be made to a plan that was 50% funded would

*Continued on page 36*

**Many comp self-insurers cannot buy surety bonds**

By ROBERT A. FINLAYSON

LOS ANGELES—Employers that self-insure workers compensation risks can expect increasing difficulties in obtaining surety bonds in the tightening surety bond market.

Markets for work comp surety bonds posted as security with state insurance departments by companies that self-insure work comp liabilities are "becoming practically non-existent," observed Gloria J. Sax, an assistant vp in the bond department of Alexander & Alexander Services Inc. in Chicago.

Howard R. Boyle, a vp with Johnson & Higgins in New York, agrees that it is "very close to impossible to get" work comp surety bonds.

As a result, employers that self-insure their work comp liabilities are either switching back to purchasing work comp insurance, or using alternatives to surety bonds, such as letters of credit, in states where such alternatives are acceptable, according to brokers.

"A good many states permit alternatives," says Douglas Stevenson, executive director of the National Council of Self-Insurers in Chicago, citing in addition to LOCs the use of cash escrows and pledges of certificates of deposit.

The council now is surveying the states to determine how many do permit alternatives and expects to have the results in mid-August.

Employers are trying to convince state legislators in

states that do not allow such alternative forms of security to change the state's workers compensation laws.

"Otherwise, self-insurance is at the mercy of the insurance industry, which is not a position self-insurers like to be in," Mr. Stevenson commented.

While Mr. Stevenson said he could not estimate how many self-insurers are able to find surety bonds, he observes "a lot of people apparently are having difficulty." He says he receives two or three calls a week from employers looking for markets.

This surety bond market for work comp bonds is particularly hard pressed because of the long tail on such bonds, past losses and the fact that the California Insurance Department now requires surety companies to administer work comp claims for their bond holders that go bankrupt.

Many surety underwriters fear other states will follow California's lead, brokers say.

Mr. Stevenson added that insurers complain they get "very little premium but need to set up big reserves" for work comp bonds.

The surety bond market overall is tightening. Brokers and underwriters predict capacity will drop as much as 60%, rates will increase 20% and tougher underwriting standards will be applied for the remainder of 1987.

"It's the first hard market I've seen in my 30 years in

*Continued on page 36*

**inside**

✓ This week's editorial challenges corporate executives to examine their employee benefits communications programs and grade their efforts. **PAGE 8**

✓ European Community nations likely will use different standards when implementing the EC's product liability directive, says Johnson & Higgins' Jerome Karter in International Issues. **PAGE 25**

✓ Roger Singer, Massachusetts' first deputy insurance commissioner, is one of several new insurance commissioners appointed around the country. **PAGE 27**

✓ Defined benefit pension plans are still the main means of providing for retirement income, but thrift, savings and profit-sharing plans also contribute to that goal, according to a new survey by The Wyatt Co. **PAGE 28**

✓ Risk managers increasingly are branching out from their traditional responsibilities—like risk financing—into new areas like security, benefits administration and loss control, a recent study reveals. **PAGE 31**

✓ American Cyanamid Co. is facing three class action suits that seek \$30 million for damages to Arkansas cotton fields allegedly caused by one of the company's herbicide products. **PAGE 37**

✓ The Bermuda government will not form a new body to oversee the development of its insurance industry, but it plans to switch responsibility for policing the industry to the Bermuda Monetary Authority. **PAGE 39**

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# Employee Benefits Communication Awards

## 15th anniversary winners

The 15th annual *Business Insurance* Employee Benefits Communication Awards honor 13 employers and eight employee benefit consulting firms for outstanding achievements in employee benefits communications.

Employers singled out by *Business Insurance* this year for their benefits communications accomplishments run the gamut from Fortune 500 companies, like Colgate-Palmolive Co. and PepsiCo Inc., to a regional bank holding company and a cement and pipe manufacturer.

Thirteen awards were presented in four categories

this year because of a tie for third place in the audio-visual category.

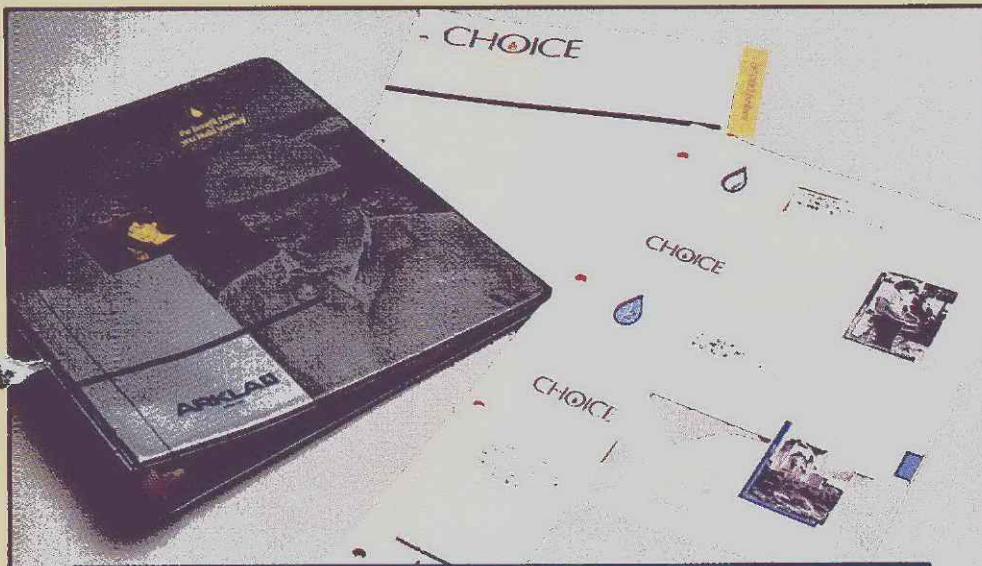
A record 179 entries were submitted to this year's EBC competition, even though one category that had been part of the competition last year—computer communication—was omitted from the 1987 competition because of a lack of entries. However, the dearth of computerized communications programs submitted to the competition was more than compensated for by an avalanche of entries in the total benefits program category, where the number of communications programs entered tripled.

The entries were judged by a panel of 12 employee benefits or communications experts.

Articles describing the winning entries appear on pages 4-17, while the judges are listed in the story starting on page 18.

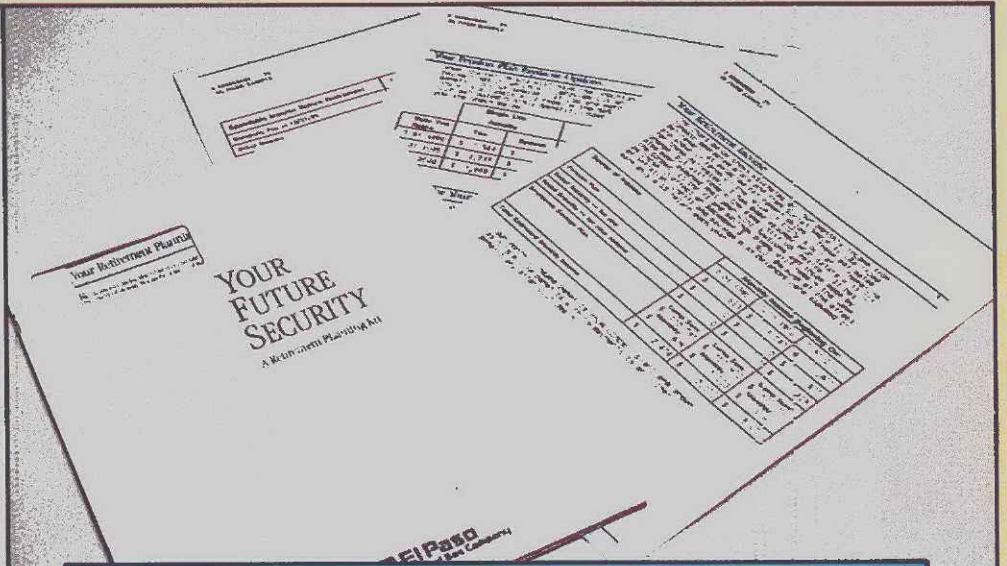
The winning employers and their consultants will be honored this week in New York during *Business Insurance's* Employee Benefits Communications Conference at the Grand Hyatt Hotel. Each winner receives a plaque signifying the award.

A report on the conference will be published in the Aug. 17 issue of *Business Insurance*.



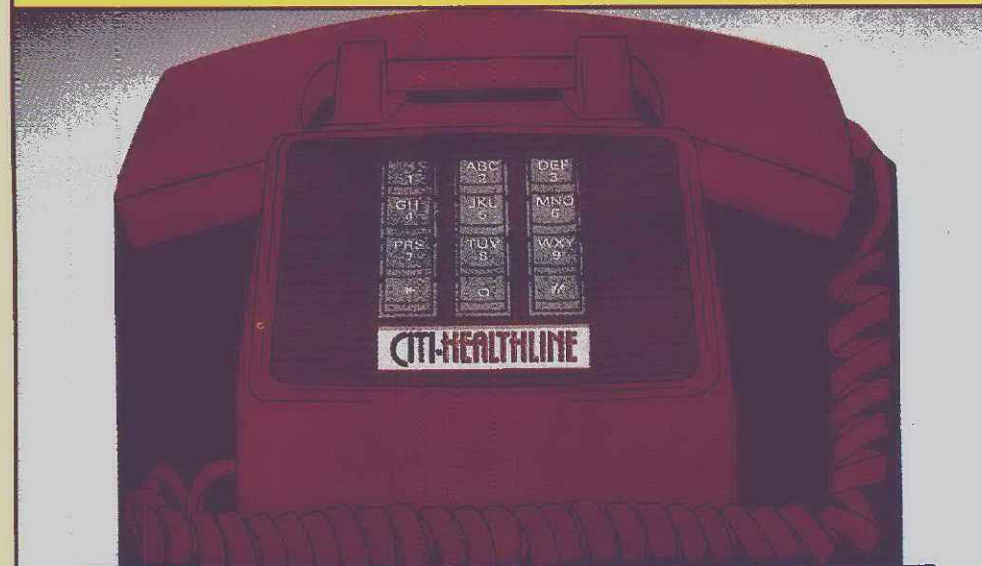
**Total benefits program:**

- 1st** Arkla Inc.  
Shreveport, La.  
The Wyatt Co., Washington, D.C.
- 2nd** Travel Related Services of American Express  
New York, N.Y.  
Hewitt Associates, Norwalk, Conn.
- 3rd** First American Bankshares  
Washington, D.C.  
The Wyatt Co., Washington, D.C.



**Personalized correspondence:**

- 1st** Burlington Northern Inc.  
Seattle, Wash.  
William M. Mercer-Meidinger-Hansen Inc., Seattle, Wash.
- 2nd** Miller Brewing Co.  
Milwaukee, Wis.  
Hewitt Associates, Lincolnshire, Ill.
- 3rd** PepsiCo Inc.  
White Plains, N.Y.  
William M. Mercer-Meidinger-Hansen Inc., White Plains, N.Y.



**Booklets:**

- 1st** Citicorp  
New York, N.Y.  
Buck Consultants Inc., Harmon Meadow, N.J.
- 2nd** Colgate-Palmolive Co.  
New York, N.Y.  
Kwasha Lipton, Fort Lee, N.J.
- 3rd** Smith & Nephew Inc.  
Elk Grove Village, Ill.  
C&B Consulting Group—Powers, Carpenter & Hall Division, St. Louis, Mo.



**Audio-visual:**

- 1st** Gifford-Hill & Co.  
Irving, Texas  
Alexander Consulting Group, Dallas, Texas
- 2nd** Foodmaker Inc.  
San Diego, Calif.  
Hewitt Associates, Santa Ana, Calif.
- 3rd** Barnett Banks Inc. (Tie) C.R. Bard Inc.  
Jacksonville, Fla. Murray Hill, N.J.  
Corp. Comm. Inc., Atlantic Beach, Fla. Hewitt Associates, Rowayton, Conn.

# Arkla hits pay dirt with CHOICE program

By DONNA DiBLASE

SHREVEPORT, La.—The ability to make their own choices is important to employees at Arkla Inc.

So, when the company designed and communicated its new flexible benefits plan, "CHOICE: The Benefit Plan You Build Yourself," the emphasis was on individual choice.

"The theme was chosen based on the demographics of the workforce: Employees think of themselves as builders at work and at home. There's a very strong work ethic in this workforce," explained Wilton Stone, corporate vp of human resources for the natural gas exploration, production and distribution company.

"These employees are very independent, so we had to find a special way to interest them in the

new plan," noted Vicki L. Dungan, a communications consultant in the Washington office of The Wyatt Co. who worked on the project.

The communications effort, which included videos, newsletters and a CHOICE hot line, won first place in the total benefits program category of the *Business Insurance* Employee Benefits Communication Awards competition.

**'We wanted employees to be able to get more bang out of their benefits dollars. Also, if you are trying to motivate a workforce, employees must have a feeling that the company cares about people,' Wilton Stone says.**

"We gave them information in pieces instead of giving them the whole elephant in one day," Mr. Stone said.

Management had some key concerns in developing the communication program, he noted.

"First of all, we wanted the communication to be candid, truthful and straightforward. We wanted it to be in employees' own jargon, not in that of benefits people," he said.

"We are in an industry that is in rapid change and we wanted employees to understand that. But, we also wanted them to understand the rationale for the change in the benefit plan," he added.

The rationale: "We just thought there was waste in the old system, and we wanted employees to be able to get more bang out of their benefits dollars. Also, if you are trying to motivate a workforce to produce more, employees must have a feeling that the company cares about people in general and it is interested in each employee specifically," Mr. Stone explained.

With Wyatt's assistance, ARKLA designed a communications campaign that "worked so well that I haven't received one complaint about any glitches in enrollment," Mr. Stone said.

After conducting focus group meetings with employee representatives at its more than 200 locations, the company found that the special touch necessary to catch employees' attention was to personalize all of the communications materials.

"Through the focus groups, we tried to determine what the brick wall would be between employees and communication of the plan. We found that the brick wall was, 'How will this affect me?' We decided to answer this question up front and make the communication very personal for employees," Ms. Dungan explained.

"The support of management in terms of giving personal attention to employees was the key to the success of the program. You can put great communication materials together, but you have to have that kind of commitment from management," she noted.

Arkla began communicating the plan, which became effective on July 1, in early March.

The company introduced the plan to its 4,000 employees with posters displayed at all locations.

Next, employees attended meetings at which they viewed a motivational video describing the plan and the company's reason for the changes.

The video, set to a country music ballad about choices and change, features interviews with employees from many of the company's subsidiaries and a message from the chairman of the board.

The video, noting the tremendous changes in the oil and natural gas industry, conveys the message that there is a need to balance industry changes with changes at Arkla.

The video's narrative intersperses candid comments from employees as it discusses the reasons for introducing CHOICE.

An animated sequence featuring a builder constructing a home illustrates the theme that the CHOICE plan is something employees build themselves.

Continued on page 6



**Mack McLarty**  
Chairman of the Board

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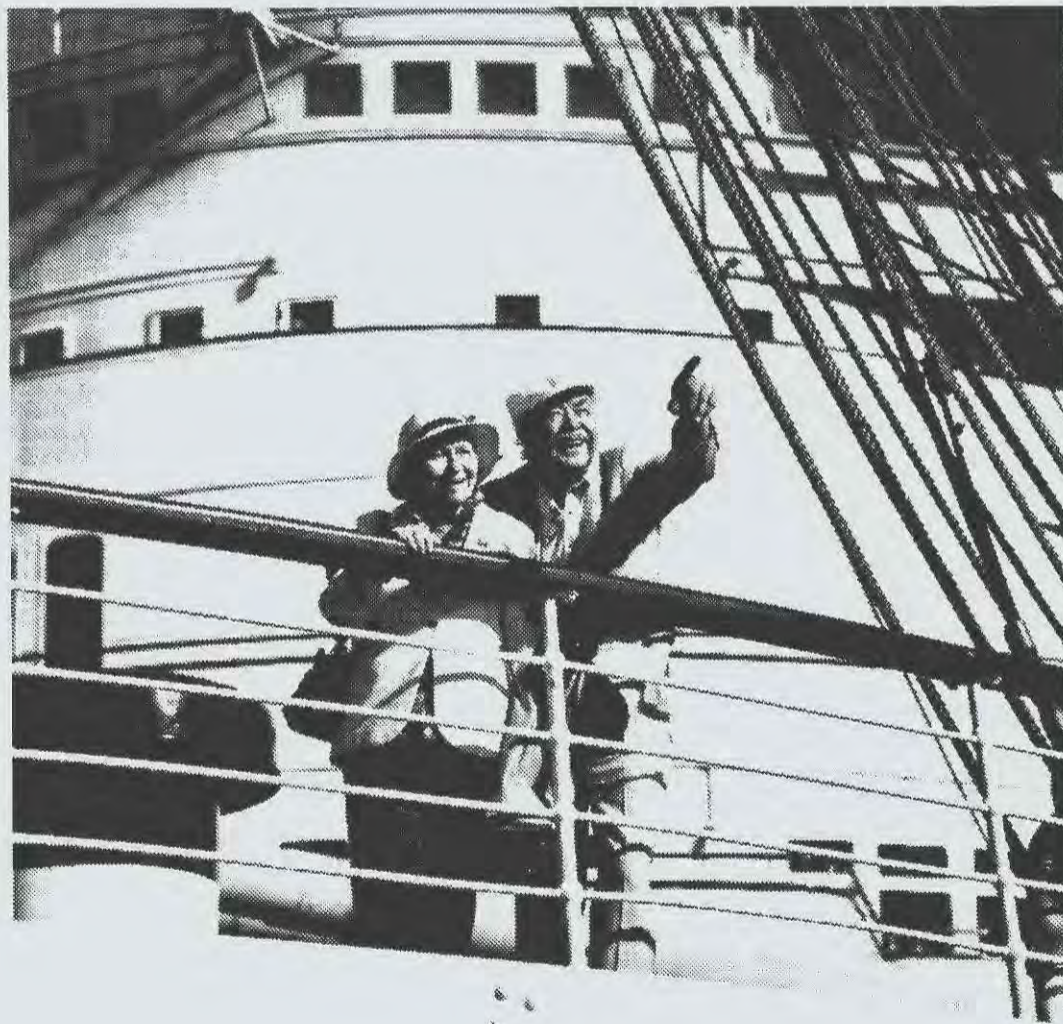
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For many Americans, retirement is exactly what they hoped for.

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History has shown that personal savings and programs like Medicare and Medicaid can't cover all the costs of retirement health care. Companies with retirement health benefits also face the problem of unfunded future liabilities.

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10th largest group insurance company, we will soon be adding more elements.

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The right ideas for the future.™*

## Arkla's winning program

Continued from page 4

That is, CHOICE provides employees with some basic benefits, or a foundation.

The plan also provides employees with additional benefit choices, or tools and materials, to build a plan for themselves.

At the same meeting employees viewed the video, they also received a newsletter introducing the plan and its options.

To meet employees' needs for personalized communication, the newsletters included personalized information regarding the employees' coverage under the previous plan and their benefit allowances under the CHOICE plan.

The company then mailed to employees' homes seven additional newsletters throughout April describing general information about certain features, such as medical and dental options, reimbursement accounts, life insurance options, vacation time and the company's thrift plan.

In addition, each newsletter included personalized information about the employee's current benefits and his or her specific costs and coverages under each option.

A CHOICE telephone hotline also was implemented to answer employees' specific questions about the ben-

efit options.

In late May, employees attended enrollment meetings at which they received binders containing additional copies of all of the personalized newsletters, an enrollment worksheet and a final enrollment form.

Employees saw another video at these meetings. The enrollment video, which features the same theme and employees as the introduction video, provides a detailed explanation of enrollment for each feature of the plan.

"Everyone had at least three weeks to enroll, but a lot of the enrollment forms were returned in the first week," explained Robert S. Brewer, manager of organizational development for Arkla.

"Most employees knew by the time of the enrollment meetings exactly what choices they wanted to make," he explained.

Having employees appear in the videos was a key to the success and acceptance of the plan, Mr. Stone said.

"Employees applauded at the meetings after they saw the videos. Letting fellow employees carry the message was so key to the response. It really let employees know that this has been a community process and that it is an organized communication process," he said.

The company declined to provide the cost of the communication effort. ■

## Travel company, bank garner runner-up honors

The runners-up in the total benefits communication program category are:

● Second place: Travel Related Services of American Express in New York.

TRS wanted to encourage its 40,000 employees to take a chance on change with its health care program dubbed "When Change Becomes Choice."

"We wanted our employees to see change as good—something that enables them to choose the best package for themselves individually," says Karen Manning, TRS director of employee benefits.

With the help of Albert Schlachtmeyer, a consultant in the Connecticut office of Hewitt Associates, TRS created brochures,

booklets and videos to promote new benefit features such as the vision care plan recently made available to employees, says Ms. Manning.

"In the booklet," says Mr. Schlachtmeyer, "everything was done in a light background with bright, clear colors to establish a carefree feeling."

And, "the use of photographs depicting realistic daily situations also brings the book home," he added.

"In the video, we again tried to allow the employees to identify with real life circumstances where benefits can be used," according to Mr. Schlachtmeyer.

The circumstances depicted ranged from employees significantly reducing the cost of long-term prescription drugs to reimbursement benefits for child care and finally preparation for retirement.

"The video is a public relations piece aimed at creating a good feeling about benefit plans," says Ms. Manning. "The response has been positive," she added.

● Third place: First American

**'The video is . . . aimed at creating a good feeling about benefit plans,' says Ms. Manning.**

Bankshares Inc., a Washington-based multistate bank holding company.

First American Bankshares wanted to let its 4,200 employees know that it was concerned about them as individuals and wanted to help them with personal health care benefit choices.

To communicate the message, the company updated its already successful "The American Choice" plan. "We were happy with the results of the program last year and we just wanted to make it more current by informing our employees of changes that even add more flexibility," says Anthony Torentinos, senior vp and director of human resources for First American.

The company created a series of composite characters who represented the diverse lifestyles of the employees. "We wanted to depict a variety of places and lifestyles to show that 'The American Choice' works for everyone everywhere," explains Mr. Torentinos.

The composite employees range from a single, independent career woman living in New York City to a young couple in Maryland expecting their first child. All of the characters reflect individual employees who made smart personal choices and made "The American Choice" work for them.

Although only updating the video, First American also created a new benefits magazine entitled "The American Choice Magazine."

"We geared it toward the employees, giving them informative news about available benefits," said Mr. Torentinos. "We tried to make it lively with cartoons and crossword puzzles so that it would keep their interest and they would read it," he added.

The benefit package was distributed to all of First American Bankshares' employees and its subsidiaries located in Washington, D.C., Virginia, New York and Tennessee. It was coordinated by Vicki Dungan, a communications consultant at the Washington office of The Wyatt Co. ■

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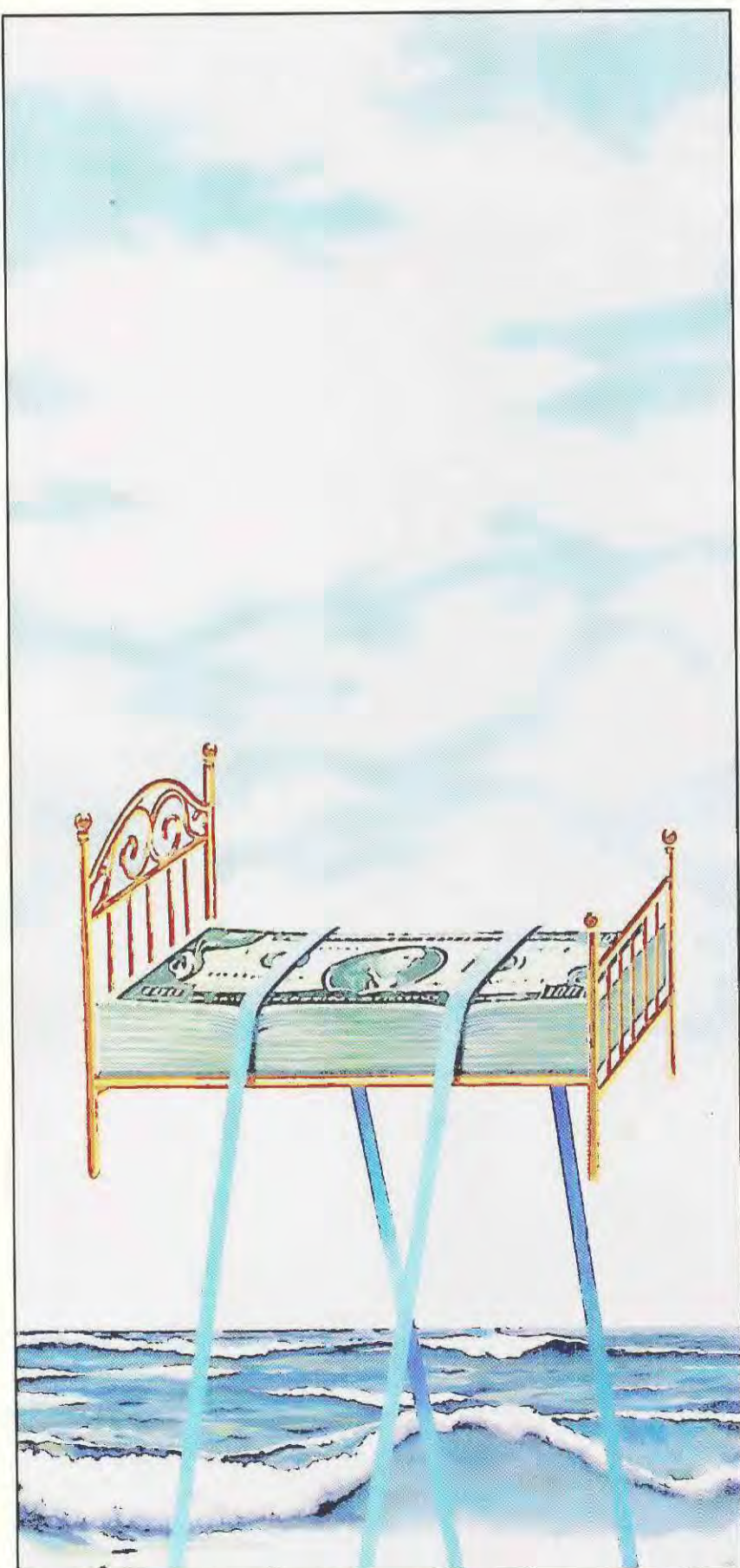
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# opinions

## Assess communication efforts

TAKE A HARD and objective look at your employee benefits communication program and grade your effort.

Does it have a personal touch, or is it cold and sterile?

Is it attractive, or is it dull?

Does it speak directly to employees' needs, or do employees have to wade through the information to find any relevancy?

Does it convince employees not only that their employer cares about their welfare, but also that they must assume responsibility for planning for their retirement and be wise consumers of health care?

Do employees understand and use the cost controls in the health plan, such as mandatory second opinions on elective surgery?

This is by no means an exhaustive list of criteria for measuring the quality of your employee benefits communication program, but the questions identify the strong trends emerging from the current pace-setting and award-winning programs. The winners of the *Business Insurance* Employee Benefits Communication Awards competition can answer yes to these questions, because they recognize how important these issues are (see stories, beginning on page 3).

Among the new trends we welcome is the suc-

cessful integration of the personal touch in employee benefits communication, especially by using real employees and not actors or cartoon figures in video presentations or brochures. Co-workers are the most interesting and believable commentators on a benefits plan.

We're also impressed with the increasing attractiveness of communication programs. They demand to be read, instead of inviting the employee to toss them away.

The days of producing an employee benefits communication program merely to satisfy regulatory requirements or to boost morale in the company are long gone. While these reasons are still important, the overriding reason to produce a successful program is the recent emphasis on cost control in employee benefits.

A mandatory second surgical opinion program and utilization review to obtain full reimbursement of medical bills under group medical plans, for example, must be understood by employees to be accepted and properly used. And, a corporate decision to sweeten the company match in a savings plan to encourage employees to save for their retirement will work only if the employee is encouraged to think about retirement.

How high, or low, do you grade your employee benefits communication program?

## letters

### Hospital ownership clarified by insurer

To the editor: A point of clarification is in order regarding your article on Florida's malpractice insurance crisis (*BI*, July 13).

Premier Alliance Insurance Co. (PAIC) is owned by a subsidiary of Premier Hospitals Alliance Inc. (Premier). Premier is a voluntary alliance owned by 37 major medical centers nationwide. Memorial Medical Center of Jacksonville, Fla., the first site at which the insurance company is providing physicians medical malpractice coverage is, as are all Premier owner hospitals, independently owned and operated.

**Robert E. Pierson**  
President  
Premier Alliance Insurance Co.  
Westchester, Ill.

### Health plan pools are a poor remedy

To the editor: Your recent article concerning state pools for health insurance legislation leaves us feeling "at sea" (*BI*, July 20). The federal government passing legislation to mandate state government action? Rep. Fortney "Pete" Stark, D-Calif., must have forgotten his mandate; it is the prerogative of the states to make laws concerning its citizens. Truly, health insurance for the "uninsurable," the unemployed or the employed with no health insurance benefits is needed. Mandated health insurance or health insurance pools do not seem to be the answer to most people with any benefits management experience.

Presently many HMOs enjoy a federal qualification. To enjoy that federal endorsement, these HMOs should absorb the population we are addressing when

we consider legislation to protect the underinsured or the uninsured. Alternatively, expanding the Medicaid or the Medicare programs to include coverage for this part of the population is an easier solution than mandating benefits, establishing state risk pools or creating any new bureaucracy. Obviously these plans would have to be subsidized by government monies. Perhaps Rep. Stark would like to explain that to his constituents, who have consistently voted to limit spending.

Clearly, there are no simple solutions to these problems. Targeting businesses as the source for financing programs seems unfair. Most workers will think additional payroll taxes unfair. Perhaps a referendum is needed on this subject. None of the proposals presently being considered seems adequate.

**David J. Fasano**  
Vp-employee benefits  
Maury Donnelly & Parr Inc.  
Baltimore

### History lesson clear in asbestos litigation

To the editor: George A. McKeon, general counsel at the Travelers Cos., contends that your June 15 editorial, "Insurers Get Just Rewards," was wrong on two counts (*BI*, July 6).

George Santayana said, "Those who cannot remember the past are condemned to repeat it."

With respect to the asbestos insurance coverage cases, Mr. McKeon states that Judge Brown's decision "admittedly contradicts decisions in a number of state and federal courts." What Mr. McKeon does not state is that 14 state and federal courts have rendered decisions addressing these questions. Each of these supposedly contradictory decisions gave the policyholders all or most of the coverage they sought. History is not on Mr. McKeon's side.

Mr. McKeon does not agree with *Business Insurance* that Judge Brown's decision will have a tremendous influence over asbestos removal and environmental insurance coverage issues. The past in this regard is carved in stone. The insurance industry specifically intended to cover environmental damage when the 1966 comprehensive general liability insurance policy was drafted. In 1965, an

insurance company representative stated at an insurance industry conference that, under the then-new CGL policy:

"It is in the basic *waste disposal* (italics mine) area that a manufacturer's basic premises-operations coverage is liberalized most substantially. Smoke, fumes or other air or stream pollution have caused an endless chain of severe claims for *gradual property damage* (italics mine)."

In another 1966 vintage insurance industry paper touting the new CGL policy—the following were cited as examples of liabilities covered:

"Examples would be gradual adverse effect of smoke, fumes, air or stream pollution, contamination of water supply or vegetation. We are all aware of cases such as contamination of oyster beds, lint in the water intake of downstream industrial sites, the Donora, Pa., atmospheric contamination and the like."

With that kind of drafting history and sales pitch, CGL coverage for asbestos removal and environmental claims becomes clear. History is not on Mr. McKeon's side.

Mr. McKeon told you and your readers that Judge Brown did not address various exclusions. Presumably, he was referring to, among other, the so-called pollution exclusion that was added to the CGL policy about 1970. At the time the pollution exclusion was added the insurance industry applied for and obtained approval from various state insurance commissioners to include the new exclusion in the standard form policy.

Travelers, which used a slight variant of the standard exclusion, wrote to the West Virginia Insurance Commissioner on Aug. 3, 1970, as follows: "The idea behind these endorsements is that the insurance industry does not consider *intentional pollution* (italics mine) to be insurable, and the industry wishes to make its position clear to the insured."

West Virginia's Insurance Commissioner agreed with Travelers and, on Aug. 19, 1970, issued an order that stated, in part:

"(1) The said companies and rating organizations have represented to the Insurance Commissioner, orally and in writing, that the proposed exclusions... are merely clarification of existing coverage as defined and limited in the definitions of the term 'occurrence' contained in the respective policies to which

Continued on page 40

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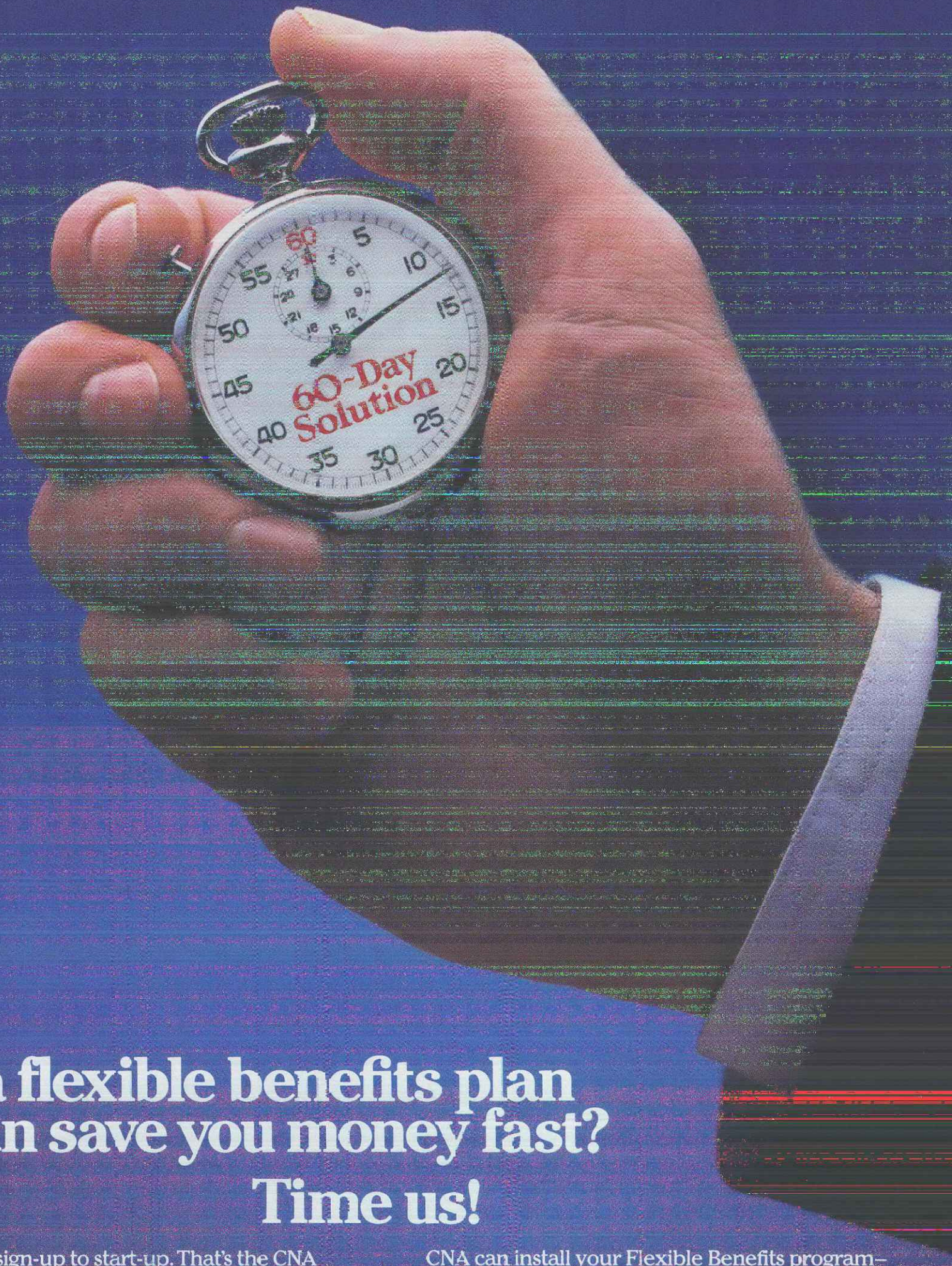
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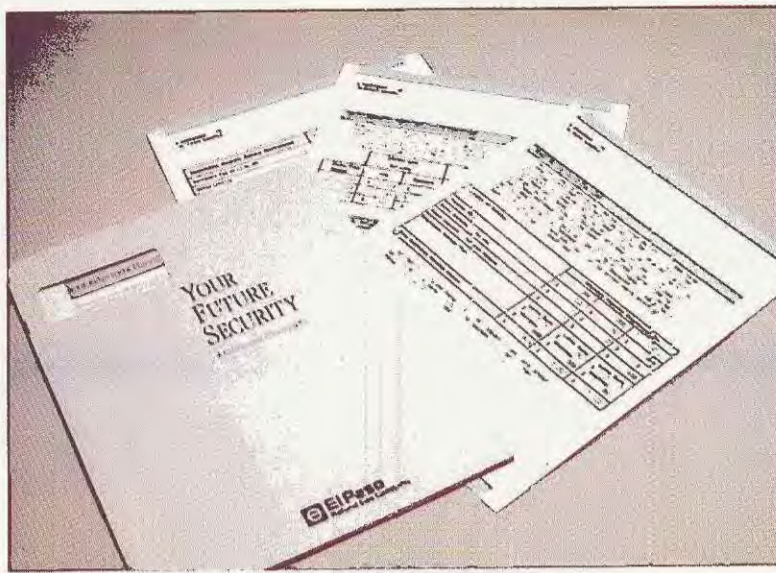
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By DONNA DiBLASE

SEATTLE—Planning for the future makes good business sense. In the case of retirement income, planning also makes good personal sense.

That's why Burlington Northern Inc. decided to give the salaried employees of its El Paso Natural Gas unit a personalized tool for planning financial security during retirement.

The Seattle-based transportation and natural resources company prepared a kit containing a personalized laser-printed report and a brochure containing charts and graphs to help employees estimate how much they need to save to retire comfortably.

"Your Future Security," which was prepared with the help of con-

sultant William M. Mercer-Meindinger-Hansen Inc., won first place in the personalized correspondence category of the *Business Insurance* Employee Benefits Communication Awards competition.

Along with the personalized information and brochure, the kit, which was mailed to 1,200 employees age 45 and older, included an employee survey on its usefulness to be completed and returned by mail to Mercer.

"The purpose of the kit was to give employees the tools to plan for retirement themselves. This was the first really big effort to get employees to think and plan for themselves," explained Candace D. Allen, an associate consultant in Mercer's Seattle office.

"Most people thought the kit was very helpful, if not in planning for retirement now, then in starting them thinking about it," said Richard French, director of benefits for Burlington Northern.

About 89% of the respondents to the survey said they found the kit valuable in helping them to begin planning for retirement, and 96% said they found the kit easy to understand, Ms. Allen said.

Of the 97% who said they wanted to receive an updated kit, most said they wanted to receive it once a year, while others said they wanted either two-year or five-year updates.

"As a result of the positive response from the survey, Burlington Northern has completed another retirement planning kit that's going to all of its units," Ms. Allen noted.

The new kits have been sent to about 3,000 employees aged 45 and over in the company's other units, Mr. French said. Altogether, the company employs about 40,000 people at more than 200 locations around the country.

Each kit, which cost about \$25 to produce, measures about 9 inches by 11 inches and includes a laser-printed personalized report of employees' thrift plan and pension information compiled from the personal benefit statement issued by the company each December.

The personalized report also includes worksheets to help employees estimate and compare their spendable income both before and after retirement, based on personal salary and retirement income.

The report also explains to employees when they are eligible for normal or early retirement.

The personalized report is contained in the pocket of a nine-page brochure that includes guidelines and charts for determining retirement savings.

The brochure explains that actuarial studies show that most people who retire at age 65 need only about 60% to 65% of their final take-home pay to maintain their standard of living after retirement, because some expenses—such as income taxes, retirement savings and Social Security contributions—are eliminated.

To illustrate how much these expenses represent during employment, the brochure also includes a pie chart showing that most employees take home about 62% of their gross salaries after paying taxes and contributing 6% of their gross salary to the company's thrift plan.

The brochure also notes that employees who retire early need to replace 70% to 75% of their final pay to maintain that standard of living after retirement. This is because employees who retire before age 65 receive a higher percentage of their replacement income from their company pension and thrift plans than from Social Security benefits, which are not taxed.

Continued on page 12



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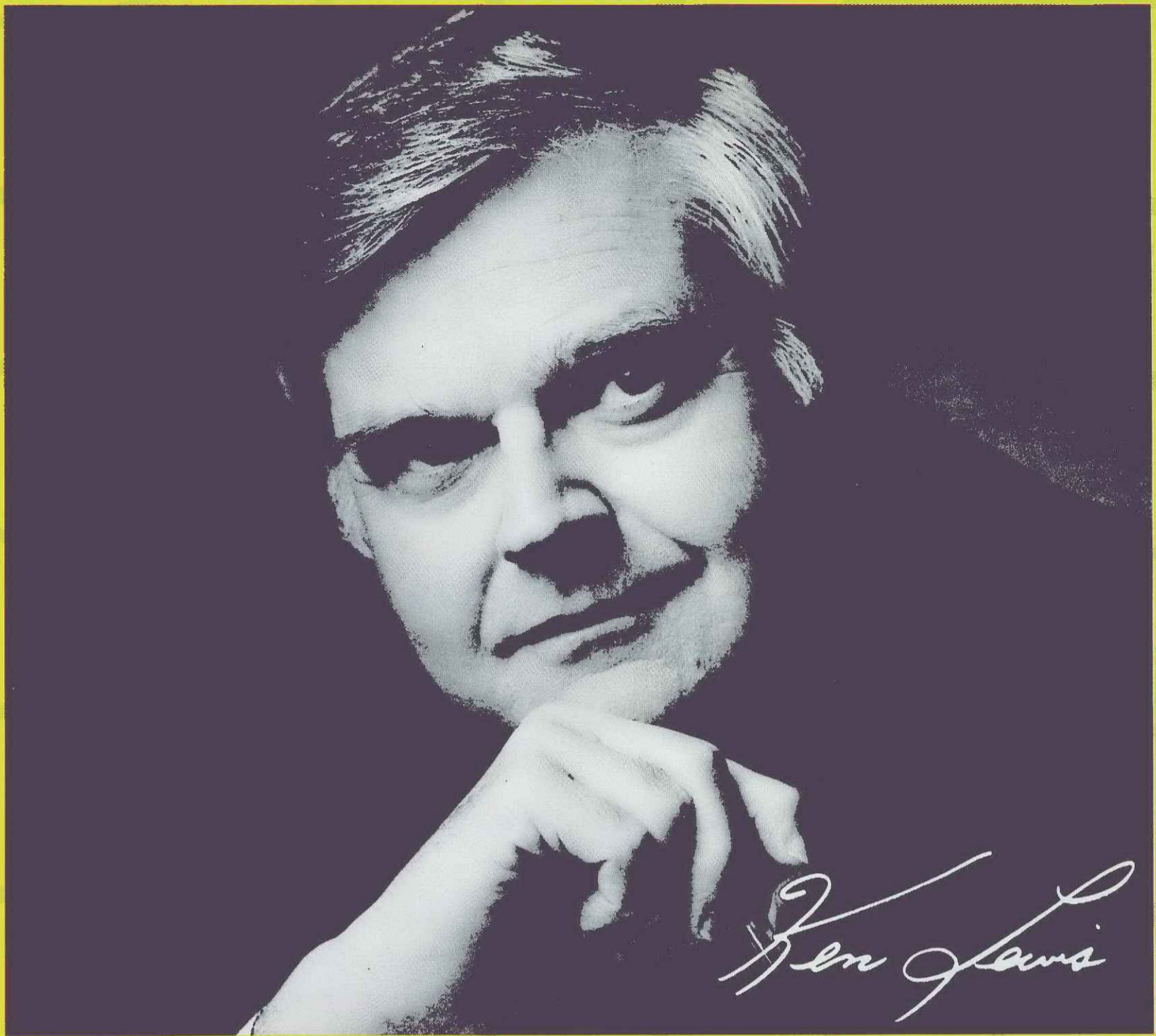
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# Miller, PepsiCo capture runners-up spots

The runners-up in the personalized correspondence category were:

• Second place: Miller Brewing Co. in Milwaukee.

"Each year, the primary objective of our benefit report is to remind our employees of the importance and strength of their benefit program," explains Terry Gardner-Smith, Miller's corporate benefits analyst.

This year, however, Miller added bold colors, creativity and flair as it built its statement around the theme of recognition.

"We wanted our message to emphasize the importance of benefits and of recognizing their value," Ms. Gardner-Smith said.

Consultants Anne Eckland, Steve Ramsey and Katy Daly of Hewitt Associates in Lincolnshire, Ill., were called in to help create a theme that would communicate the company's message.

"We chose to use abstract art throughout the statement because it tied into the recognition theme. Sometimes you have to look twice to see everything that is there," says Ms. Gardner-Smith.

The benefits department's logo appears abstractly on the cover in bold shades of red, yellow and blue, and it is an immediate attention-getter, reports Ms. Gardner-Smith. "The employees all looked at it and wanted to know what it meant because they didn't recognize the logo at first glance."

Any misinterpretation is clarified by the president's message on the inside flap, which explains the

company used abstract art to encourage employees to look closely at the art and benefit choices.

"The president's letter sets the tone and helps establish the theme of recognition," Ms. Eckland said.

The statement, which cost approximately \$114,000 to produce, is easy to read and gets the information across in a light and airy manner, said Ms. Gardner-Smith. "We wanted it to be interesting to the employees so we put in the time, effort and money to do it," she added.

The statement was sent to about 3,600 salaried employees in 32 different locations via first class mail.

• Third place: PepsiCo Inc. in Purchase, New York.

Providing a clear benefits statement that would help employees both understand and appreciate their retirement programs was PepsiCo's primary objective when designing a statement color-coded to fit with the rest of its benefit package.

"We felt that our employees neither understood nor appreciated

their retirement options, and that was why we were not getting enough response from them," says Suzanne Samuelson, PepsiCo's manager of benefits communication.

"They wanted it to be down to earth and friendly," says Steven Sundheimer, a principal at William M. Mercer-Meidinger-Hansen Inc. of White Plains, N.Y., the consultant hired to help design the statement.

The nine-page statement outlines the various retirement plans for

both the employees and their spouses. The key issues are highlighted in a blue color-coded stripe so that important information is clear to the reader, Mr. Sundheimer explained.

Also included is a glossary of technical terms to help the employees better understand the statement.

The pension statement took about six months to produce and cost PepsiCo about \$80,000. It was distributed to approximately 45,000 employees nationwide. ■

## Our biggest point is service.

## Burlington

Continued from page 10

Next, the brochure shows employees how to estimate how much additional income—from sources other than thrift or pension plans—will be needed to retire early.

Four graphs illustrate how much income an employee will need to retire at age 55 with either 25 or 30 years of service, or at age 60 with 25 or 30 years of service. The graphs also help employees estimate their replacement income with three inflation-linked variables: no inflation, 4% inflation or 8% inflation.

Employees are reminded that the company's 401(k) plan enables them to save for retirement with both pretax and aftertax dollars, as well as receive matching contributions from the company.

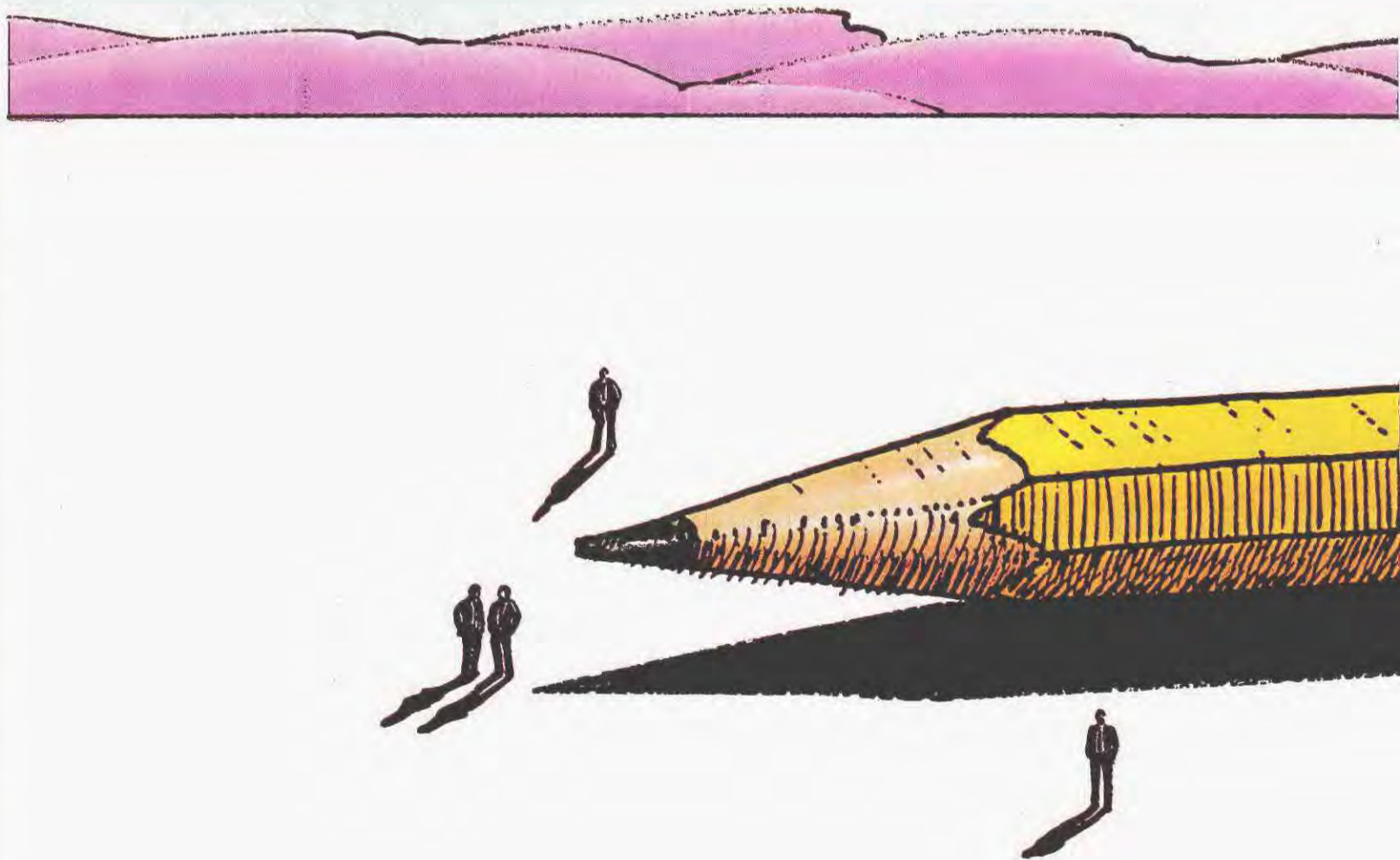
Employees can transfer calculations from the graphs and personal savings information onto a worksheet to determine how close they are to achieving replacement income equal to 70% of their final pay—the amount necessary for early retirement.

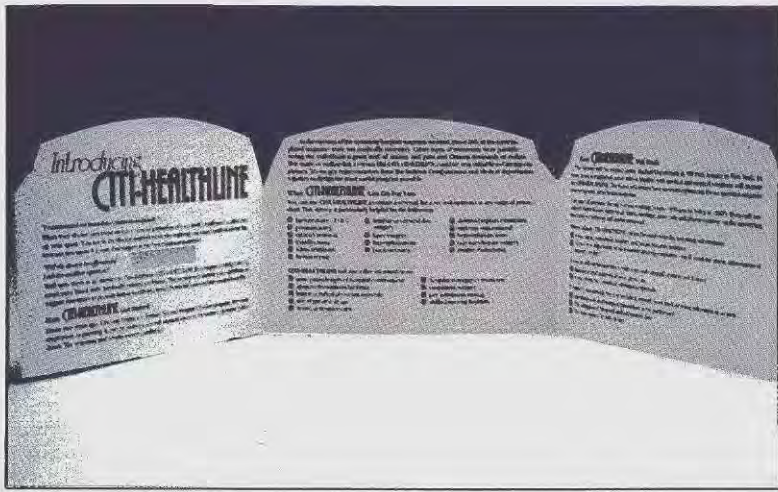
The brochure also includes a table to help employees estimate the monthly benefit they would receive if they used the lump-sum balances in their 401(k) accounts to purchase annuity contracts in \$10,000 increments.

For example, according to the table, if an employee purchased an annuity with \$10,000 at age 58, he or she would receive \$83.59 per month after retirement. If an employee had a lump sum balance of \$30,000 and purchased an annuity at age 58, he or she could multiply \$83.59 by three to see the monthly payment would be \$250.77.

The brochure also includes tables estimating future income tax rates under the Tax Reform Act of 1986.

"We are very pleased with the document and its response. Retirement planning is a difficult subject and we were concerned that we formatted it in a way that would be easy to understand," Mr. French said. ■





# Booklet is ringing success

By DONNA DiBLASE

NEW YORK—Citicorp wanted its employees to know there was health care help at the end of the line.

But, a special communication effort was necessary to draw employees' attention to the company's new CITI-HEALTHLINE information hot line.

So, with the help of Buck Consultants Inc., the giant bank holding company produced a compact booklet in the shape of a phone. The red hot line brochures were

mailed to the homes of more than 30,000 employees nationwide.

The effort won first place in the booklets category of the *Business Insurance* Employee Benefits Communication Awards competition.

By starting CITI-HEALTHLINE, "we wanted to assist people in finding quality medical resources and get them involved in reviewing their own health care," explained Doris Glick, a registered nurse and manager of CITI-HEALTHLINE Services for Citicorp.

The roots of CITI-HEALTHLINE were planted when the company

implemented a voluntary second surgical opinion program about two years ago.

"Employees had been calling the medical department for this type of health information anyway, so we wanted to provide" a health information hot line, explained Mary Mickalonis, Citicorp's corporate manager of health services.

The company introduced CITI-HEALTHLINE in February. The toll-free number is staffed by a nurse, who has access to a physician if a question requires a more specific or technical answer.

The hot line is available to employees nationwide between 9 a.m. and 5 p.m. Eastern Standard Time. However, employees can leave a recorded message at other times.

CITI-HEALTHLINE suggests health care resources to help employees more wisely utilize their health care benefits.

For example, the service assists employees in obtaining physician referrals for second opinions on surgeries and offers information on treatment facilities, home or hospice care, hospital emergency room use and outpatient surgery.

"The brochure introducing CITI-HEALTHLINE had to be understandable, and we wanted to make it look attractive enough to get employees to read it," noted Terrance T. Toth, director of communication consulting services in Buck Consultants' Harmon Meadow, N.J. office.

The bright red 7-inch-by-5-inch cardboard booklet folds out, revealing four pages that explain the hot line, its advantages for employees and the company's objectives in introducing the service.

Headlines and itemized services are highlighted in red, with all other information printed in easy-to-read black type. And, affixed to the back page of the booklet are two stickers embossed with the CITI-HEALTHLINE toll-free telephone number. The stickers can be attached to employees' telephones.

Employees concerned about offending their physician by requesting a second opinion can now turn to CITI-HEALTHLINE for a referral, the booklet emphasizes.

It also reminds employees of the success of the company's 2-year-old second surgical opinion program, noting that university hospital surgeons used in the program determined that 20% of surgeries were not medically necessary.

This saved "individuals a great deal of anxiety and pain and Citicorp thousands of dollars. This made us realize that a service like CITI-HEALTHLINE could be very valuable to Citicorp employees," the booklet says.

The booklet then explains the second surgical opinion referral program and lists 15 procedures for which the program is most helpful. These include hysterectomy, cataract removal, knee surgery and coronary bypass surgery.

Health resources and health problems about which the service offers information also are listed. These include length of hospital stays, board-certified physician referrals, use of generic drugs and skilled nursing facilities.

Finally, the booklet instructs employees how to use CITI-HEALTHLINE. For example, employees are urged to have their personnel and Social Security numbers ready when calling.

When calling for second opinion referrals, employees should have available the name and address of their physician and the doctor's medical or surgical specialty.

For scheduled surgeries, employees should tell the CITI-HEALTHLINE nurse the diagnosis and surgery to be performed and anticipated length of stay.

Continued on next page

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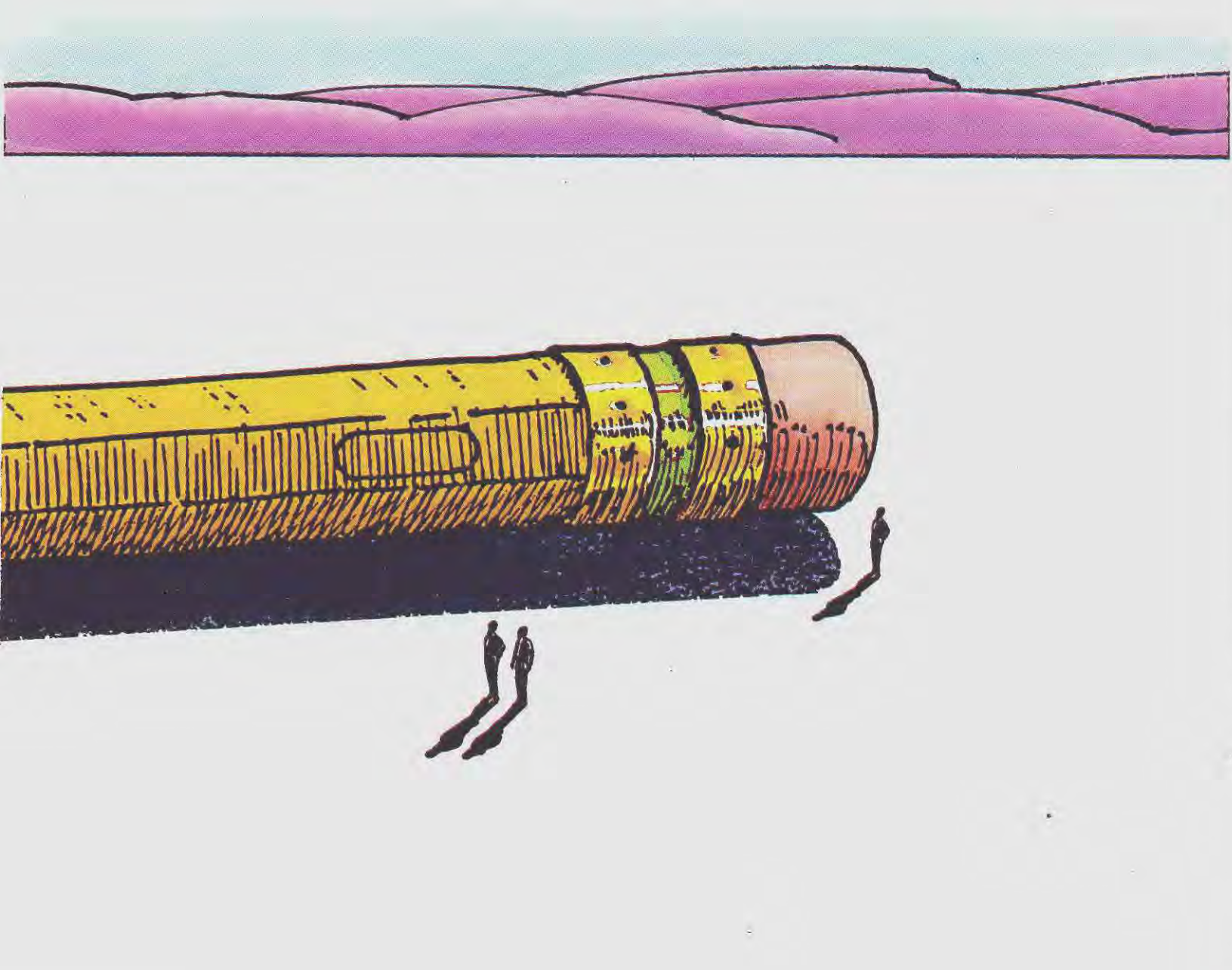
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## Citicorp booklet

*Continued from previous page*

The booklet also notes that because most medical conditions are complex, the CITI-HEALTHLINE doctor or nurse cannot diagnose an illness or advise treatment by telephone. And, it stresses that the service cannot tell employees whether or not to have surgery, noting that "the doctor or nurse can only put you in contact with the proper medical resource so that your ultimate decision is based on the best information available."

The communication effort, which cost Citicorp \$18,500, took about a month to produce, Mr. Toth noted.

"The double-stick labels bearing

the telephone numbers took the longest time," he explained.

"When we proposed doing the booklet in the shape of a telephone, the company was very pleased. They also had the idea that the telephone numbers should be handy for employees" and decided on including the stickers, he added.

The booklet was mailed to employees' homes because "people would be more apt to read it if they received it at home," said Citicorp's Ms. Glick.

"The service has handled 662 calls in its first six months. One-third of those calls have been for second surgical opinions and the remainder for physician or dentist referrals," Ms. Glick said. ■

## EBC booklet competition: Runners-up

The runners-up in the booklets category were:

● Second place: Colgate-Palmolive Co. in New York.

During the last two years, Colgate has modified its various benefit plans, which resulted in the need to update employee handbooks to explain the changes.

"We needed a booklet that would explain our new benefit modifications to our employees clearly and easily," says J.E. Zoog, Colgate's director of human resources.

Colgate commissioned Pamela Kekich, a principal at the Fort Lee, N.J.-based consultant Kwasha Lipton, to help find the best way to bring the company's Personal Care Program and Hourly Employees' Benefit information to its employees.

"The most important thing in designing the new booklets was that they be useful reference pieces as well as being attractive," says Ms. Kekich.

The three-ring binders are large enough to hold the company's standard 8½-by-11-inch announcement sheets so that additional benefit information distributed throughout the year can be filed directly in the handbook, she explained.

Each booklet was designed to catch the reader's attention. "We wanted the headlines to stand out so we used bright colors," says Ms. Kekich. "We also posed questions to the readers as a way of getting them into the material."

The booklets, which took about a year to produce, were distributed to almost 6,000 employees in six U.S. locations and overseas, she said.

● Third place: Smith & Nephew Inc. in Elk Grove Village, Ill.

Because the international company of Smith & Nephew has acquired 10 additional companies in the last few years, it wanted a handbook that would both establish the company's benefits program and make the new additions feel a sense of belonging.

"We wanted to consolidate different plans into one," says Charles R. Ingram, the company's corporate insurance manager. "We also hoped that employees would feel the corporation's concern for them, bringing everyone closer together," he added.

With the help of Carol Dexter, communications coordinator for C&B Consulting Group-Powers, Carpenter & Hall Division in St. Louis, Mo., Smith & Nephew adopted the symbolic globe to project its image as an international company whose employees are part of a growing entity.

"We used the global family approach to bring all of the manufacturing companies together," she said.

The small, portable, three-ring binder uses what Ms. Dexter refers to as the four-color system. Shades of red, yellow, blue and white are incorporated into the design of the globe, while each plan is color-coded in one of the primary shades.

In addition to providing employees with detailed descriptions of plans available, there is an abridged version, entitled "Charting Your Benefits," found in the pocket of each binder. "We don't expect the employees to read the whole book, so we also give them the highlights of the programs," Ms. Dexter explained.

The booklet, which costs \$11 per binder and took about three months to produce, was distributed to about 2,000 employees at 10 different locations, according to Mr. Ingram. ■

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# Video paves the way for plan changes

By DONNA DIBLASE

IRVING, Texas—A cement and pipe manufacturer that traditionally communicated benefits through a handbook and letters from the benefits manager needed a special attention-grabber to communicate benefit changes to its 4,500 employees.

And, the company also wanted to change its benefits communication philosophy, making communication an ongoing effort instead of a sporadic occurrence.

So, the company produced "Medical Plan Changes," a video in which Gifford-Hill & Co. Chief Executive Officer Tom Howard helps introduce the benefits changes. The video won first place in the audio-visual category of the Business Insurance Employee Benefits Communication Awards competition.

"The goal I set for myself was that we wanted to get everyone's attention. There was a huge change coming and we wanted to be sure employees knew what it was," explained Bill Spies, manager of benefits for the Irving, Texas-based company.

The March 16 implementation of a mandatory second surgical opinion program for certain procedures

management wants employees to understand their benefits so they can be used wisely.

Also, Gifford-Hill wanted the video to emphasize a slight shift away from a paternalistic benefits philosophy and the need for employees to take more responsibility for their own health care.

The video, which took about two months to produce and cost \$20,000, was presented at employee meetings and was accompanied by a new handbook detailing employees' health care benefits, Mr. Spies explained.

The video stresses that while employees pay annual deductibles and copayments, the company pays the entire monthly premium. Employees pay a deductible of \$150 per person with a maximum family deductible of \$300, plus a 20% co-

payment. Also, employees learn that if they use generic prescription drugs, the plan covers these costs at 100%, instead of the usual 80%.

The video also describes the company's mandatory second surgical opinion program, including comments from employees on the benefits of getting a second opinion.

Under the program, employees could be required to pay up to 50% of the costs of surgery if they do not get a second opinion for any of 12 elective procedures.

In addition, employees in the video discuss the benefits of having surgery in an ambulatory center if possible, including the comfort of recovering from surgery at home with one's family.

*Continued on next page*

## A Conversation With Tom Howard

## Picture a small fire shutting down a

\*For example, a Class 10C clean room containing 25 wet chemistry work stations which etch more than 1,000 semiconductor wafers per day.

### Ansul has the answer. The Ansul H-1000 System... an unbelievably fast way to detect and suppress fires in wet benches.

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### The detector is quicker than the eye.

The Ansul H-1000 System makes use of a unique ultra-violet detector. At the first hint of fire, this sensitive detector spots the trouble and sends a signal to the H-1000 control module which in turn triggers the suppression system. Elapsed time from detection to actuation... less than 5 milliseconds.



### Clean as a whistle.

The H-1000 uses a clean extinguishing agent—Halon 1301—that suppresses fire without leaving a mess. A fact that pleases people who wish to keep their clean rooms clean. Another plus is the design of the H-1000 System. It protects against fire re-flashes by providing for up to four, separate discharges of Halon 1301. It works without shutting down the ventilation system. And the H-1000 is a snap to install.

**'We used employees in the video to get other employees to listen,' explains Ms. Saxon.**

and a new dental plan prompted the need for the communications program, he explained.

To find the best way to get employees' attention, the company and its consultant, Alexander Consulting Group, a unit of New York-based Alexander & Alexander Services Inc., conducted focus group meetings with employee representatives from several of the company's 45 locations.

In these meetings, the company discovered that employees really wanted more personal communication about benefits from upper management, noted Lynn Saxon, an associate communications consultant in the Dallas office of the New York-based consulting firm.

"We had our CEO appear in the video to get employees' attention. He was the main attention-getter and was very willing to do this," noted Mr. Spies.

But, along with a message from upper management, the video also features Gifford-Hill employees commenting on their own benefits concerns and the need to take responsibility for their own health care.

"We used employees in the video to get other employees to listen," explained Ms. Saxon.

To select employee spokespersons, the company asked supervisors at three or four of its locations to select 10 employees to participate in the video. The employees were then videotaped as they were interviewed about their benefits concerns and health care costs in general, Mr. Spies said.

"The employees who appeared in the video were chosen because they were verbal. And, it was really amazing how aware employees were about health care costs when we interviewed them for the video," Ms. Saxon noted.

Along with capturing employees' attention, the company's objectives in producing the video also included demonstrating management's concern for employee welfare by emphasizing that upper

Continued from previous page

But, the video also reminds employees of the financial benefits of having out-patient surgery—100% coverage after the deductible instead of the usual 80%.

The video also notes that while some employee locations already had dental coverage, the company now is offering dental coverage to all employees.

Employees in the video talk about their own experiences and point out that families with children will greatly appreciate this benefit.

Under the plan, employees do not contribute to the monthly premium, but pay an annual deductible of \$25 per person for preventive and restorative care, plus varying copayments for major restorative care. Orthodontic coverage is available only to employees' dependent children, with employees paying 40% of all orthodontic expenses.

The employees in the video and

**The employees in the video and the CEO stress the need to be responsible about utilizing benefits.**

the company's CEO continually stress the need to be responsible about utilizing benefits.

"We want employees to use their benefits when they need them, but we want them to use them wisely," Mr. Howard, CEO, says in the video.

"The video met our objectives 100%," Mr. Spies noted.

"My reaction from the representatives who conducted the meetings was that the video went over well with employees. The transition from the old benefits program to the new one went very smoothly."

# EBC audio-visual runners-up

The runners-up in the audio-visual category were:

• Second place: Foodmaker Inc. in San Diego.

Foodmaker wanted to create a video that would generate interest and enthusiasm for its EasySaver Plus program, increasing 401(k) plan participation among lower-paid employees at its chain of Jack-in-the-Box restaurants.

The video stars "Joe Saver," a stereotypical Jack-in-the-Box assistant manager, who represents exactly the type of employee the company hopes to influence with the presentation.

In the video, Joe is watching TV and relaxing before going to work when suddenly a simulated news report appears, describing the benefits of EasySaver Plus and interviewing satisfied employees who explain savings, investment and

related concepts in a way that makes saving seem easy.

"We wanted to create something that would spark interest and be exciting but still easy to understand," says Aleta O'Shea, a consultant at Hewitt Associates in Santa Ana, Calif.

In addition to the news report, the Foodmaker video also includes an MTV-styled music video, featuring Willard Riley who sings the theme song "EasySaver Plus," highlighting the benefits of the plan. "People left the employee meeting humming the theme song," Ms. O'Shea reports.

The video, which cost \$36,000 to produce, was shown to about 2,500 employees at employee meetings.

"We were very satisfied with the results of the campaign," reports Judy Baum, director of corporate personnel at Foodmaker. "We had

an 11% increase in participation from almost a year ago."

• Third place: Tie between Barnett Banks Inc. in Jacksonville, Fla., and C.R. Bard Inc., a health care products manufacturer in Murray Hill, N.J.

Because Barnett wanted to help its 17,000 employees be as healthy as possible both mentally and physically, it created a video encouraging them to utilize its employee assistance program.

"We wanted to assure our employees of the confidentiality of the program and encourage them to use it when necessary," says Catherine Corse, Barnett's employee benefits manager. "In the employee video, we decided that the best way to overcome the employees' fears was to show them the actual counselors that would help them with their problems."

"We used a direct approach of interviewing the counselors rather than a flashy one," explains Mark Basse, the owner of Corp. Comm., the Atlantic Beach, Fla., production company that created the video package.

There are two eight-minute videos, one for employees and another for supervisors. The employee video is designed to intro-

**'We are very pleased with the response that the videos have gotten,' Barnett's Ms. Corse says.**

duce them to the EAP by explaining the benefits, while the supervisor edition focuses on how use of the EAP can increase departmental productivity.

"We are very pleased with the response that the videos have gotten. We have a 9.6% usage rate, which is excellent for a first-year EAP," Ms. Corse said.

The videos, which took about four weeks to produce, cost about \$13,500 combined. The employee video has been shown to about 17,000 employees while the supervisory video has been viewed by 2,000 at supervisor training sessions.

C.R. Bard Inc. wanted to create a video to inform employees of its new 50-cent match and loan feature in its retirement savings plan. Bard increased its matching contributions to the plan and now employees are able to dip into the plan in hardship cases.

"With two good pieces of news, our job was easier," says Barbara Philbeck, a writer in the Rowayton, Conn., office of Hewitt Associates.

Larry Voigt, a producer/artist director at Hewitt Associates, developed the motif of getting inside a bank by depicting the inside of a vault and using animation and computers to create the illusion of dollars and cents being deposited and withdrawn from the safe.

"The concept is more of a promotional commercial for Bard's benefits, showing employees that Bard's program is better than an IRA (individual retirement account) because you can take out loans on the money," says Mr. Voigt.

Bard is very satisfied with the video and participation in the program has increased beyond its expectations, reports Ms. Philbeck.

"It is a nice ice breaker before a meeting," says Carol Mucci, Bard's senior benefits administrator.

The three-minute videotape cost about \$17,000 to produce and has been shown to about 6,000 employees at employee meetings in 20 different locations.

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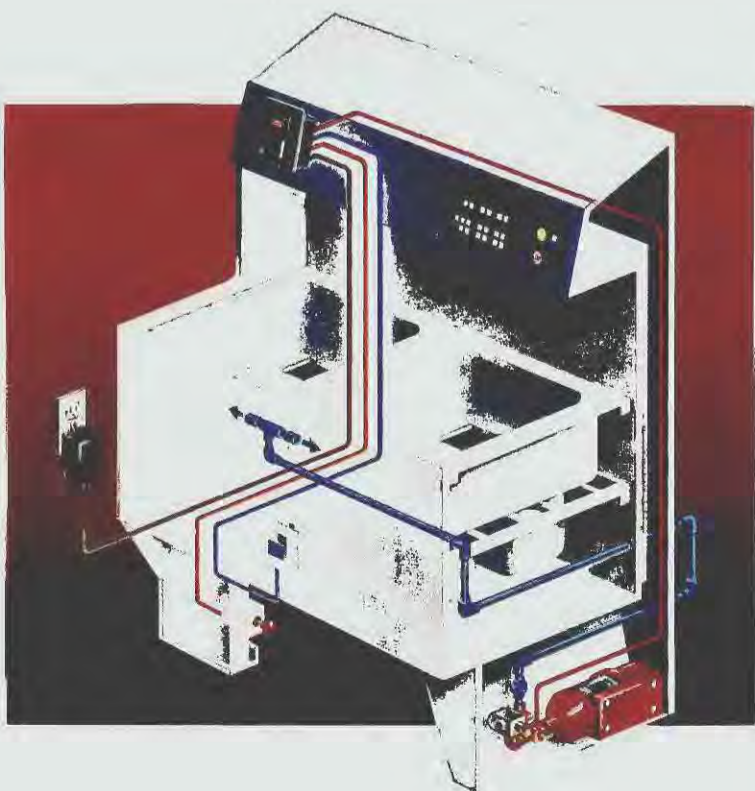


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# Top benefit presentations involve a personal touch

Employee benefits communications may be getting more personal.

"The entries in the total benefits program category" in the *Business Insurance* Employee Benefits Communication Awards competition "had a much stronger human element than ever before," said Ronnie I. Drachman, *BI*'s director of communications in New York.

"The judges were so impressed with this year's first-place award because the communication program made you feel so good. They agreed the common thread among all three winners in the total benefits program category was the human element in them," she added.

**'They (judges) agreed the common thread among all three winners in the total benefits program category was the human element in them,' according to Ronnie I. Drachman, *BI*'s director of communications.**

The first-place winner, Shreveport, La.-based Arkla Inc., included some of its own employees in a video introducing the company's new flexible benefits plan. The employees discuss their own benefits concerns and their feelings about the new plan (see story, page 4).

In addition, the judges were impressed with the natural gas company's use of a series of personalized newsletters used to explain each of the components of the flexible benefits plan, Ms. Drachman pointed out.

"They felt that even though this was a group of employees who traditionally had not relied on written communication, they would be compelled to read the personalized newsletters," because the newsletters communicated exactly how the changes would affect each employee.

A total of 179 entries were submitted in the four categories that comprised this year's Employee Benefits Communication Awards competition: total benefits program; audio-visual; personalized correspondence; and booklets.

A fifth awards category, computer communication, was not included in this year's competition because there were too few entries.

*Continued on page 20*



Mr. Beaubier



Mr. Bersin

### ClaimFacts—The Health Claims Management System

## How a mid-sized insurance company landed a \$22 million account.



When this mid-sized insurance company went after the claims administration business of a company with 15,000 employees, plus retirees and dependents, its business strategy was basic. Provide the best customer service at a cost that's hard to beat.

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two states, each with unique, non-communicating human resources and benefits systems.

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## EBC judges

Continued from page 18  
Ms. Drachman said.

"We did not judge the two or three entries we received this year, but will re-evaluate the category for next year's competition," Ms. Drachman said.

She also explained that "while there is a lot to be done with the communications medium, it is a difficult category to judge and it is the most difficult category to prepare for the judges," because of problems with compatibility in computer hardware.

"A really big change in the competition this year was that the number of entries in the total benefits program tripled," Ms. Drachman said.

And, along with a more personal approach to employee benefit communications, "a very significant trend in the audio-visual category is that employers are not overloading their audio-visual programs

**'The number of entries in the total benefits program tripled,' says BI's Ronnie Drachman.**

with details," according to Ms. Drachman.

Employers "rely on the programs to spark questions or introduce benefit plans and then use other communication vehicles to handle the details," Ms. Drachman explained.

"What was interesting this year was that in all four categories, we felt that the judges worked very much in sync with each other. That is, there weren't heavy debates as to which entries were the winning programs," she added.

The entries to the 1987 Business Insurance Employee Benefit Communications competition were judged by a panel of 12 employee benefits or communications experts.

The judges were:

- Karen Battenic, senior manager of employee benefits at Chicago-based Sara Lee Corp.

- Al Beaubier, manager of health care administration for Southern California Edison Co., an electric utility in Rosemead, Calif.

- Bob Bersin, promotion manager for Modern Healthcare, a magazine published by Crain Communications Inc. in Chicago, which also publishes Business Insurance.

- James Donahue, director of corporate communications for insurance broker Fred S. James & Co. Inc. in New York.

- Paula Fleming, manager of benefit communications for the Stamford, Conn.-based Xerox Corp.

- Elizabeth Hook, senior associate editor of Risk Management magazine, which is published monthly by the New York-based Risk & Insurance Management Society Inc.

- Katherine Klobuchar, vp and manager of compensation and benefits for Marine Corp., a bank in Milwaukee.

- Lana Lewis, assistant vp and indirect compensation manager at Marine Midland Bank in Buffalo, N.Y.

- Susan Nagengast, vp of marketing for Pearl River, N.Y.-based Mid-Atlantic Litho, a graphics firm serving the consulting industry.

- Patricia Nazemetz, manager of corporate benefits for Xerox in Stamford.

- Peter Schleger, consultant and producer for New York-based Peter Schleger Co., a media consulting firm specializing in benefits communication and training workshops.

- Elaina Zuker, president of Success Strategies Inc., a organizational and management consulting firm based in New York.



Mr. Donahue



Ms. Hook



Ms. Nagengast



Mr. Schleger

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# Emerson Electric appoints new risk management chief

**Paul E. Morrison**, 38, has been named director of risk management at Emerson Electric Co. in St. Louis. In this position he oversees the diversified electronics company's risk management operations, including property/casualty insurance. He replaces **Mike Zimmer**, who left the company, and reports to Robert M. Cox Jr., vp and treasurer. Previously, Mr. Morrison was director-risk management at G.D. Searle & Co. in Skokie, Ill. He received a bachelor of science degree in economics from Ball State University in Muncie, Ind., and a master of business administration degree from Indiana University in Bloomington. Mr. Morrison holds the Associate in Risk Management and Chartered Property & Casualty Underwriter designations.

with Franciscan Health System, Ms. Klimon served as director of risk management at the University of Pennsylvania in Philadelphia. She also held the post of assistant attorney general for the state of Ohio. Ms. Klimon received a bachelor of science degree in psychology from Rosemont College in Rosemont, Pa., and a doctor of law degree from the University of Cincinnati. In addition, she holds the

Chartered Property & Casualty Underwriter designation.

*We'd like to report on staff changes in your company's risk management, safety or employee benefits department. Just drop a note to Paul Winston, assistant copy editor, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611-2590, or call 312-649-5442. Please send a photograph, too.*

**William T. Howard Jr.**, 53, has been named assistant treasurer/director of risk management for Arch Mineral Corp. of St. Louis. In the new position he is responsible for insured and self-insured programs, as well as risk management activities for Arch and its subsidiaries. He reports to J.E. Walton,

## comings & goings: buyers

vp/treasurer and chief financial officer. Previously, Mr. Howard was director of corporate insurance at Forest Oil Corp. in Denver and for several years has been on the board of directors of Oil Insurance Ltd., a Bermuda-based petroleum industry mutual. He received a bachelor of arts degree from the University of Connecticut at Storrs and is a deputy member of the Risk & Insurance Management Society.

**Kate McGuigan-Montalbano** has been named director of risk management at Winchell's Donuts in La Mirada, Calif. In this newly created position she oversees the creation and implementation of all risk management functions for the Denny's Inc. unit, including property/casualty insurance, claims management, loss control and workers compensation. She reports to Dan Thomissen, senior vp and chief financial officer. Ms. McGuigan-Montalbano previously was director of risk management at Trans-Technology Corp. in Los Angeles. She received a bachelor of arts degree from the University of Northern Colorado in Greeley. In addition, she is a member of the national Industry Liaison Committee of the Risk & Insurance Management Society and serves on the board of directors of the Los Angeles Chapter of RIMS.

**Ellen Klimon**, 41, has been named director of risk management of Franciscan Health System in Chadds Ford, Pa., and president of its Denver-based captive, Neumann Insurance Co. In the newly created position of risk manager, she is responsible for the risk management program of the Franciscan Health System, a multihospital system sponsored by the Sisters of St. Francis of Philadelphia, and reports to Scott K. Phillips, vp-finance. As president of 11-year-old Neumann Insurance, Ms. Klimon oversees the development and implementation of professional liability insurance and other insurance products. In addition, she is a partner in the Philadelphia law firm of Klimon, Salman, Greve & Harpster. Prior to the appointment

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# Product liability

## EC directive intended to establish common standards

By Jerome Karter

**C**LEARLY, the intrinsic independence of individual member states has induced infighting within the European Community as its product liability directive inches toward its July 1988 inception.

Who will allow the development risks defense? Who will apply a 70 million ECU (\$78.3 million) limit for all claims of an identical nature resulting from the same product? Will any EC member states allow punitive damages? Who will wait until July 30, 1988, to inaugurate enabling legislation?

These divisive issues stem in part from the limitation of an EC directive. Unlike an EC regulation, a "directive" does not create a uniform law, but aims only to harmonize national laws by establishing common standards. In this instance, the common standard established "no fault" liability as a supplemental cause of action for damage to consumers resulting from defective products. Harmony, however, has been more elusive.

Certainly, the EC's move toward strict liability is meant to supplement, not substitute, existing common law remedies such as claims in contract or tort. Thus, existing member state legislation, such as the German Pharmaceutical Act, will remain in effect for the consumer's protection.

Until the directive's passage, only four member states practiced strict liability: France; Luxembourg; West Germany, for pharmaceutical products; and Spain, for certain products up to 500 million pesetas (\$3.9 million). Compensation paid in these states usually is factored into production costs and thus spread over all products, whether defective or not.

All other member states require injured persons to prove negligence on by the manufacturer of the defective product; the claimant's burden of proof usually safeguards the producer from claims and results in lower costs.

Once enabling legislation takes effect in all member states by mid-1988, however, injured persons will be required to prove only the damage, the defect, and the causal relationship.

The directive aims to:

- Eliminate distortions in competition.
- Ease the flow of goods.
- Increase consumer protection.

Understandably, critics are concerned that these goals will not be achieved if EC member states cannot cooperate during the implementation process. In the absence of cooperation, Europe may well witness an entrenchment of disparate laws similar to that which has left the United States unable to institute a national tort reform program.

Indeed there are several areas in which the non-regulatory nature of the directive may result in statutory differences.

For example, while the directive embraces the principle of unlimited

liability, member states may legislate a cap of not less than 70 million ECUs on liability resulting from death or personal injury caused by identical products with the same defect. To date, Belgium, West Germany, Portugal and Spain are leaning toward this option, but the recently enacted U.K. Consumer Protection Bill does not cap a producer's liability, and other member states are expected to adopt a similar stance. In these countries, a manufacturer will have to buy an appropriate limit of insurance indemnity or take the risk of "going bare."

Another flexible provision of the directive is the development risks defense. This allows a producer to escape liability for producing, manufacturing, or supplying a defective product on the basis of a "state-of-the-art" defense; that is, that scientific and technical knowledge at the time the product was put into circulation was insufficient to enable the existence of the defect to be discovered.

To date, Belgium, France, Greece, and Luxembourg are not planning to allow the development risks defense. All other EC

member countries, however, are expected to follow the United Kingdom's recent legislative lead allowing the development risks defense. As such, the U.K. Consumer Protection Bill will measure a product's defectiveness in terms of expected safety rather than fitness for use.

Critics maintain that the development risks defense unduly restricts the protection of the consumer because a litigant's costs to show "state-of-the-art" will deter claims. But advocates of the development risks defense cite several important benefits.

First, despite great care on the part of manufacturers to develop a safe product, someone, somewhere will undoubtedly be harmed by a product that usually brings a benefit to most consumers, as in the case of medicines. Critics assert that innovation will suffer unless manufacturers are liable for the "known and knowable" only.

Second, because certain products are expected to attract much higher products liability insurance premiums without a "state-of-the-art" defense, the cost of insurance could force many manufacturers out of business.

Lastly, the development risks defense provision is deemed necessary for a country like France where the civil code stipulates that the seller must reimburse the price paid by the buyer (if the seller knew of the latent defect) as well as pay for damage suffered by the buyer (who does not have to prove fault). But, if unaware of the latent defect, the seller must only reimburse the buyer, who must then file a claim for damages by proving fault on the part of the manufacturer.

Further compounding the

development risks controversy is the Brussels Convention Jurisdiction and Enforcement in Civil and Commercial Matters. All EC member states are signatories to the convention, which determines civil court jurisdiction within the member countries.

Sophisticated claimants are expected to use the convention to "forum shop" for a member state with favorable legislation. Thus, producers or importers in the EC countries that permit the development risks defense may find themselves sued in other member countries whose laws do not allow this defense. Consequently, both producers and importers that operate within EC member states should buy liability coverage against lawsuits brought within the entire European Community.

Another problem created by the non-regulatory aspect of the directive concerns compensation for non-material damages. In effect, the directive allows each member state to legislate compensation for

non-material damage when an action is based on strict liability. In many member states, however, existing laws decree that compensation for

non-material damages can be awarded only if the injured person proves the producer's negligence. It is expected that some member states may not derogate from existing national law by legislating both strict liability and damages for pain and suffering under the directive.

Despite the potential statutory difference in enabling legislation, EC member states uniformly agree on one subject: claims experience. The directive is coming at a time when world interest is focused on the issue of product liability. Undoubtedly, the social cost of U.S. product liability legislation has been well-noted worldwide. It is generally believed, however, that although consumer activism may increase in many member states when the directive becomes local national law, the difference between the U.S. legal system and that of Western Europe will produce less litigation and lower associated costs in the European Community.

For example, the jury's role in the United Kingdom today is limited to serious criminal offenses. As a result of bench trials, the United Kingdom witnesses a lower level of litigation than the United States. Traditionally, U.K. law has placed the burden of proof of negligence on the plaintiff; the recently legislated Consumer Protection Bill continues this practice. In the United States, however, liability often attaches because an injury occurred, not because wrongful conduct caused the injury.

Moreover, contingent fees are non-existent in the United Kingdom. Instead, a successful claimant is usually awarded costs including legal expenses and expert witness fees.

The West German liability law has been akin to strict liability since the late 1970s, when the burden of proof for negligence was shifted from the claimant to the manufacturer.

"Prima facie" proof usually is interpreted to the claimant's advantage. Contingent fees are prohibited in West Germany and an unsuccessful claimant must bear the real litigation costs of the winning party.

The legal systems in Italy and France also disallow contingent fees and, like West Germany, these countries require the loser to pay the winner's real legal costs. In addition, none of these countries allows "class action" suits and none uses the jury system: All cases are adjudicated.

Another procedural difference between the United States and Western Europe can be found in punitive damages. The directive allows member states to legislate compensation for non-material damages when an action is based on strict liability. However, in the United States, punitive damages have become an obstacle to settlement: Though originally aimed at intentional wrongs only, punitive damages are commonly applied to no-fault situations and have resulted in skyrocketing awards. Individual member states hope the U.S. experience will be a lesson for EC counterparts.

EC member states also hope that the directive's 10-year limitation on producers' liability will be adopted by all states to reduce claims. The provision is especially important to the pharmaceutical industry since manifestation of side effects often takes more than a decade.

On the whole, the EC directive should provide an additional incentive for manufacturers to review their product safety risks. A complete review should include product design, production, quality control, record systems, complaint procedures, operational instructions and promotional literature.

Since strict liability will not apply to products put into circulation before the enforcement of national legislation, product recall procedures will assume immediate importance as a means of identifying the date on which a product became available for public consumption. As a result, U.S. risk managers with subsidiaries in the Common Market will be faced with coordinating coverage for a mix of product liability exposures.

Although most implementing legislation will not be enacted before mid-1988, U.S. risk managers should address this subject immediately.

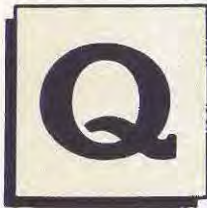
### International Issues

Jerome Karter is vp and manager of the New York International Department of Johnson & Higgins. His column appears the first Monday of every month.



# ASK A BENEFITS ACTUARY

## New tax rules govern pension deductions



**Have the rules for tax-deductible pension contributions changed recently?**



Rapidity of change has characterized employee benefit law and regulations following the enactment of the Employee Retirement Income Security Act. The alphabet soup of acronyms for post-ERISA legislative changes in employee benefit law is quite extensive: ETRA, MEPPA, TEFRA, REA, SEPPA and TRA-86. Add to this the changes in employee benefit accounting rules made by the Financial Accounting Standards Board since ERISA (FAS Nos. 31, 36, 81, 87 and 88), and you begin to realize the volume of change that has occurred. It is not surprising that older employee benefits consultants are often heard recalling the "good old days" when things were much simpler.

Even law that has been stable in the post-ERISA period is changing. The ERISA-enacted rules relating to tax deductions for pension contributions have recently been reshaped by court interpretation and legislative action. Before these recent changes, the rules could be described as follows: The amount that is tax-deductible on account of a contribution to a qualified defined benefit pension plan is the greater of the amounts determined under clause (i), and either clauses (ii) or (iii) of the Internal Revenue Code Section 404 (a)(1)(A):

- Clause (i): The amount necessary to satisfy the minimum funding requirement under IRC Section 412.
- Clause (ii): The amount necessary to provide the remaining unfunded cost distributed as a level amount or a level percentage of pay over the remaining future service of each employee (this clause has generally been interpreted to apply to "spread gain" actuarial cost methods such as the aggregate method).
- Clause (iii): An amount equal to normal cost plus an amount necessary to amortize "any past service or other supplementary pension. . . credits" in equal annual payments (until fully amortized) over 10 years. (This clause has generally been interpreted to apply to "immediate gain" actuarial cost methods, such as entry age normal and projected unit credit).

The above amounts are subject to the plan's full funding limitation and other special situation limitations, such as an overall limit on deductions when an employer sponsors both a defined benefit and a profit-sharing plan.

A couple of recent changes in the above rules are worth noting. One change concerns the interpretation of the phrase "past service or other supplementary pension. . . credits" referenced in clause (iii). Most actuaries understood this phrase to mean certain bases prescribed by the Internal Revenue Service.

For a plan coming into existence on or after Jan. 1, 1976, these bases included the unfunded actuarial accrued liability at the plan's inception, and subsequent changes in the unfunded actuarial accrued liability due to changes in actuarial assumptions, methods or plan provisions.

In general, the actuarial accrued liability is the value of total benefits allocated to prior plan years under the particular actuarial cost method (e.g., projected unit cost, entry age normal, individual level premium, etc.). The unfunded actuarial

accrued liability is the excess of the actuarial accrued liability over plan assets.

So clause (iii) was generally understood to limit the deduction based on the sum of normal cost, plus a 10-year amortization of the various bases described above. This interpretation was consistently put forth by the actuaries in the national office of the IRS.

However, a recent U.S. Circuit Court of Appeals decision may put forth a different and more liberal interpretation of clause (iii). In *AMP Inc. vs. United States*, the court's decision might be read to say that the phrase "past service or other supplementary pension. . . credits" referenced not the various bases described above, but the actuarial accrued liability. The significance of this interpretation is best illustrated by the following simple example.

Suppose an employer sponsors a new pension plan effective Jan. 1, 1986, which resulted from a spin-off from a fully funded pension plan. Assume assets and liabilities equal to the present value of accrued benefits are spun off to the new plan on Jan. 1, 1986. Let's say that the plan provides for benefit accruals both before and after Jan. 1 based on a final average pay formula. The actuary's valuation as of Jan. 1, 1986, provides the following valuation results:

- Normal Cost: \$700,000.
- Actuarial accrued liability: \$9 million.
- Assets: \$5 million.

**The ERISA-enacted rules relating to tax deductions for pension plan contributions recently have been reshaped by court interpretation and legislative action.**

- Unfunded actuarial accrued liability: \$4 million.
- Present value of accrued benefits: \$5 million.

Assuming a 0% interest rate, the IRS' interpretation of clause (iii) would produce a maximum deductible contribution for 1986 of \$1.1 million (the normal cost of \$700,000 plus \$400,000 resulting from the 10-year amortization of the unfunded actuarial accrued liability of \$4 million). Under one reading of the decision, the maximum deductible contribution under clause (iii) would be substantially higher: \$1.6 million (the normal cost plus \$900,000 resulting from the 10-year amortization of the actuarial accrued liability of \$9 million). If this reading of the court's decision is correct, the plan sponsor could fund the unfunded actuarial accrued liability in five years as opposed to 10 years under the prior interpretation.

The timing of this recent court case could not be much better since it comes at a time when tax rates are scheduled to decline. A plan sponsor that has not filed its 1986 tax return and its 1986 Form 5500 is in the best position to take advantage of this new interpretation. If that plan sponsor were to follow the above reading of the court decision, it might increase its pension contribution for 1986 (which can be made at any time before the sponsor files its 1986 federal income tax return), take a higher deduction for 1986 (when it is worth more due to the higher income tax rates in effect during 1986) and then reduce its contributions in future years when they are worth less.

A recent change by the Tax Reform Act of 1986 may reduce the current year tax-deductible contributions for some plan sponsors and defer them to future years. The Tax Reform Act added IRC Section 263A. The rules under this section are very complex and beyond the space allotted for this column. However, a thumbnail sketch of these rules follows.

IRC Section 263A provides for the capitalization of certain indirect production or resale costs that previously were deductible in the year incurred

against that year's taxable income. Examples of some of these costs (Type 1 costs) are utilities and rent, maintenance and repairs, indirect labor costs (such as supervisory costs) and employee benefit costs. Other costs (Type 2 costs) that are also involved with production and resale activities, but do not require capitalization, include marketing, selling or advertising costs, research and development costs, general administrative costs or past service pension costs.

IRC Section 263A requires that the costs involved in production or resale activities first be allocated between Types 1 and 2. In the context of a defined benefit pension plan, this might mean the allocation of the current year's normal cost between general administrative personnel and hourly production workers, if both of these types of employees were included in the same defined benefit pension plan.

It is important to note that only the normal cost is allocated between Type 1 and 2 costs. The portion of the contribution related to past service (i.e., the portion of the contribution related to the actuarial accrued liability) is entirely a Type 2 cost. This treatment of past service pension costs suggests that a sponsor should consider using an actuarial cost method for funding purposes, which increases the actuarial accrued liability, and not use a method—such as the aggregate method—that has no actuarial accrued liability.

Then the cost allocated to Type 1 must be assigned to goods manufactured: either goods that were sold or those that were placed into inventory. The costs assigned to goods sold are deductible against current year taxable income; Type 1 costs assigned to goods placed into inventory are capitalized—that is, the cost assigned to goods placed in inventory is added to the value of the inventory asset held on the company's balance sheet. When the inventory is subsequently sold, the capitalized cost is then deductible against the taxable income the year of sale.

In the context of the example shown above, the company in question might sell 95% of the goods it manufactured during a year and place 5% of them in inventory; then 5% of the normal cost for hourly production workers might be added to inventory and not be deductible for the year in which the contribution is made and the good was produced.

These new rules relate to IRC Section 263A and are generally effective for costs incurred in taxable years ending after Dec. 31, 1986. There are also certain exceptions and transitional rules.

As you can see, even employee benefits regulation that has been relatively stable in the post-ERISA period is undergoing change.

*Would you like advice from an experienced colleague on a risk management, benefits management or actuarial problem? Four features in Business Insurance can give you some answers.*

*Ask A Casualty Actuary, Ask A Benefit Actuary, Ask A Benefit Manager and Ask A Risk Manager answer written questions from readers on risk and benefits management issues and actuarial problems.*

*This month's column, on actuarial issues in the benefits field, is written by William J. Miner, an actuary with The Wyatt Co. in Chicago. Richard E. Sherman, a principal with Coopers & Lybrand in San Francisco, answers actuarial questions in the casualty field. Ralph F. Perry Jr., vp and director of risk management at Amfac Inc. in San Francisco, answers risk management questions. And, Joseph W. Duva, director of employee benefits at Allied-Signal Inc. in Morristown, N.J., answers benefits management questions.*

*Mr. Miner's and Mr. Sherman's columns appear alternately on the first Monday of each month. Mr. Duva's and Mr. Perry's columns appear alternately on the second Monday of each month. Mr. Miner's next column will appear in October.*

*Address your questions to ASK, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. Please give us your name, title and employer; however, Business Insurance will consider unsigned letters.*



Mr. Miner

# Massachusetts names Singer as insurance commissioner

By MEG FLETCHER

BOSTON—A deputy has replaced Massachusetts' insurance commissioner, who resigned last month to protest Gov. Michael Dukakis' administration's new policy of allowing some AIDS testing by life insurers (BI, July 13).

Roger Singer, who has served as the state's first deputy commissioner for the past 2½ years, replaced Commissioner Peter Hiam effective July 16.

Mr. Singer is a graduate of Boston College Law School and the University of Pennsylvania. He lives in Watertown, Mass.

From 1983 to 1985, he worked as an assistant secretary for banking and insurance in the state's Executive Office of Consumer Affairs and Business Regulation. Mr. Singer also worked as an assistant state's attorney and as an attorney for the Federal Trade Commission.

In other states:

• Gretchen Babcock was named Vermont's commissioner of insurance and banking last month.

She has been with the department for six years, most recently as deputy commissioner of banking. Ms. Babcock of Montpelier was acting commissioner from November 1984 to February 1985 and has served as the department's general counsel.

She holds a bachelor's degree from the University of Rochester and became an attorney by passing the bar examination following a four-year clerkship.

Ms. Babcock said she will focus on implementing legislation to encourage formation of captive insurance companies and to expand the banking industry's role.

She replaces Thomas Menson, who was named state secretary of administration last month.

• Mary Jane Cleary was appointed director of insurance for South Dakota effective July 6.

Ms. Cleary holds a law degree from the University of South Dakota.

For the past three years, she has served as the chief appeal referee for the Unemployment Insurance Division of the South Dakota Department of Labor.

Ms. Cleary of Pierre, S.D., replaces Susan L. Walker, who was appointed executive director of South Dakota's lottery.

Ms. Cleary said she is concerned about the availability and affordability of liability insurance, which prompted the state to self-insure all of its liability risks.

• Joseph A. Edwards was appointed Maine's superintendent of insurance until May 31, 1988.

Mr. Edwards will serve the remaining portion of Theodore Briggs' four-year term.

Mr. Edwards, who lives in Augusta, Maine, is the former president of Avalon Computers Inc.

He is a graduate of Yale University Law School and the Massachusetts Institute of Technology.

• Robert D. Haase was appointed Wisconsin's insurance commissioner, replacing Thomas P. Fox.

Mr. Haase also held the post from 1965 to 1969.

Previously, Mr. Haase served as a consultant to several insurers and as an expert witness in cases involving the interpretation of insurance contracts. He also was a professor at the University of Wisconsin Graduate School of Business.

He also served as a representative in the Wisconsin Assembly from 1956 to 1966, where at various times he served as majority leader, speaker and minority

leader.

Mr. Haase received his law degree from the University of Wisconsin in 1951.

• Everett M. Brookhart was named chief deputy insurance commissioner for the California Department of Insurance late last month.

Mr. Brookhart has served as chief of the department's consumer affairs division since 1985.

"This appointment is particularly significant in that it confirms the administration's commitment to consumer matters," said Insurance Commissioner Roxani Gillespie in a written statement. She praised Mr. Brookhart's "outstanding" efforts and pointed out

this is the first time a governor has appointed someone within the department to this level.

Mr. Brookhart joined the department in 1984 as chief of the rate regulation bureau.

Prior to that, he was a division manager and a commercial lines manager for Industrial Indemnity Co. of San Francisco. He also was employed as a commercial lines manager and a liability underwriter for SAFECO Insurance Cos. in Seattle.

Mr. Brookhart, a resident of Chatsworth, is a graduate of California State University at Long Beach. He is a member of the Society of Chartered Property & Casualty Underwriters. ■



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# MODEL (mo-dĕl), n.,

A thing that represents on a small scale the structure or qualities of something greater.

— Oxford English Dictionary



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## Retirement benefits survey

# Defined benefit plan top choice

By ALISON KITTRELL

Defined benefit pension plans are still the main means of providing for salaried employees' retirement income, but thrift, savings and profit-sharing plans also contribute to that goal, according to a survey of 50 Fortune 100 companies.

"A Survey of Retirement, Thrift and Profit-Sharing Plans Covering Salaried Employees of 50 Large U.S. Industrial Companies as of Jan. 1, 1987," conducted by The Wyatt Co., examines the retirement benefit plans for salaried employees at major U.S. companies ranked among the top 55 in sales by Fortune magazine. The survey

**'Defined benefit plans are the main source of retirement income and, at these companies, they probably will remain so for the foreseeable future,' says Wyatt's Mr. Schieber. 'Pension policies in companies like these tend to be fairly constant.'**

looks in-depth at pension plans, and also at other savings and profit-sharing plans that may provide income for retirement (see story, page 30).

"Defined benefit plans are the main source of retirement income and, at these companies, they probably will remain so for the

foreseeable future," says Sylvester J. Schieber, director of Wyatt's Research & Information Center in Washington, D.C.

"Pension policies in companies like these tend to be fairly constant over time," he adds.

The survey shows that pension plans at 33 of the 50 companies

surveyed replace between 60% and 69% of final pay for employees currently retiring at age 65 with 35 years of service, when Social Security benefits are included.

Two plans replace 50% to 54% of final pay, five plans replace 55% to 59% of final pay, nine plans replace 70% to 74% of pay and one plan replaces 75% to 79% of pay for these current retirees, including Social Security benefits.

The income replacement levels are much lower for employees with fewer years of service. For a 65-year-old retiree with 15 years of service, 30 plans replace 40% to 44% of final pay, 10 plans replace 35% to 39% of final pay, eight plans replace 45% to 49%, one plan replaces 50% to 54% and one plan replaces 65% to 69% of final pay, when Social Security benefits are included.

Looking ahead to the year 2022, the survey projects that 13 plans will replace 65% to 69% of final pay for a worker retiring at age 65 with 35 years of service. Twelve plans will replace 55% to 59% of final pay, 12 plans will replace 60% to 64% of pay, three plans each will replace 45% to 49%, 50% to 54% and 70% to 74%, two plans will replace 40% to 44% and one plan each will replace 30% to 34% and 35% to 39%.

At all 50 companies surveyed, pension benefits are linked in some way to the employee's pay, but 32 plans use more than one formula for determining the benefit. For example, at Kraft Inc. of Glenview, Ill., one of the companies surveyed, the final benefit is the greater of: 1.667% of final average pay minus 1.667% of Social Security benefits, all multiplied by credited service up to 30 years, plus 0.5% of final average pay times credited service in excess of 30 years; or \$144 multiplied by credited service. To determine final average pay, Kraft takes the highest five of the last 10 years.

Forty-six of the plans surveyed have at least one benefit formula tied to final average pay. Twenty-five of those use a five-year average, 19 use a three-year average, one uses a 10-year average and one uses a four-year average. The other four companies use a formula based on career-average pay.

Most of the plans pay benefits for life only for single retirees, but provide a reduced benefit for surviving spouse or, in a few cases, other designated surviving dependents.

And, all but six of the plans integrate the retirement benefit paid by their pension plan with a retiree's Social Security benefit.

There is more diversity on the issue of employee contributions to the pension plan. Thirty-nine of the plans do not allow employee contributions, but 10 plans require employee contributions for full participation in the benefits. The remaining company allows voluntary employee contributions.

The most popular vesting schedule is full vesting after 10 years, used by 40 of the 50 plans, and five more use 10-year vesting in combination with some other schedule.

Four plans allow gradual vesting beginning prior to 10 years of service, and in the remaining plan—at ITT Corp. of New York—participants are fully vested after five years of service.

Most of the plans allow for early retirement, at least under some conditions. For example, 47 of the 50 plans allow payment of full pension benefits, at least under some conditions, for employees who retire at age 62. The remaining three plans allow retirement at age

Continued on next page

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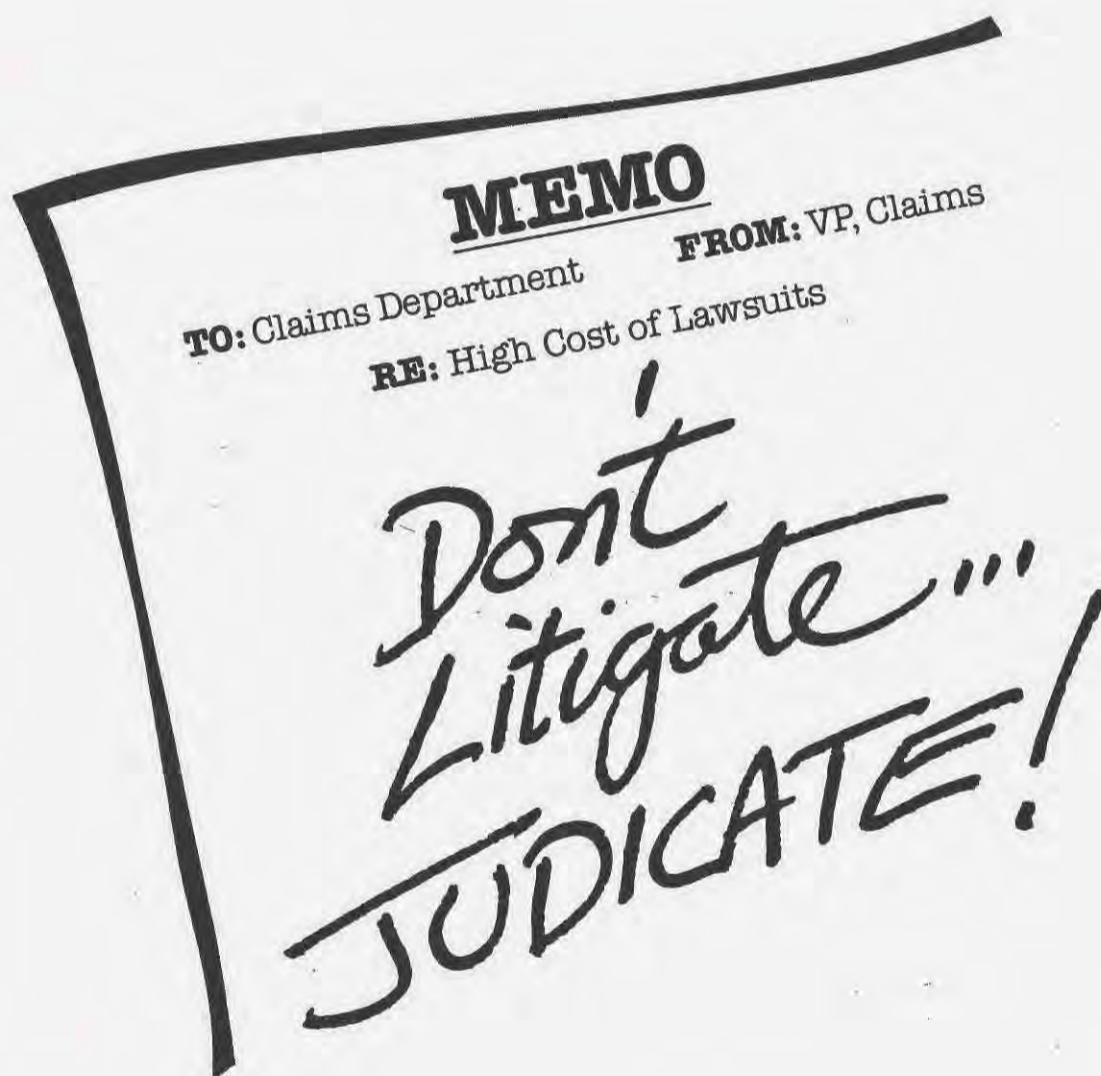
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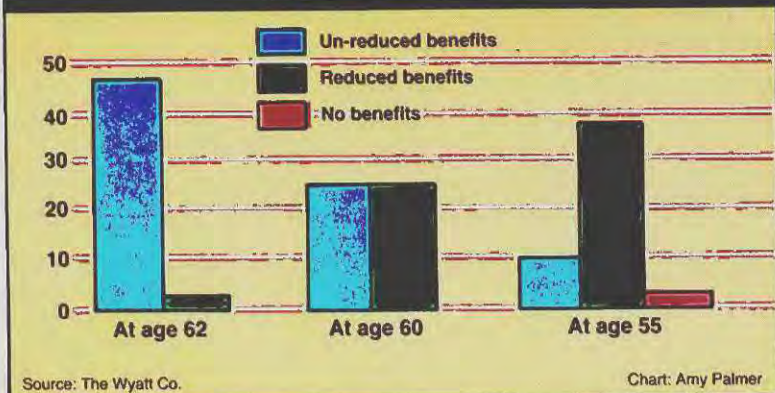
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### Benefits available to early retirees (By number of plans)



Continued from previous page  
62, but with reduced benefits.

All the plans also allow employees to receive some pension benefit if they choose to retire at age 60, and half the plans—25—allow unreduced benefits under certain conditions for these retirees.

And, 47 of the plans allow employees who retire at age 55 to receive some benefit; 10 of those will pay unreduced benefits, at least under certain conditions. The remaining three companies usually offer no benefits to employees who retire at age 55.

Twenty-one plans offer early retirees some sort of supplemental program designed to offset the fact that they cannot collect Social Security benefits until they are at least 62 years old.

Some of these supplements are simple: Several companies simply defer any Social Security offset provision of the retirement plan until the retiree reaches age 62, and others will pay the amount needed to bring the annual benefit

**'This year there have been quite a number of early retirement windows,' comments Mr. Schieber.**

to a minimum level.

Some are more complicated: Exxon Corp. of New York pays the greater of: 1.5% of Social Security multiplied by credited service up to 33.333 years, reduced 5% per year prior to age 60 and using the Social Security benefit payable at age 62; or \$1,500 for retirement at age 55, plus \$60 for each additional year of age at retirement up to \$1,800 at age 60 or over.

These benefits cover employees who choose to retire early. However, 16 of the companies reported that during 1986 they had offered an early retirement window—a chance for employees to retire early with better benefits than they ordinarily would have.

"One thing we noted this year is that there have been quite a number of early retirement windows," commented Mr. Schieber.

Thirty companies said they had offered an early retirement window some time during the past 10 years, and half of those, or 15, said they offered them more than once.

Such windows generally are used by employers to cut their workforces without layoffs or with reduced layoffs. Most companies either credited employees who took the offer with increased service or did away with reductions in the usual early retirement benefits.

The majority of companies surveyed give employees credit for time they work past the normal retirement age of 65. Only 15 plans freeze benefits at 65, providing no additional benefit for employees who choose to work past that age.

Twenty-six plans base retirement benefits on pay and service at actual retirement, even for employees who choose to retire later

than normal. And, two plans continue to credit an employee's earnings after 65 for purposes of determining a retirement benefit, but do not give the employee any additional credit for service.

Continued on next page

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# Defined contribution plans gain popularity

By ALISON KITTRELL

Thrift, savings and profit-sharing plans—especially those with a 401(k) option—have become popular means of providing supplementary retirement income for salaried employees, according to a recent survey of Fortune 100 companies.

"A Survey of Retirement, Thrift and Profit-Sharing Plans Covering Salaried Employees at 50 Large U.S. Industrial Companies as of January 1, 1987," by The Wyatt Co., examines sources of retirement income at 50 of the top U.S. industrial companies as identified by Fortune magazine.

Defined benefit plans remain the major source of retirement income at these companies (see story, page 28).

But, the survey authors say, "All but one of the companies surveyed offer plans that can be considered complementary to the benefits provided by their pension plans, such as supplemental pension plans or capital accumulation plans."

Many of those plans incorporate a 401(k) tax-deferred savings option. Sylvester J. Schieber, director of Wyatt's Research & Information Center in Washington, D.C., notes that over the last several years there has been a "fairly rapid adoption of 401(k) plans."

For 94% of the companies—47 companies—the supplemental plan includes a 401(k) option. Thirty-two of the companies offer a thrift or savings plan with a 401(k) option, meaning that employees can defer part of their salary on a pretax basis into a plan that includes an employer match.

In addition, 10 companies offer a 401(k) plan separate from any thrift or savings plan, and five offer a profit-sharing plan with a 401(k) option.

Thirty-six of the companies surveyed provided information about the level of employee participation in their 401(k) plans. Among the lower-paid two-thirds of employees at those companies, participation levels ranged from 15% to 91%, and averaged 50% overall.

Among employees in the upper one-third in terms of salary at these 36 companies, participation rates ranged from 41% to 97% and averaged 73%.

And, 35 of the companies provided the earnings break

**Over the last several years there has been a 'fairly rapid adoption of 401(k) plans,' notes Sylvester J. Schieber, director of Wyatt's Research & Information Center in Washington, D.C.**

point that separates the higher-paid one-third from the lower-paid two-thirds. These separation points ranged from \$28,000 to \$47,300, with an average of \$37,830.

Mr. Schieber predicts that the Tax Reform Act of 1986, with its tighter restrictions on 401(k) plans, will affect the level of participation and the earnings break point in those plans, as well as other elements of the 401(k) plan picture.

"In certain regards, we're just on the threshold of interesting times—interesting in terms of change" because of the Tax Reform Act, he says.

The most common form of defined contribution plan is the thrift or savings plan, and the survey takes an in-depth look at 42 thrift/savings plans.

Twenty-five of the plans have thrift or savings funds in which the employer matches employee contributions up to 6% of the employee's salary, and an additional 13 employers will match contributions above 6%.

In the thrift and savings plans of the companies surveyed, the most common matching rates paid by employers are 50% or 100%, and the most common employer maximum contribution is 3% to 4% of pay.

In addition to the employee contributions that are matched by the employer, 37 of the companies surveyed allow additional employee contributions above the level of the employer match. The most common maximum for employee contributions is 10% of pay, set by 23 plans.

Most of the thrift and savings plans have relatively short eligibility requirements. In fact, eight of the companies allow

immediate participation in the plan.

Twenty-five companies allow participation at any age after one year of service. Four companies allow participation at any age after six months of service, and one company allows participation at any age after three years of service.

Two companies allow participation at age 18 after one year of service, one company allows participation at age 21 after six months of service, and one company allows participation at age 21 after one year of service.

Of course, employees are vested immediately in their own contributions to the thrift and savings plans. Six of the companies allow or full and immediate vesting of employer contributions, and the rest use a variety of other vesting schedules.

All the companies offer more than one investment option for the employee contribution. However, 23 of the plans allow only one investment option for the company's contribution. And, for 22 of those plans, that one investment option is a company stock fund.

Nine of the 50 companies surveyed offer a profit-sharing plan in addition to their defined benefit plan, and seven of those companies allow employee contributions.

Finally, 27 companies offer supplemental executive retirement plans for their top management employees.

The survey authors explain, "Such plans do not enjoy the same tax-favored status as qualified plans because they are generally available only to executives."

These supplemental plans achieve their purpose—adding to the retirement income of top executives—in a variety of ways. For example, one plan provides a minimum pension regardless of the length of the retiring executive's career. And, 12 of the 27 plans pay benefits according to a more generous formula than that of the qualified pension plan.

Almost all—23 of the 27 plans—base the benefits they pay on regular salary plus bonus or incentive pay—which, in the case of executives, can represent a substantial part of the employee's income.

And, seven of the plans provide special incentives for executives to retire early.

## Defined benefit plan survey

*Continued from previous page*

Four plans provide the actuarial equivalent of usual retirement, to take into account the fact that the benefit is likely to be paid for a shorter period of time.

And, the remaining three plans use some combination of these approaches for figuring late retirement benefits.

Forty-three of the companies had increased benefits paid to retirees during the past 10 years, and 23 of those companies granted three or more increases during that period.

The greatest incidence of benefit increases occurred during years with high inflation: Increases were granted by 22 plans in 1981, 20 plans in 1979 and 19 plans in 1980.

Comparatively fewer companies granted increases in years with lower inflation: Twelve in 1977, 14 in 1978, 10 in 1982, three in 1983, seven in 1984, 14 in 1985 and four in 1986.

Free copies of the survey, "A Survey of Retirement, Thrift and Profit-Sharing Plans Covering Salaried Employees of 50 Large U.S. Industrial Companies as of January 1, 1987," are available at any Wyatt Co. office or from the Research & Information Center, 150 M St. N.W., Suite 400, Washington, D.C. 20036; 202-887-4600.



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# Risk managers' roles expanding: Survey

By ALISON KITTRELL

Risk managers increasingly are branching out from their traditional responsibilities—like risk financing—into new areas like security, benefits administration and loss control, according to a recent survey.

And, that is representative of the evolution of the risk management profession, according to the authors of the fifth annual Logic Associates "Risk Management Salary Survey."

Corporate executives no longer "look at a risk manager as an individual who only purchases insurance. He is an integral part of the corporation," explains Bill Perry, a partner at Logic and one of the co-authors of the survey.

"The more the risk manager gets involved, the happier the corporation is. He is becoming more of a corporate officer," he says.

"Risk management is no longer looked at as strictly an insurance function—it is a financial function," agrees Richard Meyers, another Logic partner and the other co-author of the survey. "You really get to understand the mechanism of the entire company."

And, as a result, he says, "It is my perception . . . that by the 1990s, risk management will be a very viable training ground to become a chief operating officer."

The Logic Associates survey examines the responses of 1,302 risk managers nationwide, grouping them according to the annual sales of the risk manager's company.

According to this year's study, risk managers—especially those at smaller companies—are taking greater responsibility for employee benefits administration.

At the smallest companies surveyed—those with less than \$200 million in annual sales—the percent of risk managers with direct, hands-on responsibility for benefits administration jumped to 41% in 1986 from 17% in 1985. And, correspondingly, the percentage of risk managers at these companies that had supervisory or advisory responsibility for benefits administration fell to about 23% in 1986 from 49% in 1985.

The remainder of the risk managers had no responsibility for benefits administration.

The percentage of risk managers at companies with \$201 million to \$500 million in annual sales with direct responsibility for benefits administration also increased to 29% in 1986 from 18% in 1985. The percent with supervisory responsibility dropped to 26% in 1986, compared with 35% a year earlier.

The trend toward risk manager involvement in benefits administration was less dramatic, though still significant, at the companies in the next two sales categories: \$501 million to \$1 billion and \$1 billion to \$2 billion.

In the former category, the percentage of risk managers with direct responsibility for employee benefits rose to 20% in 1986 from 12% in 1985. About 26% reported such responsibility in 1986, compared with 28% a year earlier.

And, at companies with \$1 billion to \$2 billion in sales, 14% of risk managers reported direct responsibility for benefits administration, up from 12% in 1985, while those with advisory responsibility fell slightly to 20% from 21%.

The percentage of risk managers with direct benefits administration responsibility more than doubled at companies with \$2 billion to \$4 billion in sales, to 9% in 1986 from 4% in 1985. Nineteen percent of risk managers in this category said their role was advisory in 1986, compared with 28% in 1985.

However, at the larger com-

panies surveyed, the percentage of risk managers directly involved in benefits administration fell. For example, no risk managers at companies with \$4 billion to \$7 billion in sales had direct benefits administration responsibility in 1986, although 18% had such duties in 1985. Twenty-one percent said they had advisory responsibility in 1986, compared with 20% in 1985.

At the largest companies surveyed—those with more than \$7 billion in annual sales—the percent of risk managers with direct responsibility for benefits administration dropped to 8% in 1986 from 10% in 1985.

However, more risk managers overall in this category were involved in benefits administration, with those having advisory responsibility increasing to 27% in 1986 from 10% a year earlier.

Mr. Meyers says this growing area of responsibility for risk managers is proof that "we're finding that the umbrella of risk management is getting larger and larger, and benefits is an area where that umbrella is increasing."

Other areas in which risk managers are assuming more responsibility include safety and fire loss control engineering and security.

Some 51% of the risk managers at companies with less than \$200 million in sales had direct responsibility for safety and fire loss control in 1986, compared with only 33% in 1985.

The trend toward more hands-on responsibility for fire loss control and safety continued at companies with \$201 million to \$500 million in sales: Some 48% of the risk managers had direct responsibility for these functions, while 48% also had advisory responsibility for loss control in 1986. In 1985, 28% reported direct responsibility and 58% acting in a supervisory role.

At companies with \$501 million to \$1 billion in sales, the percentage of risk managers directing fire loss control and safety rose to 38% in 1986 from 29% in 1985, while the percentage with advisory duties dropped to 32% in 1986 from 57% a year earlier.

In 1986, 35% of the risk managers in the \$1 billion to \$2 billion range had direct responsibility for fire loss control, up from 27% in 1985. But, the number with advisory responsibility fell to 45% in 1986 from 58% in 1985.

The increase in direct responsibility and corresponding drop in supervisory duties continued at companies with \$2 billion to \$4 billion in sales: 26% of these risk managers had direct responsibility in 1986, compared with 21% in 1985, while those with an advisory role fell to 52% in 1986 from 69% in 1985.

However, at companies with \$4 billion to \$7 billion in sales, the percentage of risk managers with direct loss control responsibility dropped to 25% in 1986 from 42% in 1985. And, the number with advisory responsibility rose to only 55% from 51%.

At companies with more than \$7 billion in sales, the percentage of risk managers with direct loss-control responsibility rose slightly to 17% in 1986 from 15% in 1985. But, the percentage with advisory responsibility fell to 42% in 1986 from 73% in 1985.

More risk managers seemed to have direct responsibility for security, according to the latest survey, especially at smaller companies. But, a drop in the number with an advisory role often resulted in fewer risk managers involved in security activities overall.

For example, 14% of risk managers at companies with less than \$200 million in sales reported having direct responsibility for secu-

rity in 1986, up from 11% in 1985. But, only 25% had supervisory responsibility in 1986, compared with 51% a year earlier.

At companies with \$201 million to \$500 million in sales, the percentage with direct responsibility for security rose to 16% from 14%, but the number with advisory roles dropped to 33% from 49%.

Similar trends were seen among companies in the next two sales levels. At those with \$501 million to \$1 billion in sales, 13% of risk managers had direct security responsibility in 1986, compared with 8% in 1985.

At companies with \$1 billion to \$2 billion in sales, the number with direct responsibility for security rose slightly, to 12% in 1986 from 11%. However, the number reporting an advisory role fell sharply in companies in both sales categories.

The larger companies reported a drop in risk managers with responsibility for security. At companies

with \$2 billion to \$4 billion in sales, the number with direct responsibility fell to 5% in 1986 from 9% in 1985, and the number with supervisory responsibility also fell.

Only 9% of risk managers at companies with \$4 billion to \$7 billion in sales reported direct responsibility for security in 1986, compared with 15% in 1985. And, supervisory responsibility dropped to 23% from 37%.

At companies with more than \$7 billion in sales, no risk managers had direct responsibility for security in 1986; 8% had had such a role in 1985. And, only 25% had an advisory responsibility in 1986, compared with 68% in 1985.

Contrasting the general branching out of risk managers into such "non-traditional" fields, the survey shows that fewer risk managers are involved in the more traditional areas of risk financing and negotiating placement of coverage.

For example, at the smallest

companies, the number of risk managers with direct responsibility for risk financing dropped to 62% in 1986 from 74% in 1985, and those with supervisory roles rose only to 18% in 1986 from 14% a year earlier.

Similar declines in the percentage of risk managers with direct risk financing responsibility are seen in every sales category.

The survey authors agree that part of the reason may be the increase in respondents this year, and that more of the responses came from smaller cities.

Especially in the area of risk financing, they note, smaller companies or those in smaller cities may delegate risk financing to a financial officer of the company.

Mr. Meyers explains that, because of the recent hard commercial insurance market, "risk financing is really a financial function of late."

*Continued on next page*

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## Responsibilities

Continued from previous page

Direct responsibility for risk financing was reported by 67% of the risk managers at companies with sales of \$201 million to \$500 million in 1986, compared with 75% in 1985. And, 19% played a supervisory role in 1986, compared with 11% a year earlier.

At companies with \$501 million to \$1 billion in sales, 64% of the risk managers had direct responsibility for risk financing, a drop from 80% in 1985, but the number having advisory responsibility remained stable at 12%.

Some 68% of risk managers at companies with \$1 billion to \$2 billion in sales had direct risk financing responsibility in 1986, compared with 74% in 1985. Only 10% had advisory responsibility, down from 16% in 1985.

At companies with \$2 billion to \$4 billion in sales, 66% of the risk managers had direct responsibility for risk financing in 1986, down from 80% in 1985, while those with supervisory responsibility dipped to 12% from 14%.

Some 82% of the risk managers at companies with \$4 billion to \$7 billion in sales had direct risk financing responsibility in 1986, down from 93% in 1985, though the percentage with advisory responsibility doubled to 10% from 5% in 1985.

At the largest companies—those with more than \$7 billion in sales—the number of risk managers with direct responsibility for risk financing plummeted to 46% from 80% in 1985. And, the number in an advisory role fell to 10% from 15%.

The percentage of risk managers with direct responsibilities for negotiating placement of insurance coverages also fell at most companies. The only exception was at companies with less than \$200 million in sales, where 83% of the risk managers had such direct negotiating responsibility in 1986 and in 1985. However, the percentage with an advisory responsibility for this function declined to 9% last year from 13% in 1985.

At companies with \$201 million to \$500 million in sales, 87% of risk managers had direct responsibility for negotiating coverage in 1986, down from 93% in 1985. But, 10% had an advisory role, up from 4%.

About three-fourths of the risk managers at companies with \$501 million to \$1 billion in sales negotiated coverage in 1986, down from 87% in 1985. And, 8% had supervisory role, down from 10% in 1985.

## Risk managers' areas of responsibility

(By company sales in millions of dollars)

	0- \$200	\$200- \$500	\$500- \$1,000	\$1,000- \$2,000	\$2,000- \$4,000	\$4,000- \$7,000	More than \$7,000	
<b>Risk financing</b>	62% 18%	67% 19%	64% 12%	68% 10%	66% 12%	82% 10%	46% 10%	
<b>Negotiation of coverage placement</b>	83% 9%	87% 10%	74% 8%	77% 13%	72% 14%	74% 13%	51% 12%	
<b>Claims handling</b>	67% 20%	68% 28%	57% 29%	45% 37%	43% 48%	38% 48%	34% 32%	
<b>Safety/fire loss engineering</b>	51% 35%	48% 48%	38% 32%	35% 45%	26% 52%	25% 55%	17% 42%	
<b>Security</b>	14% 25%	16% 33%	13% 35%	12% 31%	5% 29%	9% 23%	0% 25%	
<b>Benefits administration</b>	41% 23%	29% 26%	20% 26%	14% 20%	9% 19%	0% 21%	8% 27%	
<b>Pension/profit sharing administration</b>	18% 4%	22% 20%	13% 10%	14% 11%	7% 9%	2% 5%	0% 17%	
Direct, hands-on responsibility			Supervisory/advisory responsibility					

Source: Logic Associates  
 Chart: Amy Palmer

The percentage of risk managers with direct responsibility for coverage negotiations dropped to 77% from 88% at companies with \$1 billion to \$2 billion in sales, but those with advisory responsibility rose to 13% from 8%.

At companies in the \$2 billion to \$4 billion category, 72% had direct responsibility for negotiating coverage in 1986, down from 89% in 1985. But, twice as many had an advisory position: 14% in 1986, compared with 7% in 1985.

In 1986, 74% of risk managers at companies with \$4 billion to \$7 billion in sales negotiated coverage, down from 91% in 1985. But, 13% supervised, up from 7%.

And, at the largest companies, 51% of the risk managers placed coverage, down from 85% in 1985. The number with an advisory role fell to 12% from 13%.

Risk managers' direct involvement in claims-handling increased at the smaller companies and decreased at the larger ones.

At the smallest companies surveyed, 67% of the risk managers had claims-handling responsibility in 1986, up from 61% in 1985. An additional 20% had supervisory role, down from 21% in 1985.

At companies with \$201 million to \$501 million in sales, 68% of risk managers handled claims in 1986, up from 51% in 1985, though only 28% had an advisory role, down from 44% in 1985.

In both 1986 and 1985, 57% of the risk managers at companies with \$501 million to \$1 billion in

sales had direct responsibility for claims handling. But, only 29% had advisory responsibility in 1986, down from 40% a year earlier.

At companies with \$1 billion to \$2 billion in sales, direct involvement in claims handling dropped to 45% in 1986 from 51% in 1985, and those with advisory responsibilities fell to 37% from 44%.

Direct responsibility for claims-handling also declined—to 43% in 1986 from 46% in 1985—at companies with \$2 billion to \$4 billion in sales. And, supervisory responsibility dipped to 48% from 50%.

At companies with \$4 billion to \$7 billion in sales, supervisory responsibility for claims-handling increased to 48% in 1986 from 41% in 1985. But, direct responsibility declined sharply, to 38% from 58%.

And, at companies with more than \$7 billion in sales, direct responsibility for claims handling nosedived to 34% from 63% in 1985, and advisory responsibility fell to 32% from 63%.

Finally, no clear pattern emerges from the survey concerning the involvement of risk managers in pension and profit-sharing administration. Involvement is down at the smallest companies and at the companies in the two largest sales categories, while responsibility for these duties are up in other sales categories.

At companies with less than \$200 million in sales, direct involvement in pension and profit-sharing administration fell to 18% in 1986

Continued on next page

# Captives still popular: Survey

By ALISON KITTRELL

Risk managers continue to be involved in captive management, as their companies continue to look to captives as a way to insure tough risks in a tight commercial insurance market, according to the co-author of a recent survey of risk managers.

The slogan of companies looking for insurance in a hard market is "fund it any way you can," says Richard Meyers, co-author of the fifth annual "Risk Management Salary Survey" by Logic Associates and a partner at New York-based Logic.

And, Mr. Meyers and Richard Perry, another partner at Logic and the survey's other author, say that captive insurers still are a viable risk funding alternative, despite recent tax changes that take away some of the tax advantages of offshore captive insurers.

"There are still benefits there that have not been stripped away," by tax law changes, Mr. Meyers says.

For example, the number of companies reporting that they owned a captive almost doubled among companies with \$2 billion to \$4 billion in annual sales. Fifty-one percent of these companies had a captive in 1986, compared with 26% in 1985.

However, the average number of captives owned by companies in this category declined slightly. In 1986, the companies had an average of 1.2 captives each, down from 1.3 in 1985.

Captive involvement also was up at companies with \$1 billion to \$2 billion in sales, where the number of companies that owned at least one captive grew to 34% in 1986 from 26% in 1985. The companies owned an average of 1.2 captives each, down from 1.3 in 1985.

Eighteen percent of the risk managers at companies with \$201 million to \$500 million in annual sales had a captive under their wing in 1986, up from 13% in 1985. And, these companies owned an average of 1.4 captives each in 1986, up from 1.3 a year earlier.

At the largest companies surveyed—those with more than \$7 billion in sales—64% owned a captive in 1986, up from 58% in 1985. Those companies owned an average of 1.5 captives each in 1986, down from 1.6 in 1985.

Captive involvement declined at companies in the remaining three sales categories, however.

Only 33% of the risk managers at companies with \$4 billion to \$7 billion in sales said their company owned a captive in 1986, down from 55% in 1985. And, the average number of captives owned by each company also fell, to 1.3 in 1986 from 1.7 in 1985.

At companies with \$500 million to \$1 billion in annual sales, the percentage of risk managers reporting involvement with captives fell to 18% from 22% in 1985. But, the average number of captives per company increased to 1.3 in 1986 from 1.1 a year earlier.

And, the percentage of risk managers reporting captive ownership was more than cut in half at the smallest companies surveyed. Five percent of the companies with less than \$200 million in annual sales owned a captive in 1986, according to their risk managers, a decline from 13% in 1985.

But, those that owned captives went at it in a big way. The average number of captives per company was 1.6 in 1986, the highest of any sales category in the survey, and a giant leap from the average of 1.0 reported in 1985.

Continued from previous page

from 28% in 1985, and indirect involvement fell to 4% from 29%.

At companies with \$4 billion to \$7 billion in sales, direct handling of pension and profit-sharing administration decreased to 2% in 1986 from 12% in 1985, and supervisory involvement was down to 5% from 6%.

And, at the companies with annual sales exceeding \$7 billion, no risk managers were directly involved in pension and profit-sharing administration, compared with 8% in 1985. However, 17% said they played a supervisory role in 1986, compared with 8% in 1985.

But risk managers' direct involvement in pension and profit-sharing administration rose to 22% in 1986 from 15% in 1985 at companies with \$201 million to \$500 million in sales, while supervisory responsibility remained fairly stable: 20% in 1986 vs. 21% in 1985.

Direct responsibility also was up at companies with \$501 million to \$1 billion in sales to 13% of risk managers in 1986 from 11% in 1985. But the percentage with supervisory responsibility dropped to 10% from 12%.

Twice as many risk managers at companies with \$1 billion to \$2 billion in sales had direct responsibility for pension and profit-sharing administration—14% in 1986 compared with 7% in 1985. But the percentage with supervisory responsibility fell to 11% from 13%.

The percentage of risk managers who were directly responsible for pension and profit-sharing administration at companies with \$2 billion to \$4 billion in sales rose to 7% from 2%, while 9% had an advisory position in 1986, compared with 12% in 1985.

Copies of Logic Associates' fifth annual "Risk Management Salary Survey" are available for \$60 from Logic Associates, 170 Broadway, Suite 1708, New York, N.Y. 10038; 212-227-8000.

## Use of RMIS increasing, survey says

More risk managers have access to computerized risk management information systems than ever before, according to the fifth annual "Risk Management Salary Survey" conducted by New York-based Logic Associates.

And, the use of computers in risk management "will continue to go up," predicts Richard Meyers, a partner at Logic and co-author of the survey of 1,302 risk managers nationwide.

Mr. Meyers points out that new software systems are being created and marketed that "give risk managers tremendous tools."

He also notes that the growing number of universities offering curriculums in insurance and risk management are including computer courses.

"And that is a reflection of where risk management is going," he says.

"Corporations are looking for more people with computer experience. Risk management departments are going the way of the rest of the world," adds Bill Perry, a partner at Logic associates and the survey's other co-author.

The number of risk managers working with the aid of a risk management information system rose the most at companies with \$201 million to \$500 million in annual sales to 46% in 1986 from about 24% in 1985.

But, close behind was the category containing the largest companies surveyed, those with more than \$7 billion in annual sales. At these companies, the percentage of risk managers with a computer system rose to 81% in 1986 from 62% in 1985.

An increase also was seen at companies with \$2 billion to \$4 billion in annual sales, where 73% of the risk managers had a computer system in 1986, compared with only 61% in 1985.

The percentage of risk managers with a computer system remained constant at 41% at companies with \$501 million to \$1 billion in sales, and at 61% at companies with \$1 billion to \$2 billion in sales.

Companies in only two sales categories reported fewer risk managers with an RMIS.

The percentage of computerized risk management departments at companies with less than \$200 million in annual sales fell to 26% last year from 31% in 1985.

And, at companies with \$4 billion to \$7 billion in annual sales, 56% of the risk managers had a computerized information system in 1986, compared with 62% a year earlier.

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# Hogg shareholders OK breakup

By STACY SHAPIRO  
and CAROLYN ALDRED

LONDON—Shareholders of Hogg Robinson Group P.L.C. last week approved the company's plan to divide its insurance brokerage and other operations into two separate entities.

The insurance brokerage company, which includes U.S. subsidiary Republic Hogg Robinson Inc., is now called Hogg Robinson & Gardner Mountain P.L.C., while the travel, transport and financial services division is called Hogg Robinson P.L.C.

The extraordinary general meeting held last week to vote on the so-called "demerger" plan was relatively quiet, considering that one of Hogg's shareholders—TSB Group P.L.C.—had attempted an unfriendly takeover of the group.

TSB made a 282 million pound (\$451.2 million) cash offer late last month for the entire company, contingent on Hogg shareholders rejecting the breakup proposal (BI,

July 27).

However, holders of about 17 million shares voted in favor of the demerger—including those held by Hogg's largest shareholder, Kuwait Investment Office, while holders of 5.2 million shares voted against the split. No votes were cast on behalf of about half of company's 46 million shares.

During the meeting, former Hogg Managing Director Timothy Royle questioned the management of the new Hogg companies, particularly the brokerage division. Although he voted for demerger because he said it was beneficial for the travel operations, he said "there are stormy seas to cross" for the insurance brokerage.

However, Hogg Robinson & Gardner Mountain Chief Executive Christopher Price said the brokerage had "exceptionally" good results in the first quarter and was gaining new business, particularly from British retail business and business from RHR.

Although there is no speculation on the London Stock Exchange that buyers will attempt to take over the new companies, TSB may still be interested in the travel division. But TSB may be banned by British authorities for one year from making a new offer. Before the demerger, TSB and funds managed by TSB already owned approximately 3.8% of Hogg.

## London United

London United Investments

## london

P.L.C. is forging ahead to boost its insurance capacity in London, according to Chairman and Chief Executive C.R. Driver.

Recently, London United purchased El Paso Insurance Co. Ltd. from ACR Holdings for 9 million pounds (\$14.4 million). El Paso Insurance, which writes mostly U.S. casualty business in London, insures 6.5% of the risks underwritten by London United's underwriting agency, H.S. Weavers (Underwriting) Agencies Ltd.

The El Paso name eventually will be phased out and its capacity consolidated with London United's insurance company unit, Walbrook Insurance Co. Ltd., the leading company on Weavers' line slip, according to Mr. Driver.

To buy the company, London United will issue 1.16 million new shares.

The purchase includes El Paso Insurance's wholly owned subsidiary, Desert Insurance Co. in Bermuda.

The purchase of El Paso Insurance "is a cheap way of getting a 9 million-pound rights (stock) issue for Walbrook" without issuing more stock, said Mr. Driver.

In addition, Mr. Driver would like the five other companies to participate on Weavers' line slip as a single company, in which London United could invest. Then, only three major companies would be on Weavers slip, including Walbrook and Anglo-American Insurance Co. Ltd., owned by Calfed Inc. (BI, April 20).

## Ferry update

Management responsible for the operation of the British ferry that capsized off the Belgian coast in March must accept "a heavy responsibility for their lamentable lack of directions," according to an official report on the disaster.

The report by Justice Sheen, who headed a formal investigation by a British High Court into the sinking of the Townsend Thoresen Ltd. ferry, which killed at least 188 people, is highly critical of the company's management as well as individual ferry crew.

"From top to bottom the body corporate was infected with the disease of sloppiness," says the report, published last month.

The errors that led to the disaster were errors of omission on the part of some of the ferry's crew, two of whom have had their qualifications to sail at sea suspended. However, "a full investigation into the circumstances of the disaster leads inexorably to the conclusion that the underlying or cardinal faults lay higher up in the company," the report states.

At least 150 passengers and 38 crew members lost their lives when water rapidly flooded the Herald of Free Enterprise because the boat's bow doors had been left open when it left Zeebrugge harbor on March 6 (BI, March 16).

Because of the design of the roll-on/roll-off ferry, the stability of the ship depended on the compartment containing trucks and passenger vehicles being watertight. This meant bow and stern doors had to be closed before sailing.

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# agent/broker topics

A monthly editorial section sent exclusively to agents and brokers



## Tackling sports risks

Experts warn that athletics specialists may be blitzed

By LAURA MAZZUCA

Million-dollar contracts, the media attention, the "thrill of victory, the agony of defeat": These are just a few of the reasons professional sports excite fans.

Pro sports may also be dazzling to an insurance agent or broker looking for a market niche. Sports have become a billion-dollar industry and, considering there are only a few sport specialty brokers, sports insurance seems like a wide-open field.

But don't be fooled by the glitter and hype, experts warn. Sports insurance, for the most part, is a highly specialized field, with the difficulty compounded by the unforeseen circumstances that make all lines of specialty insurance a gamble.

An agent or broker looking to specialize in sports today would "have to have a lot of money and a ton of perseverance," said Peter B. Reuling, president and chief executive officer of Reuling & Reuling Insurance Agency of Peoria, Ill., which brokers disability and other forms of insurance for more than 400 athletes.

"There are so many people out there that know just enough to be dangerous, saying, 'We can do what

Reuling does.' But they can't," he says.

Adds Roger Blumencranz, president of Blumen-cranz, Kletter & Wilkins Ltd. of Lake Success, N.Y., which lists the National Basketball Assn. as a client: "There's not much shifting around in insurance brokers in this area. . . . There's a fair amount of loyalty in our business. As a broker, you have to get to know the people you're dealing with."

Ron Kocian, owner of Sports Assurance Concepts, a Houston brokerage, adds that it is unlikely his clients will seek another agency "unless I really screw up."

"It's virtually impossible" for a neophyte to jump into the sports insurance field, added Mr. Reuling.

This stay-out-of-my-market advice, however, is falling on some deaf ears.

But, one new player specializing in sports insurance is no rookie: Duncan Peek Inc. in Atlanta recruited a heavy hitter from one of the two largest underwriting managers for sports insurance.

While some brokers specialize in placing property and casualty insurance for professional sports teams, a lion's share of the sports insurance market is composed of brokering disability insurance for highly paid athletes.

Disability insurance for athletes became popular in the early 1970s, with the emergence of players' associations and agents, which caused the value of athletes' contracts to skyrocket.

Sports teams purchase disability insurance for players with contracts that are guaranteed by the club, while either the team or the individual player buys the coverage if the contract is not guaranteed.

In addition, athletes not employed by teams, like pro golfers and tennis players, purchase disability insurance to protect against the risk of income-robbing injuries.

However, as losses on sports disability insurance increased, underwriters were forced to increase rates and tighten restrictions.

"The problem with it all is that it goes against the basic principles of insurance," says Ted Dipple, president of American Sports Underwriters Inc. of Woburn, Mass., a 5-year-old underwriting manager that has written disability coverage for sports headliners as diverse as Harlem Globetrotters' star Meadowlark Lemon, baseball Hall of Famer Hank Aaron, international soccer great Pele and members of the Boston

*Continued on next page*

# Bringing in new life

## A top-notch producer can pump up business

By Joseph D. Citarella

**T**HE CREATION of a life insurance department in a property/casualty insurance agency is one of the simplest and easiest ways to increase commission income and profits substantially. The key to this objective, however, is to begin the department with a knowledgeable and successful life insurance agent to make the venture's growth effortless as well as profitable.

If you have heard countless times that "life people" are a different breed of agent from property/casualty producers, let me be the first to disagree and encourage you by saying it's a myth.

While it's true there appear to be some inherent personality differences that develop in the two categories of insurance sales representatives, both are driven by commission income and both deal very well with sales of intangible services.

The major difference between the two is that a property/casualty agent sells a "need product" during the majority of his/her time, while a life agent sells to prospects who often do not realize a need for this product until the agent creates the need or realization of need.

Most life agents, therefore, are indoctrinated with original and traditional training concepts that are based upon sheer exposure by numbers and the law of averages. This develops into an often-misunderstood asset of great persistence.

If you can accept the fact that a property/casualty agent sells insurance to prospects who buy, and that no one buys insurance from a life agent—it is only sold—then you are intellectually ready to go on toward starting and/or building your own life insurance department.

Begin as I did, by advertising in the local Certified Life Underwriter publications and attending a few life insurance association meetings in your area. Make it known that you are seeking a good life insurance candidate to handle the needs of your clients. This will offer you a warm reception and should provide you with some direction for your search for a producer.

Seek a candidate with at least three successful years of life insurance sales experience. Ask for W-2 or tax return copies as well as resumes on the first meeting or interview. You should seek someone who earned \$50,000 in paid commissions during the preceding year, and who wants to earn \$100,000 next year.

Remember to reveal this to all during your search, as well as your greatest sales pitch for attracting a

winner into your organization: no more prospecting.

After this approach produces a desirable candidate or two, be careful not to be hasty in your excitement. Verify that the candidate has been successful and that he or she is a self-starter and a winner. Be cautious of someone ready to move after 18 months on the job—this is often the "failure" period for entry positions at some of the more traditional life insurance companies.

Most successful life agents see themselves as excellent sales persons plagued by spending too much time on prospecting, and wish that they could spend all of their time selling. In this respect, they are similar to good property/casualty agents, who also treat paperwork as the dreaded enemy.

Keeping the negotiations simple and centered around the main points of appeal, talk to the candidate about how you are going to keep him or her in front of people selling, not prospecting, which can be done even with a minimum of automation. Because nearly every agent working today has some sort of personal computer, this is a commitment we can live up to easily.

To achieve this, I suggest a handful of letters that are timed to be keyed automatically and will accompany the delivery of renewals as well as new policies. Any agency can create its

own letters, but the critical duty is to see that they go out in all cases, not just selectively. And above all, don't let the new sales representative pick and choose the targets of your

mailings. You decide that.

Having won the heart of your prospective new life producer through the elimination of prospecting, the earnings base can be concluded comfortably on a 50-50 split, with 50% equity accruing to both producer and agency.

At first, this always seems objectionable to good life insurance agents, and 70% or more appears closer to fair to them. After all, in their view, they're doing all of the work.

But point out to him or her that even with a customer base as small as 1,500 clients, you can produce more prospects than the agent can see. Also explain that 50% of \$200,000 is more than the 70% to 100% of the \$50,000 this agent earned in the preceding year.

A draw, or base salary, while worth considering, should not often be

necessary for your candidate, because neither are you seeking a neophyte, nor are you offering an entry-level position. Your new life insurance manager will keep 100% of all equity and renewal commission income from sales he or she made before joining your firm.

It is vital to establish an understanding from the outset that you do not intend to set nor keep appointments with your new life insurance manager/sales

representative. You want someone who is not afraid to pick up the telephone and introduce him or herself and make an appointment. Agency life insurance department managers who were formerly company representatives sometimes see this as a duty of an agency principal, but setting appointments is a frightful threat to the principal's time management that he or she cannot afford.

One of my early life agents expected to be introduced personally by me to each commercial account served by my agency—some 500 at the time—preferably at lunch. Somehow, in the hours and hours of negotiations preceding his joining us, this expectation never came out, and I failed to understand his perception of how we were going to accomplish our goals. As a former life insurance company executive with a handful of sales representatives, he lacked the initiative of self-introduction and regarded the responsibility of making appointments with existing clients as "cold calls," which they were not at all.

The result was that he spent entirely too much time sitting at a desk in an extremely busy growth agency, waiting to be invited to lunch to meet clients. When he was included at a luncheon or meeting, he almost always made a nice impression and a sale, but this breast-feeding syndrome and demand for my time was never overcome.

He wrote little more than \$20,000 in commissions in more than a year. His successor, with no introductions, wrote more than \$135,000 in commissions the next year. So beware of the need for what I call "coattail support."

Objectively, your plan should be to introduce your new life insurance manager to all clients and prospects of the agency by letter, through the use of your computer and a minimum of word-processing implementation. The letter should be from the president of the agency and should stipulate that the life insurance representative will

call in a few days to see if he can be of further service to them.

Five letters per day to credible clients, homeowners for example, can be easily presorted by code, or from renewal lists. If honored rigidly with five follow-up calls daily, these letters can produce more than 60 life appointments per month for a good agent. With agency credibility, he should close 60% of these, or an average of 36 new applications per month.

The life insurance products sold by the agency should be kept simple at the outset; for example, term and universal life to homeowners, not products with 15 options. Decide what you think the client needs and sell that product, eliminating all others. The consumer doesn't want to be bewildered with brilliance and too many choices. Keep it simple and affordable.

And, don't experiment with your largest commercial clients at first. Often your new life representative will suggest such an idea, but it is not

necessarily a good one. Start with your homeowners insurance clients or small commercial lines clients. Our first successful life agent saw three people per evening, four evenings per

week, and earned more than \$75,000 during his first year with us.

Having successfully installed a life insurance manager, you have accomplished four goals in one:

- Your fee income (life insurance commission) increase of more than \$100,000 should produce a gross profit of something over \$40,000 from one producer, which in time could possibly become your highest individual profit center.
- Your services have been enhanced to your clients.
- You are in step with the industry trends by providing more services to the same clients.
- You have more strongly befriended the providers of your product—your insurers—for all insurers are looking at facility and all agencies for better distribution of their life products.

The result adds up to more commission income, more profit, expanded services and stronger contracts. In short, you and your agency are both healthier.

*Joseph D. Citarella has more than 25 years of property/casualty agency experience and has been conducting seminars within his agency, Citco Insurance Agency in Thousand Oaks, Calif., for the past two years.*



**Remember to reveal your greatest sales pitch for attracting a winner into your organization: no more prospecting.**

**You want someone who is not afraid to pick up the telephone, introduce himself or herself and make an appointment.**

**The life insurance products sold should be kept simple at the outset; for example, term and universal life to homeowners.**

# Most insurers favor larger agencies: Study

By LAURA MAZZUCA

Smaller agencies are feeling the pressure in the softening insurance marketplace because insurers have favored larger agencies over smaller ones when granting appointments during the last six months, according to a survey by the National Assn. of Professional Insurance Agents.

And, agencies of all sizes complain that most insurers are not providing agencies with adequate explanations or warnings when changing agent commissions and contracts, which is happening more rapidly.

The PIA survey, conducted this spring and completed last month, polled more than 2,400 PIA member agents—approximately 10% of the association's membership—on a variety of questions relating to the changing marketplace and how it affects the agency-company relationship.

One in four agents received insurance company appointments in the last six months, with two out of five larger agencies (with a premium volume of \$5 million or more) receiving appointments, compared with fewer than one out of five smaller agencies (with premium volume of less than \$1 million), according to the survey.

**'The rules of the game are changing, and quickly,' says PIA President Nicholas A. Verreos.**

And, nearly two-thirds of all the agents polled said that insurers have not provided "adequate explanation or warning" when changing agency contracts or altering their marketing and underwriting programs in the last six months.

"Clearly, companies must open broader channels of two-way communications with agents," stressed Nicholas A. Verreos, president of the PIA and president of Nick Verreos & Co. Insurance Brokers Inc. in Brisbane, Calif.

"Flux is now the norm in today's markets," Mr. Verreos said. "Agents need to know more clearly what decisions companies are making, why, and how these decisions will affect agents."

The survey also found that:

- One in four agencies has been terminated by an insurance company in the recent market.

- Some 52% of the agencies had their commissions changed in the last six months, with 46% saying the changes were "somewhat negative," and 38% saying the changes were "detrimental to the agency/company relationship."

- Sixty-three percent have had contracts changed in the last six months, with larger agencies and agencies with a preponderance of commercial lines reporting most changes. However, more than half—54%—of agencies with less than 25% commercial lines also have experienced changes.

- Ninety percent said their clients' premiums have risen during the last three months, with two of five noting increases of more than 20%.

- Nearly half, 49%, of agents experienced changes in profit-sharing agreements. More than one-fourth—27%—said the changes were clearly negative.

- Nearly all agencies responding reported that 95% of their com-

panies are now accepting new business. Agencies with \$5 million or more in total premium volume indicated that 99% of their personal lines companies are accepting new business.

"The rules of the game are changing, and quickly," Mr. Verreos added. "Long-standing assumptions about contracts, commissions and markets are flying out the window as companies reposition themselves in the market."

PIA members can receive the full study free on written request. Non-members can obtain copies by sending a check for \$7.50 to PIA Industry Affairs, 400 N. Washington St., Alexandria, Va. 22314. ■



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## IIA, NAIW offer new designation in automation

MALVERN, Pa.—The Insurance Institute of America and the National Assn. of Insurance Women (International) have developed a new Associate in Automation Management program, the first of its kind created specifically for insurance people.

The program consists of three courses: AAM 131, "Essentials of Automation;" AAM 132, "Automation in Insurance;" and AAM 133, "Managing Automated Activities." Each course entails a three-hour national essay examination administered by the Insurance Institute of America.

"Essentials of Automation" will cover the use of personal computers, software packages, how information systems work within organizations, and the functions of data entry, storage and processing.

"Automation in Insurance" describes how the property/liability insurance industry processes information, including company automation, agency and brokerage automation, and company/agency interface.

"Managing Automated Activities" deals with available computer equipment and services, how to approach vendors, and installing a new system, from pre-installation to ongoing management and security.

Guides for the first course, published by the institute, are available this month, with the first course to be offered in the fall; the second and third courses are now being developed and should be offered in 1988.

"One of the strengths of AAM is that it is designed for insurance employees who use automation and for those who supervise people who use computers or terminals," said Dr. James Gatzka, vp of IIA. "It is not a purely technical program designed for data programmers, systems analysts or other data processing specialists."

The program was specifically developed by the IIA at the request of the NAIW, which saw a need for such a program for NAIW members and participated with the IIA in an advisory capacity, said Dr. Gatzka. The advisory panel—consisting of 11 experts including representatives from the NAIW, IIR/ACORD and private data processing consultants—collaborated on two of the three textbooks, and formulated course content.

Dr. Gatzka predicts that the turnout for the first AAM exam, to be given in December, will be "extremely large," adding, "I wouldn't be surprised if we get about 3,000 people."

"We will be encouraging our 400 local associations to sponsor AAM classes and to enlist as many members as possible to take these new self-improvement, continuing education courses," said Sandra L. LaFevre, outgoing president of the NAIW.

For more information on the AAM program, contact IIA's Field Services Department, 720 Providence Road, Malvern, Pa. 19355; 215-644-2100.

—By Laura Mazzuca

# Agents charge Farm Credit with unfair marketing edge

WASHINGTON—Representatives and members of the two largest independent agent associations complain that the federal Farm Credit System's ability to sell insurance gives it a competitive advantage over agents.

Federal law now permits the FCS and its affiliates to sell credit life, hail, multi-peril crop and other types of insurance to farmers when they seek farm loans.

"A serious conflict of interest, along with a very real threat of coercion, occurs each time a farm lending bank provides insurance to a farmer borrower," said Jack McNeil, vice chairman of the Farm Agribusiness Committee of the Independent Insurance Agents of America, in testimony recently before the House Subcommittee on Conservation, Credit and Rural Development.

The IIAA, the National Assn. of Professional Insurance Agents and other industry representatives charge that farmers seeking loans from the FCS are coerced into purchasing insurance from the agency.

"The inherent problem of coercion remains in a system where the financial loan functions of a lending institution are side-by-side with the insurance marketing functions," said Robert E. Fulwider, chairman of the IIAA Farm Agribusiness Committee. "Farm and ranch borrowers are better served through a Farm Credit System that separates the loan functions from the insurance needs of that borrower."

In a written statement to the Senate Subcommittee on Agricultural Credit, PIA Chairman William C. Rue noted that because the borrower is pressured into securing the insurance from the credit office, he is also unable to look for the best price.

**a/bt  
briefs**

## Interactive video insurance agent

AURORA, Colo.—Travelers Corp., in conjunction with a Colorado insurance agency, has introduced the nation's first full motion, stand-alone, interactive video kiosk to provide sample insurance quotes to supermarket shoppers.

The kiosk was installed in a King Soopers supermarket in Aurora, Colo., and is connected directly to Day, Webb & Taylor Insurance Agency in Aurora.

Shoppers can select information from a menu featuring homeowners, automobile, term or universal life insurance and a home replacement cost estimator. After the customer enters basic profile data by touching the video screen, an actor on video outlines the coverage and the machine prints out a sample premium for the customer to keep.

"The simplicity and convenience of using the video kiosk overcomes the stereotype that obtaining an insurance quote is a complicated and high-pressure undertaking," said Hal Taylor, co-chairman of Day, Webb & Taylor. "The technology permits insurance quotes to be obtained anonymously, without obligation and with the ease of watching television."

Since installing the first kiosk, Travelers has installed another that provides additional information on home mortgage calculation and boat owners insurance coverage in a Cocoa, Fla., shopping mall.

The insurer plans to install other interactive video kiosks in similar shopping locations across the country.

For more information, contact Rick Hansen at Travelers Corp. at 203-954-8107.

## Clarification sought of ISO policy

NEW YORK—The Independent Insurance Agents of America Inc. is asking the Insurance Services Office to clarify an ambiguity in the new ISO Commercial Liability Manual regarding the adequacy of coverage for subcontractors.

The manual currently states that a general contractor may be liable if a subcontractor with inadequate insurance can't cover the loss. The general contractor may end up paying additional premium at audit when certificates of insurance are examined.

The problem wording is the definition of "adequate insurance," which now must be specifically and individually defined in writing by each insurer for agents and brokers, said James M. Pollard,

chairman of the IIAA's Far West Agents Conference.

The IIAA's Technical Conference Committee recommends that the term "adequately insured" be defined by ISO as "maintaining commercial general liability insurance with limits of at least \$300,000 combined single limit, unless higher limits are specified by the underwriter, in writing, prior to coverage inception," said Matthew Cantoni, IIAA director of technical affairs.

"Adoption of this recommendation would definitely clarify the intent of the adequately insured requirement," said Mr. Cantoni. "Until this is accomplished, agents should first contact their companies to determine what they consider adequate insurance."

## Texas law toughens agent licensing

AUSTIN, Texas—Texas will mandate more stringent testing of insurance agents and solicitors licensed in the state.

A new law requires that all insurance agents and solicitors licensed for fewer than 15 years in the state must complete 15 hours of continuing education per year to maintain their licenses.

The changes in the law were suggested by the Independent Insurance Agents of Texas' board of directors, which studied the laws in the 14 states with mandatory continuing education programs for agent licensing.

The IIAT already offers educational programs for the new commercial general liability policy, businessowners policy, commercial package policy and business auto policy, and the mandated agent requirements are "a natural extension of our current program," said William R. Black, IIAT president.

The Texas Board of Insurance reports there are approximately 46,000 recording agents and 10,000 licensed solicitors in the state.

## Colorado mandates agent education

DENVER—Colorado now requires agents and brokers to have completed at least 50 hours in property/casualty insurance class work to be licensed.

The insurance commissioner will set up rules regarding training requirements. An advisory committee will be established to recommend standards for the course of study. Agents licensed before Jan. 1, 1988, are not required to comply with the law until Jan. 1, 1990.

## Standardizing industry communications

WHITE PLAINS, N.Y.—Standardization of the insurance industry's electronic communications can be best achieved by emphasizing "downloading," or company-to-agency policy transactions using ACORD Corp. standards, computer vendors say.

At a meeting sponsored by the Agents' Automation and Interface Committee, members of the ACORD staff and other vendors experienced in interface shared their views on standardization.

Computer downloading using ACORD standards would make single-entry, multiple-company interface available to a wider variety of agencies, including those now interfacing with companies on a company-unique interactive basis.

Also, vendors not presently serving batch industry standards can add downloading to existing interactive interface capabilities.

Meanwhile, IIR/ACORD is now officially known as ACORD Corp.—Agency-Company Organization for Research & Development.

## Sounding board

NOVATO, Calif.—Fireman's Fund Insurance Co.'s Commercial Insurance division is creating an advisory council composed of national agents and senior executives of the insurer to provide a new forum for discussion.

The new President's Circle will have representatives from each of 44 local agent advisory councils as well as senior executives from the insurer's Commercial Insurance Division. The group will meet annually, with the first session scheduled for Dec. 1-3 in Laguna

*Continued on next page*

# Western Union offers agent, insurer link

InsLink, a new communications and information service providing electronic communications between insurance companies and agents, was recently introduced by Western Union.

The product was developed in response to the increasingly competitive insurance marketplace and the widespread use of electronic communications in the industry, the company says.

InsLink automatically reformats policy information transmitted by an agency to match the data input format requirements of the receiving company's computer systems, "rather than creating a separate network to provide that crucial electronic link between companies and agents," explained Matthew Lampell, Western Union's director of insurance industry marketing.

Through the service, an agency can also send high-speed electronic messages to ad-

justors, reinsurance companies, underwriting associations, other agents and policyholders.

Mr. Lampell expects the product to be available this month for a one-time installation charge ranging from about \$10,000 to \$50,000, depending on the existing system's capabilities. There will be no additional usage fee.

For additional information, contact Matthew Lampell, Western Union's Director of Insurance Industry Marketing, at 201-825-5477.

## Computerized office

For insurance brokers who don't know a

byte from a nibble, Mobile Timesharing Inc. of Dobbs Ferry, N.Y., offers "Insurance Wiz," a simplified computer programming system designed to automate office paperwork.

Program features include automatic generation of statements, automatic or selective payables invoices, merage printing of form letters, instant retrieval of client/policy information, automatic updating of client and policy balance due information, and data entry codes which can be customized by the broker.

Insurance Wiz is \$495, and comes with a 30-day money-back guarantee.

For more information, contact Mobile Timesharing Inc., 73 Southlawn Ave., Dobbs

Ferry, N.Y., 10522; phone, 914-693-6694.

## Banks and insurance

Executive Enterprises Inc. will sponsor its fourth annual Banks and Insurance Conference Oct. 7 and 8 at the World Trade Center in New York City.

The program, which is designed for life insurance and property/casualty agency executives and insurance marketing and consulting firms, will address the marketing relationships between banks, thrifts and insurers.

Sessions will be held at the World Trade Center; registration is \$875 for first registrant, \$775 for each additional registrant from the same organization.

For information, contact Mig Acosta, Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010; 800-223-0787; within New York, 800-831-8333 or 212-645-7880. ■

Continued from previous page  
Niguel, Calif.

Agent advisory councils, made up of seven to nine agents and two to three company representatives, exist in each Fireman's Fund branch office territory. The councils, which meet about twice a year, provide a forum for local issues. The President's Circle will address issues of regional or national scope.

### System interface

WESTLAKE VILLAGE, Calif.—Delphi Information Systems Inc. and Automated Insurance Resource Systems Inc. have entered into an exclusive agreement to create an interface system between AIRS' commercial lines rating system and Delphi's agency management system.

The system, which will be available next month, will allow single entry of data used for rating and office management.

It will be available through Delphi upon completion.

Delphi has also entered into an agreement with Aetna Life & Casualty Co. to provide agents with electronic policy issuance capabilities for homeowners insurance.

### Flood commissions

NEW YORK—The National Flood Insurance Program's proposed reduction of participating agents' commissions, if implemented, would result in a decrease in participation in the program, a national agent association spokesman predicts.

"Cuts in commission schedules will only discourage agents from soliciting new flood business because the administration's plan, if adopted, would reduce commissions on renewals which agents do not feel are sufficient to cover the cost associated with writing flood insurance," said Robert Ross Jr., chairman of the Independent Insurance Agents of America National Flood Program Committee.

Agents writing federal flood insurance now earn 15% commission for both new and renewal business, explained Matthew Cantoni, director of technical affairs for the IIAA. Under pressure from Congress, the Flood Insurance Administration (FIA) has proposed to reduce the agent's commission on the first \$2,000 in premium to 12% on direct bill renewals.

The proposal also would raise the commission level on new business to 16% from 15%. But, Mr. Cantoni said that new business represents only 1% of current flood policies.

### NAIW president

BOSTON—Shirley A. Timmons was installed as president of the National Assn. of Insurance Women (International) at its 46th national convention in Boston.

Ms. Timmons, vp-property and casualty marketing/underwriting at Dorth Coombs Insurance Inc. in Wichita, Kan., succeeds Sandra L. LaFevre.

The NAIW has more than 19,000 members.

### NASBP president

SAN FRANCISCO—Curtis B. Roberts, chairman and chief executive officer of The Mills Co., a Dallas agency specializing in surety bonding and insurance for construction contractors, was elected the 39th president of the National Assn. of Surety Bond Producers during the group's annual meeting in May.

### New IIA president

MALVERN, Pa.—Norman A. Baglini has been named president and chief executive officer of the

American Institute for Property and Liability Underwriters and the Insurance Institute of America. He succeeds Edwin S. Overman, who held the position for 21 years.

Mr. Baglini joined the IIA in 1973 as director of underwriting education. He has been dean of curriculum, senior vp and dean and executive vp and deputy director.

His duties as president will include overseeing the IIA's programs and services for 100,000 students worldwide.

### AAMGA election

PALM DESERT, Calif.—Wes Duesenberg Jr. of Southern Underwriters in Atlanta became the 58th president of the American Assn. of Managing General Agents, headquartered in Washington, D.C.

His father, Wes Sr., served as the 50th president of the AAMGA. ■

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## Anti-rebate statute upheld in California

By LAURA MAZZUCA

SAN FRANCISCO—In a decision that agents and brokers hope will set a precedent in other states, a California judge upheld the state's anti-rebate statute against a free-speech challenge by a state consumer group.

In his July 15 decision, state Superior Court Judge Raymond D. Williamson Jr. wrote that elimination of the California anti-rebate statute would be "against the best interests of the citizens of California, who would be faced with discrimination in favor of larger purchasers."

The anti-rebate challenge was brought in 1984 against then-In-

surance Commissioner Bruce A. Bunner and the California Department of Insurance by Consumers Union of United States Inc., a San Francisco-based non-profit consumer group that publishes Consumer Reports magazine.

The suit charged that the state insurance code's ban on rebates violates the right of free speech and had no basis in necessity.

The California suit preceded similar litigation in Florida, which resulted in the elimination of that state's anti-rebate laws in August 1986.

It is the only state to have struck down its anti-rebate law.

Ironically, Judge Williamson remarked in the decision that testimony by a Florida agent on behalf of Consumers Union, "while strongly supporting rebating, also demonstrated a practical abuse that would follow."

In his testimony, the agent stated that in spite of the elimination of the state's anti-rebate law, he has not engaged in the practice because the state insurance commissioner had cautioned against unequal rebating.

**California's law underlines 'potential dangers and abuses' of rebating, the judge says.**

The judge pointed out that California enacted Section 750.1 of the insurance code in 1986, which reaffirmed the necessity of anti-rebate laws and underlines the "potential dangers and abuses" of permitting rebating.

"Clearly, the practicalities of rebating agent are such that rebates are going to go to the better client," the judge wrote. "Furthermore, the better and larger the client, the larger the rebate. Inversely, the smaller the client and the smaller the policy, the smaller will be the rebate. . . if there is any rebate at all. This is one of the results that the Legislature considered, weighed and rejected."

On the charge of violation of "commercial free speech," Judge Williamson remarked, "The anti-rebate laws regulate 'commercial conduct' and only incidentally involve speech. . . . There is no question that much of the activity of selling insurance involves the use of oral communication. Nevertheless, the clear purpose of California's anti-rebate laws is to regulate the conduct of insurance agents. Speech is incidentally involved and the First Amendment is not a relevant issue."

Producers in the state, who have been involved in the case through the California Assn. of Life Underwriters, are "elated, to say the least," said Joe Annotti, administrative vp of the Independent Insurance Agents & Brokers of California.

"Wealthy companies or individuals should not be allowed to use their financial leverage to get rebates," commented Nick A. Verreos, president of the National Assn. of Professional Insurance Agents. "Striking down this frivolous suit was a victory for Americans who deplore kickbacks, bribes and under-the-table deals."

However, representatives from both associations warned that Consumers Union is entitled to an appeal. ■

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Continued from previous page commenced, the report notes.

However, ship's orders issued by Townsend Thoresen made no reference to the opening and closing of the bow and stern doors, the report notes. Also, "before this disaster there had been no less than five occasions when one of the company's ships had proceeded to sea with bow or stern doors open," it adds.

However, the report notes that senior management at Townsend Thoresen, which was acquired last year by Peninsular & Oriental Steam Navigation Co., had changed "only a short time before the disaster and much has been done to improve the company's approach to ship management."

As a result of the disaster, Justice Sheen is recommending detailed investigations to improve new designs of roll-on/roll-off ferries. The report also recommends phasing out some of Britain's older ferries unless they meet safety standards that were introduced by the government's Department of Transport in 1980.

Meanwhile, relatives of some of the victims of the disaster are reported to be angered at the compensation being offered by Peninsular & Oriental and its liability insurer, Standard Steamship Protection & Indemnity Assn. (Bermuda) Ltd.

Peninsular & Oriental and Standard agreed to apply retrospectively a new British law that raised the maximum compensation for sea passengers to 80,000 pounds (\$128,000) from 38,000 pounds (\$60,800), effective June 1 (BI, July 13).

However, under the proposal, a minimum compensation of 5,000 pounds (\$8,000) is being paid for each individual who died, plus 5,000 pounds for suffering they endured before dying. Extra payments to compensate for loss of earnings and injury will be assessed individually, said Brian Glover, claims executive for Standard Steamship's manager Charles Taylor & Co.

For extreme cases of hardship, P&O has agreed to make payments in excess of 80,000 pounds (\$128,000) from a special disaster fund, which has been instituted by the company.

Reports in British newspapers say some relatives of victims, particularly those who lost children in the disaster, are angry about the settlement offer. However, "no such reaction has been communicated to" Pannone Napier, one of a group of law firms acting on behalf of the victims, said a spokesman for the firm.

The steering committee of lawyers representing disaster victims "is happy with the deal and the level of compensation and has recommended it to clients," said Mr. Glover.

"Some resentment may have been caused by confusing newspaper reports that suggested all victims would receive 80,000 pounds compensation," he added.

## AIDS cover refused

British United Provident Assn., Britain's largest private medical insurer, is refusing to provide coverage for AIDS to new policyholders for the first five years they are insured.

Existing policyholders, however, still are entitled to full coverage if they contract acquired immune deficiency syndrome, said a spokeswoman for BUPA.

Beginning July 1, "there will be a five-year gap in which any new subscribers developing AIDS will not be entitled to cover," she said.

BUPA is taking this action to "protect subscribers' funds," she said. She would not comment on how many BUPA patients have contracted AIDS.

BUPA's new stance differs from approaches by two other leading

private medical insurers in Britain.

For example, Private Patients Plan Ltd. pays for only the diagnosis and initial treatment of the disease, but treatment is not covered after the AIDS virus has been diagnosed, said a spokeswoman.

"We have adopted the same policy for AIDS as for other incurable diseases. It is part of our policy that all expenditures must be for the purposes of curing a medical condition," she said, adding that so far only three of PPP's policyholders had contracted AIDS.

Western Provident Assn. provides no benefits for sexually transmitted diseases "with AIDS in mind," said a spokesman. However, subscribers who contract the virus through a blood transfusion, for example, will be covered, he said, adding that so far no WPA subscriber has contracted AIDS.

## Opren claims

A publicity campaign mounted to persuade U.S. drug manufacturer Eli Lilly & Co. of Indianapolis to pay compensation to alleged British victims of the anti-arthritis drug Opren could be in contempt of court, a High Court judge warned last month.

Since passages from advertisements and press releases released by the Opren Action Committee & Citizen Action, which represents claimants fighting Eli Lilly in the British courts, "might be thought to be not far from the dividing line between legitimate comment and illegitimate pressure, I thought it right to give this warning in the hope that due restraint will be exercised in future," said Justice Hirst.

A full-page advertisement, headlined "An Appeal to the Conscience of Eli Lilly & Co.," was placed in The Times of London on July 1 (BI, July 13).

No one from the Opren action group was available for comment.

Some 1,500 British claimants are suing Eli Lilly alleging damages caused by Opren, which was marketed in the United Kingdom in the early 1980s (BI, June 15).

## Fewer U.K. insurers

Fewer insurance companies were authorized to write business in the United Kingdom last year than in 1985, according to an annual report published last month by the British Department of Trade and Industry.

At year-end 1986, 834 insurance companies were authorized to carry on insurance business in Britain, down from 841 at the end of 1985, according to "Insurance Annual Report 1986."

During 1986, 21 companies received authorization to write insurance, 10 of which were companies that previously had not been authorized to conduct any class of insurance business.

Authorization was withdrawn from 48 companies during 1986: 17 for all classes of business, 17 for some classes of business and 14 for new business only.

The report did not specify why authorization had been withdrawn in any of the cases.

## Confiscated cash

A firm acting on behalf of Lloyd's of London syndicates filed a garnishment action July 1 against the Federal Bureau of Investigation and the U.S. Justice Department seeking the return of \$718,000 stolen from an armored car company in December 1985.

The action was filed in U.S. District Court in Duluth, Minn., by American Security Services Corp., based in Middleburg, Va., on behalf of syndicates led by the M.V. Spratt syndicate. The syndicates paid a \$896,330 claim to Baton Rouge, La.-based Loomis Armored

Inc. after the theft by one of its employees.

The employee, John A. Castro, 36, is charged with stealing \$800,000 in cash and another \$1.06 million in non-negotiable securities, checks and credit card charges. Most of the non-cash items were recovered within two days after the robbery, said attorney Joseph Ferguson.

According to an FBI spokesman, Mr. Castro fled to Duluth but was apprehended in May after raising suspicions when he bought a house with cash pulled out of a brown paper bag. The FBI subsequently found the \$718,000 in a storage locker. Mr. Castro is now awaiting trial in Louisiana.

The funds, which normally would be returned once the trial is over, are now in a safety deposit box, said Mr. Ferguson, noting that the interest being lost prompted the suit.

The Lloyd's syndicates, American Service and Loomis want to be named owners of the cash. They also ask that if the cash is not to be used as evidence in the trial, the funds either should be placed in an interest-bearing account until their ownership is established or turned over immediately, said Mr. Ferguson.

He added that the federal government is considering several possible solutions to the problem.

## Illinois Exchange

Illinois Insurance Exchange members are aware that the Lon-

don market perceives the exchange as a "small, unstable, underfinanced organization that is struggling to survive," admitted Jeffrey Beresford-Wood, chairman of IIE's audit and regulatory committee.

However, late last month a delegation from the IIE, including Mr. Beresford-Wood, visited London for the first time to quell this impression. During a seminar at the Chartered Insurance Institute, a panel discussed the IIE and its strengths.

For example, the exchange's board on July 15 approved an increase in the initial capitalization requirement to \$3 million from \$2 million for all new syndicates, to be raised gradually to \$5 million by July 1989, said IIE Vp Gary D. Hackley. IIE's board is considering a method to increase existing syndicates' capitalization to those levels, he added.

The exchange also believes its emphasis on writing direct insurance instead of treaty reinsurance like other exchanges has helped it to remain buoyant. The exchange also prides itself on its reinsurance security, its strict adherence to regulation and its members' policing of the market, the delegation said.

"We have the best climate of any of the exchanges," declared IIE Chairman Bernard E. Epton. "We are a real pain... to our syndicates... And our clients must know that if there is a loss, it will be paid."

"There isn't another entity in the U.S. that is regulated as we are,"

maintained Mr. Beresford-Wood.

Also attending the seminar were IIE President and Chief Executive James M. Skelton and syndicate manager Richard E. Foss, vice chairman of the exchange's board of trustees.

## Comings & goings

Surinder Beerh, Roger Bassett and David Warman appointed directors of Heath Fielding Insurance Broking Ltd., a subsidiary of Lloyd's of London broker C.E. Heath P.L.C.

Hady Wakefield, chairman of C.T. Bowring Reinsurance Ltd., succeeds Alan Winchester, who is retiring as chairman of Winchester Bowring Ltd. Mr. Winchester has been chairman of the company—which specializes in non-marine reinsurance for Lloyd's underwriters and London companies—since it was acquired by The Bowring Group in 1976.

Christopher Billson, David Skeates and Kenneth Woodhams appointed directors of E.W. Payne (North America) Ltd. effective Sept. 1. They will join the team led by managing director Peter H. Foley, responsible for E.W. Payne's North American reinsurance broking business in the London market.

## New office

The Assn. of Insurance & Risk Managers in Industry and Commerce has moved to 6 Lloyd's Ave., London, EC3N 3AX; 01-480-7610.

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## PBGC funding plan

Continued from page 2

be the amount equal to bring the plan's funding level to 52.5%, while an employer with a plan that was 80% funded would have to contribute an amount equal to improve the plan's funding level to 81%.

However, the contribution cap would not apply to plans that are less than 50% funded. Sponsors of these plan would be required to contribute at least as much as is paid out in benefits during the year.

The contribution cap could mean that it would take decades to fully fund some pension plans, critics of the proposal say. In the meantime, the PBGC would be liable for the plan's unfunded benefits if the plan terminated.

The cap "could have disastrous consequences for benefit security and the PBGC," according to David Walker, deputy assistant secretary of labor.

"The cap would essentially gut the committee's funding reforms," asserted PBGC Executive Director Kathleen P. Utgoff.

She said that without tough funding rules, the PBGC will continue to be hit with big pension claims, and will have to seek new termination insurance premium hikes.

Administration officials point out that the liberal funding rules in the Education and Labor Committee's measure contrast sharply with the rapid funding rules proposed by the House Ways and Means Committee, which also is drafting legislation to shore up the PBGC. In some cases, under the Ways and Means proposal, employers would have as little as three years to fund pension liabilities compared with the 30-year standard under current law (BI, July 20).

But an aide to House Labor-Management Relations Subcommittee Chairman William Clay, D-Mo., defended the Labor and Education Committee's funding rules. The aide noted that even a 1% or 2% increase in a plan's funded ratio could mean that an employer's pension contributions could double or triple.

The committee attempted to find a balance between the need to improve plan funding without causing pension con-

tributions to become so burdensome that companies are placed in grave financial difficulty, the aide explained.

Pension experts agree that achieving such a balance will be difficult.

"If the funding rules are too tough, a company may have to go into bankruptcy and terminate its plan," said Henry Saveth, a vp with Johnson & Higgins in New York.

"If there is a wave of pension bankruptcies, then the rules could again be liberalized, and then you are back to where you started. I'm not sure a successful solution can be found. There may be a series of interim solutions," he observed.

Pension experts also criticize a Labor and Education Committee proposal to impose a termination funding charge on employers that terminate their pension plans.

Under this provision—not found in the Ways and Means Committee measure—any employer that terminates a defined benefit plan during the three years beginning July 1, 1987, would pay a \$200 per plan participant charge to the PBGC.

After July 1, 1990, this charge would be based on the size of the PBGC deficit.

Benefit experts say the charge would be especially unfair in mergers and acquisitions, when a buyer may have little choice but to terminate a plan covering employees of the company it is purchasing.

"A \$200 charge seems patently unfair in such situations," said Stuart J. Brahs, executive director of the Assn. of Private Pension & Welfare Plans.

Rep. Clay's aide said the primary purpose of the termination charge is to discourage employers from leaving the defined benefit system and to give the PBGC additional revenue.

The aide acknowledged that under certain circumstances a funding charge might not be appropriate, such as when participants are covered under a new defined benefit plan that is similar to the terminated one.

It is possible that changes to the termination charge could be examined after the House and Senate complete action on pension legislation and a conference committee is established to iron out differences in the legislation.

Both the Education and Labor Committee's and Ways and

Means Committee's PBGC/pension proposals will be attached to a budget reconciliation bill. That reconciliation bill is not expected to be considered by the full House until September.

The Senate will draft its own reconciliation bill. It is expected that the Senate Labor and Human Resources Committee and the Senate Finance Committee will come up with their own PBGC/pension provisions, which also would become part of the reconciliation bill.

Already it is clear that there will be many differences—even before the Senate acts—to settle in conference committee.

Aside from funding rules and termination charges, there are major differences in the two House proposals, including:

- **PBGC premiums.** The Education and Labor Committee is proposing to keep the flat-rate PBGC premium structure with the premium rising to \$19 annually per plan participant from \$8.50.

- **By contrast,** the Ways and Means measure would establish a variable-rate premium structure in which premiums would range from \$14 to \$50, depending on the funding level of a plan.

- **Access to plan assets.** The Education and Labor Committee would allow employers to recover excess assets from on-going plans so long as the plan was at least 25% overfunded after the reversion. The Ways and Means Committee proposal would continue the current ban on removal of excess assets from ongoing plans.

- **Excess assets.** Under the Education and Labor Committee proposal, employers terminating overfunded plans could not recover all excess assets after participants' promised benefits are paid.

The measure instead proposes that employers could recover only assets exceeding 125% of plan liabilities, with participants getting the other surplus 25%.

The Ways and Means Committee proposal does not impose such a requirement.

Neither the Ways and Means nor Education and Labor Committee proposals contain any tax incentives for employers to prefund retiree health care benefits. ■

## Surety market

Continued from page 2

the business," Mr. Boyle said. "I've seen ups and downs, but I've never seen it this tough," he said.

"If there is any relief in the insurance market as a whole, the surety industry has not yet tracked that condition and remains extremely tight with fewer players and reduced capacity," noted E. Timothy Kenneally, executive vp of the financial products group of Fred S. James & Co. Inc. in New York.

Many brokers and underwriters expect the market to get even tougher over the next few years.

"There will probably be continued restrictions in reinsurance capacity, and there will be players that go out of the marketplace, and the market will continue to harden," predicted Dennis Perler, a vp with CIGNA Bond Services Inc. of Philadelphia, a subsidiary of CIGNA Corp., which does not write work comp bonds.

The surety bond market is tightening after suffering record losses

in the past three years.

Indeed, 1986 was the industry's worst year in history, with the industry suffering a combined loss and expense ratio of 150%, according to the Surety Assn. of America (BI, May 25). Contract bonds accounted for most of the losses, with a loss ratio of 106%, while non-contract bonds, such as self-insurance bonds, had a 60% loss ratio.

While surety bond underwriters note that a 60% loss ratio on non-contract bonds is not as bad as the contract bond loss ratio, they say the potential for losses and the small business volume make non-contract bonds unattractive.

The losses in 1986 came on top of big losses in both 1985 and 1984. And, while industry officials are hoping for a turnaround, few expect it will happen in 1987.

"Hopefully 1987 will be a little bit better, but it's still not going to be anywhere near good," said Carroll J. Fitzgerald, senior vp of Fidelity & Deposit Co. of Maryland in Baltimore. "I would anticipate

(1987) is going to be a loss figure."

Fidelity & Deposit is a limited market for workers comp surety bonds, a spokesman said.

These results prompted some reinsurers to cut back capacity and restrict the types of bonds they will reinsure. Others are getting out of the surety bond business altogether.

As a result, brokers report, many surety bond underwriters have had to take a bigger net line, in turn leading to dwindling capacity, higher rates and tightened underwriting standards.

Surety brokers say the maximum limit available for a surety bond is now about \$100 to \$140 million, down from a limit of about \$250 million only a few years ago.

The SAA now is filing with state insurance departments a request for an average 20% increase in surety bond rates, and brokers and underwriters predict that most surety companies will adopt the rate increase.

This latest rate hike would come on top of a 20% increase that most surety companies imposed last year. That increase was the first major rate hike in the surety business in 30 years, according to brokers and underwriters.

In addition, surety companies are tightening underwriting requirements, placing new restrictions on bonds and getting out of some lines considered risky.

And they claim that one of the riskiest lines is surety bonds for employers that self-insure their work comp liabilities.

Mr. Boyle explained that losses surety companies sustained on such bonds when several big steel companies went bankrupt in the late 1970s and early 1980s have made surety underwriters very nervous about these bonds.

But James' Mr. Kenneally noted that while work comp surety bonds are difficult to get from any surety company, some insurers will write them for clients that place a lot of other surety or other property/casualty business with them.

"I'm not aware of any company that's writing them in earnest," Mr. Kenneally said.

"If you have a specific account that has an overall relationship with the surety, and the surety liability that's assumed is not driven by the work comp liability, then some companies will still make a

business decision" and write them, he said.

He added that he does not know of any company that James "would place clients with that views workers comp/self-insurance bonds as an attractive class."

Surety bond brokers declined to offer a list of surety companies that write work comp surety bonds, saying that most of the companies writing these bonds are only doing it to accommodate existing clients and that the market is extremely volatile.

One broker, who asked not to be named, observed: "I may have gotten a workers comp bond from a surety, but I may have just been lucky that day, and tomorrow they may be out of the business."

Brokers also note that the market for work comp bonds has always been restricted, with perhaps only about 10 to 14 of the more than 100 surety companies writing this business.

Many brokers and underwriters say that tougher underwriting standards and increased rates are necessary because both have been too lax in recent years.

"Little by little, underwriting criteria were kind of relaxed (over the past 10 years), to the point where you've had some very weak underwriting, which causes losses," says Michael P. Tilton, a managing director with Marsh & McLennan Cos. Inc. in New York.

"They've gone back to doing their homework," J&H's Mr. Boyle said. "Things got a little loose in the surety industry in my estimation—underwriting-wise—over the last seven or eight years."

Mr. Boyle says brokers must now "do a lot more work to get a positive response from a good surety company."

But "re-underwriting just isn't enough," CIGNA's Mr. Perler noted. "The answer is mostly to be found in rate increases and partly in expense decreases," he said.

John (Jack) B. Fitzgerald Jr., CIGNA Bond Services president, said CIGNA will raise rates even if it loses market share.

"We don't see it (raising rates and losing business) as a problem the way we would have perhaps several years ago," he noted. "We are going to increase rates, and I think the majority of companies will."

In fact, Mr. Fitzgerald said the

20% rate increase proposed by the surety association may not be enough to return the industry to profitability.

Many brokers also say they believe surety prices are too low.

"I think rates were way too low. I would certainly agree with the industry on that," Mr. Boyle said.

But he emphasized that a rate increase must be coupled with better underwriting to improve the industry's loss picture.

M&M's Mr. Tilton says the current rating structure for surety bonds is obsolete both in pricing and in the way rates are applied.

Surety companies charge the same rates for various types of bonds, regardless of the financial strength of the company buying the bond, Mr. Tilton pointed out.

And, at least the short-term future of the surety market looks just as bleak, with both surety brokers and underwriters predicting that some surety bond insurers and reinsurers will drop out of the surety business completely over the next few years.

Daniel F. Randolph, a senior vp and managing director in the surety department of Chubb & Son Inc., noted that most of the major players in the surety market are large insurance companies.

"The simple fact is that surety bonds are just a peanut fraction of the overall operations" of these companies, he pointed out.

"It's no big deal at all if a company decides to peel off its surety operation. The question is how long are they going to take the bleeding before they arrive at that decision," Mr. Randolph observed.

"I think most of the major companies and the reinsurers, at the direction of their senior management, are doing in-depth studies to determine whether they even want to continue in the surety business," CIGNA's Mr. Fitzgerald noted.

But, Mr. Fitzgerald is quick to add that while CIGNA does not write work comp surety bonds, it remains committed to the market.

Mr. Tilton says that top management at many major property/casualty insurers have just finished addressing and attempting to correct the problems with liability insurance and now are turning to the surety side of their business.

"So the pressure is now on the surety side of the house to return to profitability," Mr. Tilton says. ■

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## comings &amp; goings: industry

## Home Insurance taps Meenaghan as CEO

James J. Meenaghan, president of The Home Insurance Co. in New York, has been elected the company's chief executive officer.



Mr. Meenaghan

Mr. Meenaghan will retain his position as president, as well as remain a director of both The Home Insurance Co. and The Home Group Inc. Mr. Meenaghan also serves as a director of U.S. International Re Inc., the reinsurance subsidiary of The Home Group.

Mr. Meenaghan became president of The Home Insurance Co. in September 1986.

Before joining The Home, Mr. Meenaghan held various positions with Fireman's Fund Insurance Cos. based in Novato, Calif., including president and chief operating officer.

After leaving Fireman's Fund, Mr. Meenaghan spent two years as chief executive officer of John F. Sullivan & Co., the Seattle-based reinsurance brokerage.

In another move, Michael L. Averill appointed vp-government and industry affairs at The Home Insurance Co. in New York. Mr. Averill is responsible for implementation of commercial lines policy and rating simplification programs. Prior to joining The Home, Mr. Averill was manager of the commercial casualty division of the Insurance Services Office Inc. in New York.

## In other insurer changes:

Paul F. Henning named vp and actuary of PHICO Insurance Co., a Mechanicsburg, Pa.-based medical malpractice insurer. Previously, Mr. Henning was chief actuary of the Pennsylvania Department of Insurance.

Louis F. Iacovelli named vp of Continental Corp.'s Brokerage and Special Operations Group in New York. Most recently, Mr. Iacovelli was assistant vp and helped form the marketing and sales operations for NBS.

Ronald D. Van Buskirk appointed vp and manager of the Pacific Northwest regional office of Wausau Insurance Cos. in Beaverton, Ore. Mr. Van Buskirk succeeds Everett Anderson, who retired. Previously, Mr. Van Buskirk was regional sales manager for Wausau's Pacific Southwest region based in Los Angeles.

Also at Wausau, John D. Crosby named vp and manager of the New England region in Belmont, Mass. Mr. Crosby succeeds Edward J. Matthews who died May 7. Previously, Mr. Crosby was regional underwriting manager.

Dennis W. McKeivitt appointed vp of Zurich Insurance Co., U.S. Branch, and elected vp of subsidiary American Guarantee & Liability Insurance Co., both in Schaumburg, Ill. Mr. McKeivitt serves as field operations director in the claims division.

William H. Ostfeld elected vp-group insurance administration at State Mutual Life Assurance Co. of America in Worcester, Mass. Previously, Mr. Ostfeld was second vp-group administration.

Samuel D. Ross Jr. named executive vp and president-elect of Pennsylvania Blue Shield in Camp Hill, Pa. Mr. Ross succeeds Leroy K. Mann, who plans to retire in June 1988. Mr. Ross had been senior vp-administration and planning.

## Agents/brokers

Drew E. Waitley joined Corroon & Black of Illinois Inc. in Chicago as senior vp and manager of the brokerage's construction division. Mr. Waitley previously was senior vp at Continental Illinois Bank & Trust Co. in Chicago, where he specialized in construction activities as well as mining and utilities.

Charles W. Olson III, former chairman of Frank B. Hall of Illinois Inc., joined Associated Agencies Inc. of Chicago. Mr. Olson specializes in estate planning, large commercial property/casualty, employee benefits and bonding accounts.

Robert A. Anderson Jr. appointed vp-commercial lines at Butler & Messier Inc., a Pawtucket, R.I.-based insurance agency. Mr. Anderson, a certified public accountant, previously worked with the Warwick, R.I., accounting firm of Malo & Co.

## Reinsurance

Marion A. Perkins elected vp-facultative reinsurance at Transamerica Insurance Group in Los Angeles. Mr. Perkins had been president of Comstock Insurance Co., a Los Angeles-based subsidiary of Fremont Indemnity Co.

Lora Ann Neggers appointed vp of Zimmermann Line Slip Inc. in Mendham, N.J., a management company underwriting, life, accident and health special risk reinsurance.

Paul A. Bellone joined Resolute Reinsurance Co. in New York as vp responsible for directing all loss management for the company. Most recently, Mr. Bellone was assistant vp of claims at Skandia America Reinsurance Corp. in New York.

Y. Cheong Watt elected vp of the Hong Kong office of Prudential Reinsurance Co. Mr. Watt previously was regional director of Asian operations for Prudential Re. He joined the company in 1976.

## Excess/surplus

Dave Waskel promoted to vp-claims at Guaranty National Insurance Co. in Englewood, Colo. He had been assistant vp. Mr. Waskel is responsible for the day-to-day operations of the commercial and personal lines departments. He joined Guaranty National in 1979.

## HMOs/PPOs

Judd Jessup appointed executive director of TakeCare Corp., a Blue Cross health maintenance organization in Woodland Hills, Calif. Mr. Jessup was previously president of HMO Colorado in Denver.

Roy L. Hutts appointed president of Hawaii Dental Health Plan, a prepaid dental plan in Honolulu. Mr. Hutts succeeds James R. Lindsey, who is now chairman. For the past eight years, Mr. Hutts has been vp-employee benefits at Hawaiian Life Insurance Co. Ltd. in Honolulu.

## Other suppliers

Michael B. Brown joined Fred S. James & Co. as head of its International Benefits Resource Center in Irvine, Calif. He is responsible for international benefit practice in the Western United States. Previously, Mr. Brown was a senior consultant with Johnson & Higgins in San Francisco.

## American Cyanamid faces \$30 million in farmer suits

By-KARI BERMAN

WAYNE, N.J.—American Cyanamid Co. is facing three class action suits that seek \$30 million for damages to Arkansas cotton fields allegedly caused by one of the company's herbicide products.

The three lawsuits, filed in federal and state courts in Arkansas on behalf of nine farmers, charge that American Cyanamid's Scepter herbicide stunted and in some cases destroyed cotton crops.

Scepter, an herbicide intended for use on soybean crops, was sprayed on soybean fields that farmers later used for growing cotton, according to a Cyanamid spokesman.

Some Arkansas farmers have accepted a Cyanamid offer to pay the costs of digging up their faltering cotton and replanting soybeans in their place, the spokesman said.

Other farmers who have opted to continue growing cotton have received Cyanamid's assistance as well, the spokesman added. The company has hired seven additional experts on agriculture and cotton to analyze the problem and work with the farmers to help produce healthy crops.

However, nine farmers—all represented by the Osceola, Ark., law firm of Fendler, Gibson & Bearden—have filed class action suits in the U.S. District Court for the Eastern District of Arkansas in Jonesboro, another in the state circuit court in Blytheville, and a third in the state circuit court in Osceola, says a Cyanamid spokesman.

The farmers claim that "Cyanamid was negligent in the manner in which it distributed and marketed Scepter, failing to adequately test and monitor the effect of Scepter on cotton which followed the planting of soybeans in a rotational crop situation."

They further claim that "Cyanamid failed to give due regard to the safety of crops which followed the application of Scepter herbicide."

Cyanamid has not yet filed answers to any of the complaints, according to the spokesman, who holds that "Scepter was properly tested and sold in good

faith" and views the lawsuits as "premature."

"They didn't give us a chance to make amends and instead they just sued us," he said. "We hope to settle the suits amicably."

The spokesman declined to comment on Cyanamid's insurance coverage.

While Scepter has had a positive affect on soybean crops, the residual presence of the chemical in the soil has been a catalyst in the stunting of thousands of acres of cotton, according to the Cyanamid spokesman.

Scepter normally degrades when exposed to normal amounts of moisture in the soil, the spokesman said. But severe drought conditions in Arkansas this year have prevented all of the chemical from dissolving, thereby stunting and in some cases destroying the cotton, he said.

"The product was tested properly and sold in good faith. The only problem we had was the weather," he added.

Of the 45 million acres of land treated with Scepter, only two-tenths of 1% have been negatively affected, the spokesman said.

Although 20% of cotton crops currently having growth problems will recover and have a normal fall harvest, 60% will have a minor reduction in yield and 20% will suffer a very significant reduction in yield, he adds.

"A number of cotton fields we've tracked have had good growth and recovery, and we expect normal yields from most of the fields," says Jim Campbell, technical director for Cyanamid's crop protection chemicals.

The Cyanamid spokesman said that the majority of farmers whose crops have been affected by Scepter are cooperating with the company and that Cyanamid intends to compensate them for their losses. Cyanamid will monitor additional maintenance costs and production losses incurred by the farmers, and reimburse them this fall, he said.

"We hope that we can work through this problem on a case by case basis and settle with the farmers involved," the spokesman said. "We want to find a solution that is satisfactory for all involved."

## RIMS to host charity golf, tennis tourney

MEMPHIS, Tenn.—The Memphis chapter of the Risk & Insurance Management Society is hosting a Charity Golf and Tennis Tournament Aug. 20 to raise funds for risk and insurance management scholarships.

All proceeds from the golf and tennis tournament will be donated to Memphis State University for the establishment of a scholarship fund for students who have chosen risk and insurance management as their field of study.

Insurers, agents and brokers, risk management ser-

vice providers and RIMS members have made contributions to become sponsors of the tournament, which its planners hope will become an annual event.

Participation is limited to the first 100 entries, although anyone may attend a cookout following the tournament.

Anyone wishing to donate funds or services, or to participate in the charity tournament, should contact Curtis Zanone, president, RIMS Memphis Chapter, 901-922-3031.

This announcement appears as a matter of record only.

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# Nationwide lifts commercial account ban

Nationwide Insurance Co. of Columbus, Ohio, is lifting its moratorium on new commercial insurance underwriting. According to a spokesman for the company, Nationwide will "gradually re-enter" the market by writing only new commercial property insurance and package plans. "We are just beginning to get our feet wet," he said. Effective immediately, each Nationwide region is free to write new and renewal business up to its capacity, said the spokesman. Each region sets its own capacity, he added. In April 1986, Nationwide issued a moratorium on most new commercial lines underwriting to reduce its gross premium volume 15.4% to \$1.1 billion from \$1.3 billion. But, according to the spokesman, the company is "on target toward the \$1.1 billion premium goal." The Gulf region, which includes Florida, Georgia and Alabama, began writing new business on Aug. 1. The New York region is expected to follow suit shortly.

## CIGNA enters Korea

Life Insurance Co. of North America, a subsidiary of CIGNA Worldwide Inc. of Philadelphia, has been granted a license to operate in South Korea. According to CIGNA, LINA is the first non-Korean life insurance company to be admitted into South Korea in more than 40 years. Initially, the company will write about \$4 million in individual and group life insurance premiums. The company hopes to write \$13 million in premiums by 1990. Chris Athanassiades has been appointed general manager of the South Korean LINA operations in Seoul. For more information contact Mr. Athanassiades at Nae Wei Building, 14th Floor, Seoul, South Korea; 011-82-2-757-1461-70.

## Met Life enters Spain

Metropolitan Life Insurance Co. of New York and Banco de Santander, one of the largest banks in Madrid, have announced plans to launch a Spanish insurance company in a joint venture. "The Spanish insurance market appears to have great potential for growth," said John J. Creedon, president and chief executive officer of Met Life. Met Life's entry into Spain is part of a series of moves to expand internationally. In 1985, the company expanded into the United Kingdom by purchasing Albany Life Assurance Co. Ltd. And, earlier this year, Met Life opened a representative office in Tokyo. Plans are for the Spanish insurer to offer a wide variety of insurance and pension products.

## New risk consultant

Frank Lemma, formerly a partner in Lemma, Gill, Cusick, Hensley Insurance Agency in Portland, Ore., has formed his own risk management consulting firm that specializes in new car dealerships. Lemma, Gill, Cusick, Hensley was acquired by Rollins Burdick Hunter Co. in October 1984. After the acquisition,

## markets

Mr. Lemma served as vp. In addition, Mr. Lemma worked for two years as a general manager for the Tim Meier Organization, a Beaverton, Ore.-based car dealership. "After years in the insurance industry combined with front line experience in dealership management, the need for inside knowledge became glaringly apparent," said Mr. Lemma. Columbia Risk Management Services Inc. offers dealers "inside knowledge from their own industry combined with the knowledge from the insurance industry," he said. According to Mr. Lemma, the firm emphasizes loss control. Columbia Risk Management is located at 200 Market Building, Portland, Ore., 97201; 503-223-5897.

## Employee benefit firm

The Lockton Insurance Agency of Kansas City, Mo., has launched an employee benefit firm. Lockton Benefit Corp. will offer a wide range of services including group insurance brokerage, retirement plans, benefit planning and consulting, financial planning, cafeteria plans and executive and deferred compensation plans. Samuel R. Reda has been named president of the new company. Most recently, Mr. Reda was senior vp-marketing for Connecticut General Life Insurance Co. in Dallas. For more information contact Mr. Reda at Lockton Benefit Corp., 7400 State Line Road, Prairie Village, Kan. 66208; 913-676-9000.



Mr. Reda

## Claims manager

Self Insurers Services & Underwriters Inc. has spun off a new third-party administration company to provide claims management services to self-funded health benefit plans. Self Insurers Plan Administrators Inc. offers expertise in group life and disability, dental care and prescription card plans. SIPA's services will be marketed to trade associations and small businesses in Florida. SIPA is located at 7820 S. Holiday Drive, Suite 210, Sarasota, Fla. 33581; 813-923-1002.

## New benefits office

Travelers Corp. has opened an international employee benefits and pension office in San Francisco. "By being closer to our Western customers, we'll be able to provide faster, more effective service to clients, brokers and consultants," said Michael G. Sandmann, second vp-international department. Previously, Western regional business was handled from Travelers Hartford, Conn., headquarters.

Travelers also plans to launch international employee benefits offices in New York and Chicago. Ann P. Leeds has been named manager of the new office, which is located at 225 Lennon Lane, Walnut Creek, Calif. 94598; 415-945-4000. Travelers also has expanded its preferred provider network into Chicago and Southern California. Travelers Preferred-Chicago has 27 hospitals and more than 1,000 physicians in its provider network. Travelers Preferred-Southern California has 36 hospitals and more than 2,900 physicians in its provider network. For more information about Travelers Preferred-Chicago, contact Brian Heller, executive director, 120 S. Riverside Plaza, Suite 954, Chicago, Ill. 60606; 312-930-9797. For more information about Travelers Preferred-Southern California, contact Thomas Gannon, executive director, 2600 Michelson Drive, Suite 600, Irvine, Calif. 92715; 714-553-9444.



Ms. Leeds

## Mergers/acquisitions

Mariner Insurance Group Inc. of Dallas has acquired Commodore County Mutual Insurance Co. of Dallas. Arthur J. Gallagher & Co. of Rolling Meadows, Ill., has signed a letter of intent to acquire Joseph Bobba Co. Inc., a Dublin, Calif.-based brokerage. Northwestern National Life Insurance Co. of Minneapolis has acquired Senior Health Plan Inc., a Minneapolis-based health maintenance organization. In addition, Jim Lauer has been appointed chief executive officer of the HMO. Previously Mr. Lauer was manager of NWNL's Seattle regional group office. Radian Corp., a subsidiary of The Hartford Steam Boiler Inspection & Insurance Co. of Hartford, Conn., has acquired Rexnord Technologies, a Milwaukee-based unit of Rexnord Inc. that specializes in technical services, systems engineering and environmental management.

## New offices

Burns & Wilcox Ltd. has opened a new office at 2920 E. Northern, Suite 100, Phoenix, Ariz. 85028-4802; 602-992-2837. RFC Intermediaries Inc. has opened a treaty brokerage office, which is being operated out of its headquarters at 1117 Perimeter Center West, Suite N-500, Atlanta, Ga. 30338; 404-392-9541. The PPO Alliance has opened an office at 595 Market St., Suite 2020, San Francisco, Calif. 94105; 415-777-2311. Alexander & Alexander of New Jersey is relocating to 1280 Wall St. W., Lyndhurst, N.J. 07071; 201-507-6100. Synergy Health Systems Inc., a Dallas-based manufacturer of claims processing software, has relocated to 15851 Dallas Parkway, Suite 310, Dallas, Texas 75248; 214-233-9087.

# Bermuda won't form insurance QUANGO

By ROGER SCOTTON

## bermuda briefs

HAMILTON, Bermuda—The Bermuda government has dropped the idea of forming a new body to oversee the development of the island's insurance industry. However, the government plans to switch responsibility for policing the industry to the Bermuda Monetary Authority. After working for more than a year on plans to form a QUANGO—a quasi-autonomous non-governmental organization—the Ministry of Finance announced last month that it had bowed to private-sector pressure and scrapped the project. The QUANGO was to have been given the job of doing for the island's international business sector what that Ministry of Tourism does for Bermuda's bread-and-butter industry: nurture it and help promote it. Finance Minister Clarence James said the government had decided to use existing facilities to meet the same goal. Under the revised approach, the Bermuda Monetary Authority, which administers foreign exchange controls, is to be given responsibility for policing the insurance industry, work now carried out by the island's Registrar of Companies. The Monetary authority also will regulate the activities of Bermuda's three banks, its trust companies and the island's rapidly expanding community of mutual fund operations. New legislation governing financial services is now being drawn up, but it is not expected to affect Bermuda's insurance law.

stalled tax treaty with the United States, according to a U.S. diplomat. James Medas, recently appointed U.S. consul general to Bermuda, told members of the Bermuda Insurance Institute that the treaty, which would exempt premiums paid by U.S. policyholders to Bermuda-based insurers and reinsurers from federal excise taxes, was following a normal course (BI, July 21, 1986). He said tax treaties take an average of two years to ratify and the quickest was 10 months—the length of time the Senate has been considering the Bermuda treaty. Dismissing fears that a Democratic-controlled Senate offers little hope of ratification, he described the treaty process as non-partisan and said that tax treaties are considered on their merit rather than on political lines. But, Mr. Medas, a former White House aide appointed to the Bermuda post just two months ago, made it clear it could be some time before the Bermuda treaty is passed. And, he hinted that approval may be delayed until a new president takes office in 1989. "I don't think it will be a case of getting in under the wire," Mr. Medas. The ratification of the Bermuda treaty is "complicated" because it involves an agreement with a tax-free jurisdiction.

believes that Bermuda may soon have to consider establishing a commercial court to cope with the steadily increasing number of civil cases brought by Bermuda-based companies. Justice Collett, 60, who will leave Bermuda this fall to become chief justice in the Cayman Islands, has presided over at least three major commercial cases over the past year, including the litigation involving Mentor Insurance Ltd. and Pinnacle Reinsurance Co. Ltd. (BI, July 6). And, he says he has already heard "rumblings" in Bermudian legal circles about the need for a judge specializing in commercial cases in a jurisdiction with an image as an international business center. "I think that the question of a commercial court or commercial division could well become a live issue in the next five years because of the number of cases coming through the courts," said the judge, who came to Bermuda as attorney general in 1973. "There is already a need for someone familiar with the handling of cases of this kind who will be able to get through the work quicker. But when the court gets to a certain size, a commercial division is worth looking at," he said. Justice Collett hinted that the current Bermuda legal system could become overloaded with commercial cases and preclude other litigants from resolving disputes within a reasonable length of time. Justice Collett also noted that legal cost constraints are ignored in corporate litigation involving hundreds of million of dollars.

"Time and the attendant legal costs are often not an issue" for plaintiffs and defendants "in these matters, but time is very important to the court. A boundary dispute with a neighbor is just as important as a multimillion-dollar dispute between companies," he explained.

## Amberco sale

Amberco Brokers Ltd., the Bermuda-based brokerage and management company, is acquiring Amberco shares held by its partner Conning & Co. in an equity swap deal involving stock in a newly formed affiliate in the Cayman Islands. Under the terms of the proposed deal, which is not expected to include a cash transaction, Conning, a Hartford, Conn.-based consulting and investment firm, is believed to have been offered stock in Sherburne Insurance Co., a company Amberco established in the Cayman Islands last year to write errors and omissions insurance for small to medium-sized insurance agencies. Amberco President John McGarrity, who with Conning & Co. helped form Amberco in October 1981, refused to discuss the transaction or the reasons behind it. But sources say the deal will pave the way for expansion of Amberco's Bermuda office, which currently has a staff of 12 and brokers reinsurance and manages four captives. Amberco currently is advertising for six new staff members, including two vps—one for accounting and another to manage the preparation of reinsurance contracts. "It's true that we are looking for five or six people, but I can't discuss what's behind this," Mr. McGarrity said.

## Tax treaty

Bermuda should not give up hope on the

## Litigation overload

Supreme Court Judge Gerald Collett be-

# New California ballot proposal sought

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Jul 20	Jul 8
Jul 27	Jul 15
Aug 3	Jul 22
Aug 10	Jul 28
Aug 17	Aug 5
Aug 24	Aug 12
Aug 31	Aug 18
Sep 7	Aug 26
Sep 14	Sep 2
Sep 21	Sep 9
Sep 28	Sep 15
Oct 5	Sep 23
Oct 12	Sep 30
Oct 19	Oct 7
Oct 26	Oct 13
Nov 2	Oct 20
Nov 9	Oct 28
Nov 16	Nov 3
Nov 16	Nov 3
Nov 23	Nov 11
Nov 30	Nov 18
Dec 7	Nov 25
Dec 14	Dec 2
Dec 21	Dec 8
Dec 28	Dec 16

LOS ANGELES—Californians will vote on several key tort law changes if the Assn. for California Tort Reform is successful in placing an initiative on the June 1988 ballot.

The proposed initiative was developed with the California Chamber of Commerce and was filed with the state attorney general's office last month, said Frank Schubert, association manager for the ACTR.

California voters approved the elimination of joint and several liability for non-economic damages through another ballot initiative, Proposition 51, in June 1986 (*BI*, June 16, 1986).

The latest proposal contains a laundry list of tort law changes that both the ACTR and the Chamber have been pushing in the California Legislature for several years.

Tentatively called the Fair Liability Act, the proposed initiative would:

- Limit one-third's contingency fees to one-third the first \$100,000 of an award, 25% of the next \$100,000 and 10% of any amount greater than \$200,000.

- Provide a collateral source offset that would reduce judgments by the amount of payments a plaintiff may be entitled to under any health insurance plan or similar payments.

- Require that a defendant's guilt be proved "beyond a reasonable doubt" before punitive damages may be awarded.

- Eliminate liability in cases where harm results from a product if the harm was caused by an inherent characteristic of the product that is widely known and understood by the public.

- Provide immunity from liability for voluntary directors and officers of not-for-profit organizations.

- Prohibit the Legislature from changing this initiative or the Medical Injury Compensation Reform Act without a two-thirds vote. MICRA limits the amount of damages that can be recovered in medical malpractice suits.

Mr. Schubert says he is confident that the association can collect the required 372,000 signatures needed to place the proposal on the June 1988 ballot. Signature drives are awaiting a ruling from the attorney general that the proposal is appropriate for an initiative vote.

### Florida fines

TALLAHASSEE, Fla.—The Florida Department of Insurance has fined Benefit Administrators of America Inc. of Des Moines, Iowa, \$20,000 for operating without a valid certificate of authority.

And, in unrelated actions, the Florida department also levied fines totaling \$23,000 against several insurance companies for various violations.

Benefit Administrators has paid the \$20,000 fine and received its certificate of authority, according to a company spokesman.

"It was never our intention not

### Letters

*Continued from page 8*  
said exclusions would be attached;

(2) To the extent that said exclusions are mere clarifications of existing coverages, the insurance commissioner finds that there is no objection to the approval of such exclusions. . . ."

On this basis, the pollution exclusion was approved in West Virginia and elsewhere. Thus, even after the so-called pollution exclusion was added to the policy, there was CGL coverage for damages caused by waste disposal, smoke, fumes, air or stream pollution and contamination of water supply or vegetation except where the policyholder intended to do the specific damage that was done. History is not on Mr.

## around the states

to become licensed," the spokesman said, adding that the claims administrator was in the process of obtaining a license when fined.

Also fined by the department was Prudential-LMI Commercial Insurance Co. of Mansfield, Ohio, \$15,000 for workers compensation violations.

According to Robert Sidwell, senior vp and general counsel for Prudential-LMI, the company has paid the fine and corrected the errors, which he described as "administrative entanglements."

Mr. Sidwell also noted that the errors occurred before Prudential acquired Lumbermen's Mutual Insurance Co. in October 1986.

The department also fined Hanover Insurance Cos. of Worcester, Mass., for workers compensation violations.

A spokesman for Hanover said the company will pay the \$5,000 fine and that the violations were for "very routine" administrative procedures.

The Florida Insurance Department also fined three other insurers \$1,000 for miscellaneous violations.

### Delaware tort reform

DOVER, Del.—The Delaware House has tabled comprehensive tort reform legislation, killing any chance that a bill will be passed this year.

Under the measure, H.B. 281, punitive damages would be capped at three times the amount of an award for compensatory or economic damages.

In addition, in cases involving multiple parties, a defendant's liability would be limited to the percentage to which it was at fault.

The measure also would allow the defense to introduce a plaintiff's collateral source income as evidence during a trial.

"We explained didn't have the votes," explained Robert Byrd, vp of the Delaware State Chamber of Commerce in Wilmington.

Mr. Byrd added that business groups intend to make a new effort in the next few months to convince legislators to pass tort reform legislation.

### Lawyers' rates

RICHMOND, Va.—The Virginia Trial Lawyers Assn. contends that insurance rates for lawyers' professional liability coverage appear excessive compared with insurers' experience in the state.

As a result, the Virginia State Corporation Commission will hold a public hearing in October in Richmond to determine whether there is sufficient competition in the lawyers' professional liability insurance market.

Under a new state law, the state Corporation Commission is required to order a 60-day advance filing of rates for any line of insurance in which competition is found

to be lacking.

Currently, lawyers' professional liability insurance is treated as an open competition line by the Bureau of Insurance.

The Oct. 1 hearing will begin at 10 a.m. at the Corporation Commission's 13th floor courtroom, Jefferson Building, 1220 Bank St. in Richmond.

### Rate increase rejected

BATON ROUGE, La.—Louisiana physicians and hospitals that purchase medical malpractice insurance from St. Paul Cos. Inc. units have been spared a 42.1% rate increase that had been sought by the insurer.

The Louisiana Rating Commission last month denied St. Paul's request to increase rates, saying it did not adequately prove the rate hike was needed.

Louisiana Insurance Commissioner Sherman A. Bernard said in a statement announcing denial of the rate request that the insurance company's method of justifying the rate hike was too radical a departure from methods used in previous years.

A spokesman for the commissioner's office said the Rating Commission and St. Paul had agreed that the insurer's method of calculating rates "needed to be updated."

But the spokesman added that changes used in figuring the most recent rate request were "too radical."

The commission "felt the changes should be more moderate," he added.

However, a St. Paul spokesman said the insurer was surprised the rate increase was not granted.

"We had been working closely with the Insurance Department" regarding the rate hike, she said.

The spokeswoman said it was undecided whether St. Paul would compile more data and resubmit its request or seek a smaller increase. The insurer's last medical malpractice rate hike in Louisiana was a 38.6% increase granted in July 1986.

St. Paul writes medical malpractice coverage for 1,600 physicians in Louisiana, which amounts to 18% of the market, according to the spokeswoman.

The insurer writes malpractice insurance for about 32 hospitals, or 21% of the Louisiana market, she said.

Coverage for doctors and hospitals will not be interrupted because of the rate request denial, the spokeswoman said.

### Grievance board

TALLAHASSEE—The Florida Insurance Department and the state's Department of Health and Rehabilitative Services, which jointly regulate health maintenance organizations, have formed a grievance board to handle unre-

solved consumer complaints.

The six-member board is composed of three appointees from each department.

The board will handle complaints such as disputes over reimbursement for emergency care at non-HMO facilities and accessibility to specialists. It will handle these complaints only after members have exhausted an HMO's internal complaint procedures without resolution.

The state already requires all HMOs to have an internal grievance procedure to handle enrollees' complaints.

### Work comp claims

NEW YORK—Oklahoma replaces the District of Columbia in the list of the 10 U.S. jurisdictions with the worst underwriting results for workers compensation insurers in 1985, according to the National Council on Compensation Insurance.

In Oklahoma, insurers' losses, expenses and paid dividends exceeded premiums by 31%, reported Philip Borba, the NCCI's director of economic research.

That netted Oklahoma the ninth spot in the list of the 10 worst jurisdictions.

In the District of Columbia, the comparable figure was 9.1%, Mr. Borba said.

The other jurisdictions on the NCCI's list and the percentages by which insurers' losses, expenses and paid dividends exceeded the premiums, are: Maine, 96.2%; Rhode Island, 58.7%; Kentucky, 51.6%; Texas, 52%; Montana, 51.6%; Louisiana, 45.9%; New Mexico, 35.7%; Georgia, 34.7%; and Minnesota, 30.2%.

The list of states is drawn from the 40 states in which the NCCI recommends rates for member insurers.

Despite losses in those states, the market for workers compensation insurance nationally is competitive, Mr. Borba said.

In 1985, employers were able to buy workers comp insurance from 376 groups of insurers, some of which included more than one insurance company, Mr. Borba noted.

Buyers are facing rate hikes primarily due to rising medical costs, Mr. Grippa of the NCCI explained. Data show that two-thirds of the rise in medical costs is due to the severity of injury, and one-third is due to an increase in the number of claims, he said.

Adding to these costs is the increased cost of home health care services for recuperating workers. With the increase in two-income families, the spouse of an injured worker often is unable to care for the injured worker full time, as was the case often in the past, which has increased the cost of home care.

In addition, some insurers are now pricing workers compensation coverage to better reflect its true costs, including the need for increased claims reserves, NCCI officials noted (*BI*, April 20). ■

McKeon's side.

With respect to CGL insurance coverage for asbestos removal, very eminent counsel for the Asbestos Claims Council, a small group of major insurance companies of which Travelers is a member, conducted an exhaustive legal analysis and, on June 28, 1983, concluded:

"... most courts would probably hold that at least some of the alleged damages (in the school district asbestos removal cases) are covered 'property damage' caused by an 'accident' or 'occurrence' as those terms are used in the policies, thereby triggering the duty to indemnify."

If Judge Brown's decision in the marathon

California asbestos coverage cases did not have the same impact on Travelers that it had on *Business Insurance*, I think you can rely on Travelers' lawyers as even better authority.

As "the policyholders' lawyer," I, and others like me, hope that the past will not be forgotten.

My partner, Irene C. Warshauer, initiated the discussions that led to the Wellington Agreement.

I think she could do it again but not if history is going to be rewritten.

Eugene R. Anderson  
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New York

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## Insolvencies

Continued from page 1

Indeed, the report, released last week by House Commerce, Consumer Protection and Competitiveness Chairman James Florio, D-N.J., shows that substantial insolvencies—those in which guaranty funds have had to assess more than \$10 million—have been increasingly common.

Between 1984 and 1986, 18 insolvencies resulted in assessments of at least \$10 million. By contrast, between 1978 and 1980, just five insolvencies occurred in which assessments by guaranty funds totaled more than \$10 million each.

While guaranty funds so far have been able to cope with larger insolvencies, experts are concerned about the future.

"The funds really have not been tested yet," said Les Cheek, senior vp-federal affairs with Crum & Forster Corp. in Washington, D.C.

Not only the size, but also the number of property/casualty insurance company failures has increased in recent years.

Of the 142 insolvencies, some 42% have occurred since 1983, according to the GAO, with about half of those insolvencies occurring in six states: New York, 18; Pennsylvania, 16; California, 13; Texas, 11; Florida, 10; and Illinois, 10. The large number of insolvencies reflects the high concentration of insurers in these states.

That surge of failures, coming after years of intense price competition, came as little surprise to industry observers.

"Many companies were forced by competition to reduce prices to below costs. Predictably, some then could not honor their contractual obligations," said Crum & Forster's Mr. Cheek.

"You had intense market competition, a drop in investment income and dramatic record claims losses all at the same time. Part of the result is insolvencies," said Tom O'Day, an associate vp with the Alliance of American Insurers in Washington.

State regulatory officials interviewed by the GAO cited five major reasons for the rise in insolvencies since the late 1970s:

- Cash-flow underwriting, which the GAO defines as underpricing premiums to encourage sales and obtain funds for investment.

- Under-reserving for losses.
- Reinsurance problems.
- Fraud and incompetence.
- Overexpansion.

"You had insurers giving away the underwriting pen," said Jim Lane, executive vp with the Ohio Insurance Guaranty Assn. in Columbus.

Mr. Lane notes that recent insolvencies of Ohio-domiciled insurers have involved companies that expanded into new lines in which they had little experience, adding that too much underwriting authority was given to managing gen-

eral agents.

The GAO noted that the typical insurance insolvency of the 1960s and 1970s involved small companies writing automobile insurance.

Today, though, it is difficult to develop a profile of the insolvencies of the 1980s, according to the GAO.

"This is because of the diverse nature of the companies, their lines of insurance, the reasons for impairment and the economic and financial conditions existing at the time of failure," according to the report.

Indeed, a detailed GAO analysis of 49 insolvencies between 1977 and 1986 did not reveal trends. "Rather, it showed they varied in size, scope of operations and lines of insurance written," according to the report.

For example, the size of those 49 insolvent insurers, based on the number of states in which they were licensed, varied considerably.

Some 19 companies were licensed in one state, while 16 were licensed in more than 20 states. Six were licensed in six to 10 states, while four were licensed in two to five states, and another four were licensed in 11 to 20 states.

Auto insurance was the major line—more than 50% of net written premiums—for more insolvent insurers—21—than any other line. However, 16 of the insolvent insurers did not have a major line. Workers compensation was a major line for four insurers, followed by: surety, three insurers; other liability, two insurers; multiple peril, two insurers; and reinsurance, one insurer.

The assets of failed insurers two years before liquidation also varied. For example, 18 insurers had between \$1 million and \$10 million in assets, 15 between \$10 million and \$50 million in assets and eight between \$50 million and \$100 million in assets.

On the other hand, four failed insurers had less than \$1 million in assets, while four had more than \$100 million in assets.

Gross premiums written by the failed insurers in the year before liquidation also ranged widely. Most failed insurers—21—wrote premiums of \$10 million to \$50 million in the year before they collapsed. Another 18 insurers wrote premiums of \$1 million to \$10 million, while six wrote premiums of \$50 million to \$100 million. Two insurers wrote premiums of more than \$100 million, while two insurers wrote less than \$1 million.

The GAO study also found new insurers aren't the only ones that become insolvent. In fact, of those 49 insolvencies, nine insurers were more than 41 years old, seven were between 31 and 40 years old and an additional seven were between 21 and 30 years old.

Newer insurers, though, did dominate the failed category: 15 of the failed insurers were less than 10 years old, while 11 companies

were between 11 and 20 years old.

GAO officials said the absence of common traits among failed companies was surprising, but more clues could emerge when the agency completes a more thorough analysis. The next study on insurance company insolvencies, which will attempt to better explain the causes, is not expected to be published until next year.

While insurers complain about the financial burden of paying guaranty fund assessments, the GAO report observes that 32 states, plus the District of Columbia and Puerto Rico, allow insurers to recover assessments made by guaranty funds through rate hikes. Other states allow insurers to reduce the cost of assessments by offsetting—usually over a five-year period—those assessments against premium taxes.

But the GAO notes that some have questioned if it is appropriate to pass on the cost of assessments through rate hikes or a premium tax offset.

"In essence, those states that provide for assessment recovery are passing the cost of paying an insolvent insurer's claims on to policyholders of other insurers through rate increases or to taxpayers through a premium tax offset," the report said.

"This situation has prompted concerns about whether it is appropriate to require homeowners to subsidize, through rate increases, for example, guaranty fund payments to large commercial insureds," the GAO report added.

Meanwhile, insurers also contend that due to competitive pressures, they are not always able to pass the cost of assessments onto policyholders.

The GAO report noted that numerous proposals have been made to change the guaranty fund system. Typically, after an insolvency, licensed insurers are assessed the money as needed to cover the guaranty fund claim payments, with assessments capped at 1% to 2% of an insurer's net direct written premiums in the previous year.

For example, the National Assn. of Insurance Commissioners has considered—though never passed—a proposal that calls for prefunding of state guaranty funds.

Prefunding would allow insurers to know how much they will have to pay each year, while regulators would know that the money was available to pay claims, the report said.

On the other hand, prefunding could jeopardize guaranty funds' tax-exempt status, as well as encourage states to use accumulated funds for non-insurance purposes, the report said.

"The funds would be raided," said Crum & Forster's Mr. Cheek.

New York, the only state that prefunds, borrowed \$87 million from its guaranty fund in 1982, but is obliged under law to repay the money if the fund needs an infusion. ■

## update

### House hikes nuclear liability

Continued from page 2

However, several floor amendments were defeated, including one to exclude legal and administrative costs from the nuclear insurance pool limits and another to abolish any liability ceiling.

In the event of a nuclear disaster, each nuclear reactor could be assessed up to \$63 million, not to exceed \$10 million per year, to pay for claims and legal and administrative costs that exceed insurance coverage. If that amount does not cover these costs, each reactor can be assessed an additional \$3.15 million, after which Congress would decide how to pay any additional costs.

### American Reliance foils bid

CHERRY HILL, N.J.—American Reliance Insurance Co.'s board of directors unanimously rejected a \$32 million bid by two investors to obtain control of its subsidiary, American Reliance Group, said Bruce W. Herrick, president and chief executive officer.

Both companies are suing the investors, Louis P. Guida and George P. Norcross III, in U.S. District Court in Newark for "material violations" of the federal securities law related to inadequate disclosure of related financial information, Mr. Herrick said.

Mr. Norcross, chairman and chief executive officer of Keystone National Cos., a Cherry Hill-based broker, had no comment.

The investors, who hold 6% of American Reliance Group's stock, were seeking a 67% share of the company.

### JUA's malpractice rates steady

BOSTON—The Joint Underwriting Assn. of Massachusetts will not raise rates in effect from July 1988 to June 1989 for the medical malpractice insurance it provides doctors, hospitals and dentists.

The JUA requested an 8.5% rate increase from the Insurance Department while members of the Massachusetts Medical Society asked for a 6.1% decrease.

The JUA and the medical society agreed to skip the lengthy and expensive hearing process this year and "sit down and talk it over," said Richard Moore, executive director of the JUA.

Although rates won't be increased until June 1989, some doctors may soon pay more for insurance because they will be reclassified as specialists, Mr. Moore explained.

The Massachusetts JUA is underfunded by as much as \$180 million, on a discounted basis, according to a recent study by the National Coordinating Committee on Medical Malpractice JUAs in Washington. Insurer members of the JUA can be assessed up to 1% of their surplus to cover deficits, with a recoupment provision.

### Benefits saved from Chapter 11

WASHINGTON—The Senate approved legislation late last month protecting the health and life insurance benefits of retirees when their former employers file for bankruptcy.

The bill, S. 548, requires companies reorganizing under Chapter 11 to continue paying retirees' health and life insurance benefits until the company has negotiated a different arrangement or until ordered to modify the payments by a bankruptcy judge. The bill would amend the Federal Bankruptcy Act to treat retiree health and life insurance benefits as administrative expenses, which are paid before other unsecured creditors.

### Briefly noted

**Argo Air International** in Miami, the owner of a Boeing 377 propeller plane that crashed onto a Mexican highway last week, killing more than 40 people, has more than \$20 million in liability coverage in the London market led by Orion Insurance Co. P.L.C.

... A definitive rehabilitation agreement for the insolvent **Mission American Insurance Co.**, signed in late June, was submitted for approval to Los Angeles Superior Court July 10. However, contrary to previous reports, Mission American is not scheduled to be released from state control by Sept. 30. Mission American will remain in state conservatorship until Commissioner Roxani M. Gillespie decides otherwise. ... Rhode Island Gov. Edward D. DiPrete signed into law last week a **tort reform package** that, among other provisions, ties prejudgment interest rates to Treasury Bill auction rates. ... Facing more than 61,000 asbestos bodily injury lawsuits, Ambler, Pa.-based **Nicolet Inc. filed for Chapter 11** July 17. The company said it has exhausted its insurance coverage and listed assets of \$2.1 million and liabilities of \$751,000. The company stopped manufacturing pipe and heater insulation that contained asbestos in 1964. ... Kansas City-based **Financial Guardian Group and Brain & Fritson Inc.**, another Kansas City broker, merged July 31. Brain & Fritson posted approximately \$6.5 million in premium volume for 1986 and employs 16 people. Financial Guardian employs about 350 and produced about \$200 million in premiums in 1986, making it the nation's 21st-largest broker. ... Standard & Poor's Corp. put **Fireman's Fund Corp.** on its CreditWatch list last week, warning that its \$360 million reserve-strengthening move (BI, July 27) could have "negative implications" for the insurer's claims-paying ability and debt ratings. A Fireman's Fund spokesman said the insurer is meeting with S&P, and hopes to be taken off the list. ... Peru's President Alan Garcia last week proposed that all banks, financial institutions and **insurance companies be nationalized**. The Peruvian government owns the monopolistic reinsurer Reasegurada Peruana S.A. ... Claims from all but seven families of 520 victims of the **1985 crash of a Japan Air Lines Boeing 747** near Osaka, Japan, will be heard in Japan, a King County, Wash., Superior Court judge ruled. Claims for the seven non-Japanese victims will be heard in King County, Boeing Co.'s base. ... British Printing & Communication Corp. is dropping its suit against **Harcourt Brace & Jovanovich Inc.** in which it sought to block an HBJ recapitalization plan intended to thwart a British Printing takeover of HBJ (BI, June 22).

## USF&G to list shares on London exchange

USF&G Corp. of Baltimore says it will list its common stock on the London Stock Exchange.

"USF&G is already somewhat known in the London financial community," said Jack Moseley, chairman, president and chief executive officer of USF&G.

"But because London is the financial capital of Europe, this listing will widen our circle of contacts among investors and financial institutions," Mr. Moseley said.

### AMBAC Indemnity capital

Investors in AMBAC Indemnity Corp. of New York boosted its statutory capital by \$200 million, giving it the largest capital base in the financial guarantee insurance business, according to a spokeswoman.

With the capital infusion from Citibank (which owns 87% of the insurer), Xerox Financial Services and Stephens Inc., AMBAC's total statutory capital now is nearly \$600 million. The capital infusion had been expected (BI, June 1).

Also, citing the capital infusion as a factor, Moody's

### ticker briefs

Investors Service Inc. gave the insurer a Triple-A rating last week. AMBAC was previously rated Triple-A by Standard & Poor's.

### MBIA Inc. offering

MBIA Inc., the holding company for municipal bond insurer Municipal Bond Investors Assurance Corp., made its initial public offering last month (BI, May 25).

The company is selling 5.5 million shares of common stock for \$23.50 per share, or a total of \$129.3 million.

The entire proceeds will go to the selling shareholders: Aetna Life & Casualty Co.; Fireman's Fund Insurance Cos.; a unit of CIGNA Corp.; Continental Insurance Co.; and some of their affiliates. MBIA is traded on the New York Stock Exchange. ■

# Commonwealth suit

Continued from page 1  
 or July 24. In addition to the racketeering and common law fraud charges, the amended complaint seeks indemnification from the defendants if Commonwealth should be found liable to ACIC for losses on the Barrett book.

In addition to Beneficial, the 34 directors and officers, Barrett Treaty and Vaughan & Co., the amended complaint names:

- R. Donald Quackenbush, former chairman of ACIC.
- William P. Barrett, president and owner of Huntington, N.Y.-based Barrett Treaty.
- Dennis J. Vaughan, president of Vaughan & Co., which acted as an intermediary between ACIC and Commonwealth.

According to the complaint, Mr. Barrett served as president of Treaty Capacity Inc., a managing general agent for Midland Insurance Co., from 1970 until Midland withdrew from the reinsurance business in 1976.

Midland was ordered liquidated by a New York court last year (BI, April 14, 1986).

Mr. Barrett formed Barrett Treaty in October 1976 with business brought over from Treaty Capacity, and Barrett Treaty became a managing general agent for ACIC in December 1976. Under the MGA agreement, Barrett Treaty bound reinsurance risks on ACIC's behalf and arranged retrocessions of up to 80% of the business to other reinsurers, the complaint states.

**Barrett Treaty 'generated and disseminated a stream of false and fraudulent reports,' the complaint charges.**

In late 1976, agents for Commonwealth committed the Canadian company to reinsure a 10% quota share of the 80% of the Barrett book retroceded by ACIC. Commonwealth's agents subsequently bound the reinsurer for varying participations on the quota-share treaty through Dec. 31, 1981, the complaint says.

To keep Commonwealth on the risk, Barrett Treaty "generated and disseminated a stream of false and fraudulent reports designed to persuade Commonwealth and others that (Barrett Treaty) was engaged in writing an extraordinarily profitable book of business," the complaint charges.

The allegedly false reports included:

- A document known as the "Encyclopedia Barrettanica," which claimed to present the experience of Treaty Capacity Inc. from 1970 through 1976. The "Encyclopedia Barrettanica" claimed that Treaty Capacity achieved a 62.1% loss ratio from 1971 to 1975 and a 96% combined ratio from 1970 to 1976.
- A series of 1981 reports claiming to

present audited accident-year loss information for Barrett Treaty from 1976 to 1980 and showing a loss ratio—including incurred-but-not-reported losses—of 60% and a combined ratio of 87%.

• Quarterly reports on ACIC's business for the years 1976 through 1983 and Barrett Treaty's annual contingent commission statements, which had presented a "similarly rosy picture" of Barrett Treaty's experience.

The "Encyclopedia" and the quarterly and annual reports misrepresented the true experience of Treaty Capacity and Barrett Treaty by understating incurred-but-not-reported reserves, the complaint charges.

The 1981 reports were also "riddled with falsehoods," according to the complaint, which charges that the reports in fact were not audited and did not represent accident-year figures.

Where the reports claimed a 60% loss ratio, the true loss ratio was actually in excess of 150%, Commonwealth charges.

Barrett Treaty "was said to lead all leading domestic reinsurers in terms of profitability when in fact it was producing huge losses," the complaint says.

Commonwealth also alleges that Elkhorn Insurance Co.—later renamed Delta America Re Insurance Co. and ordered liquidated in 1985—and other reinsurers withdrew from the Barrett quota-share treaty because of adverse loss experience. The reasons for these reinsurers' withdrawals had been con-

cealed from Commonwealth, the complaint says.

Some time between 1977 and 1983, Mr. Quackenbush allowed ACIC to advance cash payments to Barrett Treaty to fund losses on the Barrett business, according to the suit. These payments were concealed from Commonwealth "in an effort to hide the deteriorating loss experience" on the Barrett book, the complaint alleges.

Commonwealth also charges that Mr. Vaughan, Mr. Barrett, Barrett Treaty and Vaughan & Co. diverted Commonwealth premiums to entities controlled by Mr. Vaughan. The complaint does not specify how much was diverted or which Vaughan-controlled entities allegedly received the funds.

The complaint accuses Mr. Barrett, Mr. Vaughan, Mr. Quackenbush, Barrett Treaty and Vaughan & Co. of conspiring to defraud Commonwealth in violation of the RICO statute.

In addition to the RICO charges, the complaint accuses all the defendants—including the Beneficial directors and officers—of common law fraud, negligence and breach of their duty to act in utmost good faith.

The common law fraud charge against Beneficial, the directors and officers and Mr. Quackenbush alleges they deliberately concealed information on the inadequacy of Barrett Treaty loss reserves.

Mr. Barrett, Mr. Vaughan and Mr. Quackenbush could not be reached for comment. ■

# Mazzella aided attempt to buy ACIC

By DOUGLAS McLEOD

NEW YORK—Louis Mazzella, accused of defrauding American Centennial Insurance Co. of \$2.4 million in reinsurance premiums, was involved in an attempt by former Georgia Insurance Commissioner James L. Bentley Jr. to buy the insurer earlier this year.

Mr. Mazzella was re-indicted in April on charges he diverted \$2.4 million in premiums ceded by ACIC to Colonial Assurance Co. of Elkins Park, Pa., a now-defunct in-

surer that Mr. Mazzella owned through two holding companies (BI, May 4).

The criminal indictment charges that Mr. Mazzella diverted premiums to a New York bank account he had opened in Colonial's name using the forged signatures of two Colonial officers.

Mr. Mazzella also falsely told a Colonial officer that the ACIC reinsurance certificates had been canceled, leading Colonial to file false financial reports with the Pennsylvania Insurance Depart-

ment, the indictment alleges.

He pleaded not guilty to the charges.

Mr. Mazzella originally was indicted on similar charges in 1985, but that indictment was withdrawn.

After Beneficial Corp., ACIC's former parent, announced last year that it would sell its insurance units, Mr. Mazzella became involved with a group headed by Mr. Bentley that proposed to buy ACIC.

In a Nov. 11, 1986, Mailgram to First Boston Corp., Beneficial's investment banker, Mr. Mazzella outlined a deal for ACIC's acquisition.

"People with highest credentials will complete deal; purchaser will be Mr. James L. Bentley, twice insurance commissioner of Georgia," Mr. Mazzella's Mailgram reads.

Elements of the deal, as outlined in the Mailgram, included:

- Purchase of 100% of ACIC's stock for \$1 "and other consideration."
- Use of ACIC's offices in Peapack, N.J., for two years at a cost of \$1 per year.
- Settlement by Beneficial of "residual value claims" in favor of Colonial Investment Corp. and Mr. Mazzella personally. The Mailgram shows a proposed settlement amount of \$2 million, though this figure was crossed out and replaced with \$20 million and the change initialled by a First Boston official.

Colonial Assurance had written residual value insurance policies guaranteeing the resale value of aircraft that had been financed by a Beneficial subsidiary. Colonial's inability to collect on its 100% reinsurance of these risks with Mercantile & General Reinsurance Co. P.L.C. of London contributed to its 1984 collapse.

"If terms acceptable, ready to go into contract. Please contact my attorney," Mr. Mazzella's Mailgram concludes. "Please advise soon. Best regards, Lou Mazzella."

In a Nov. 21, 1986, memo to First Boston, Mr. Mazzella said he might release Beneficial from liability to him on the residual value claims if the deal to purchase ACIC were

**'I wanted the truth to surface about' problems with the AEGIS program, says Louis Mazzella.**



Mr. Mazzella

consummated.

Gary Parr, a First Boston vp, confirmed the contents of the Mailgram and the memo.

In January 1987, Mr. Bentley submitted a proposal to buy ACIC and another Beneficial insurance unit. The terms of Mr. Bentley's offer differed substantially from those outlined in Mr. Mazzella's Mailgram.

Mr. Bentley submitted a second proposal in March, after Beneficial announced that it had reached an agreement to sell ACIC and several other insurance units to a management group.

Mr. Bentley was represented by the New York law firm of Cravath, Swaine & Moore, which also represents Commonwealth Insurance Co., a reinsurer of ACIC, in its current lawsuit against Beneficial and other parties (see story, page 1).

Beneficial officials say that in a Feb. 25 conference call, Mr. Bentley—after much confusing discussion on the point—said that Mr. Mazzella or members of his family would be the majority owners of ACIC, holding at least 50% to 55% of the shares.

A Cravath, Swaine lawyer who participated in the conference call confirmed that there was confusion over equity ownership of the insurer under the proposal and that he had discussed the possibility of Mr. Mazzella's children being given an option on ACIC shares.

The lawyer said, however, that he did not recall ever discussing a majority position for either Mr. Mazzella or his family, and that Mr. Mazzella had expressed a willingness to forego the options for his children if that would help complete the deal.

Mr. Bentley said that he had discussed the possibility of holding ACIC stock in trust for Mr. Mazzella's children, but said he did not remember the precise amount. Mr. Mazzella himself was never to have an equity interest, Mr. Bentley said.

In a series of interviews, Mr.

Mazzella confirmed that he was introduced to Mr. Bentley through a Florida lawyer and two other individuals.

"Find me the cleanest (guy) you can get and send him to First Boston and get him to buy the company," Mr. Mazzella said he told the lawyer.

Mr. Mazzella emphasized that he was not going to have an equity interest in ACIC and that his only function would have been to serve as a consultant to the Bentley group on problems related to ACIC's reinsurance agreements with Associated Electric & Gas Insurance Services Ltd., a utility industry captive insurer.

ACIC is suing one of its former managing general agents and numerous other parties involved in handling the loss-ridden AEGIS account.

"I wanted to help Bentley get it because I wanted the truth to surface about AEGIS," Mr. Mazzella said. "I'm the one who uncovered that fraud and I'm the one who got bombed."

He added that in discussions concerning the Bentley proposal, Beneficial was told that Mr. Mazzella's two sons would be given 10-year options to buy ACIC stock. The options would be good only if ACIC survived the problems with the AEGIS account and other problems, and would amount to less than 10% of the insurer's total shares, Mr. Mazzella said.

Mr. Bentley—who said he recently bought Georgia-domiciled Stone Mountain Insurance Co.—said that he was not aware of Mr. Mazzella's criminal indictment when he was approached regarding ACIC.

He confirmed that Mr. Mazzella would have been hired as a consultant on the AEGIS account problems, and said that if Beneficial had accepted his proposal, ACIC or its new parent would have paid Mr. Mazzella an undetermined amount in settlement of his residual value claims.

A Beneficial shareholder sued the company's directors and officers in May charging among other things that they ignored the Bentley proposals in favor of the management group's offer (BI, May 25).

The Beneficial directors and officers have filed a motion to dismiss the suit, according to James H. Gilliam Jr., Beneficial's general counsel. ■

## insurance services guide

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## Purchasing groups

Continued from page 1

The Insurance Division expects that insurers will appeal the outcome of the administrative hearing to a federal court. The division hopes that the court will establish a precedent to resolve what Mr. Hager describes as the "nationwide controversy" over where a purchasing group is located and which state insurance department has authority over it.

Iowa's concern is to protect consumers, especially unsophisticated ones, from ill-financed insurers, explained Deputy Insurance Commissioner Tony Schrader.

No insurers had imminent plans to seek a declaratory judgment or otherwise file litigation. However, Walter Rhulen, president and chief executive officer of the Frontier Insurance Co. of Monticello, N.Y., said he plans to contact the other insurers to explore the feasibility of joint legal action.

Insurers say Iowa's action was not unexpected and welcomed the chance to clarify how purchasing groups will be regulated. "We are pleased that the Iowa Division has seen fit to raise the issue," said Mr. Rhulen.

The insurers are responding to Iowa's action in a variety of ways:

- Planning to contest the division's action at the hearing are: Frontier; TriStar Insurance Co. of Phoenix, Ariz.; and Fund Insurance Co. Ltd. of Bermuda and affiliate United International Insurance Co.

- Swanco and Nobel Lloyds Insurance Co. of Dallas plan to protest the division's action, but have not decided if they will send a representative to the hearing.

- Lincoln Insurance Co. of Wilmington, Del., and Victoria Insurance Co. of Atlanta have not decided on their response.

- Bel-Aire Insurance Co. of St. Louis will not contest the division's action, because the division "has no right to do it," said President Arthur Blumeyer. Bel-Aire's attorneys "are still deciding whether we should even show up" at the hearing.

Bel-Aire will defend itself if sued, Mr. Blumeyer said. But, "Iowa would have a jurisdictional problem in suing an insurer not domiciled or admitted in Iowa," Mr. Blumeyer said his attorneys have said.

Mr. Blumeyer also is president of Risk Retention Service Corp., a St. Louis, Mo.-based company that provides a wide range of services to purchasing and risk retention groups. Both companies are involved with at least 17 purchasing groups nationwide, of which six which are operating, he said.

Other insurers that received notices want to avoid a confrontation with the division.

The Doctors' Co. of Santa Monica, Calif., which currently insures 23 pathologists in Iowa through a purchasing group, plans to dismantle the group and offer coverage to the physicians only on an individual basis as an approved surplus lines insurer. As a result,

the division has agreed to remove The Doctors' Co. from the list of summoned companies, noted Dr. Joseph D. Sabella, president and chairman of the insurer.

And, Capital City Insurance Co. of Columbia, S.C., is giving up its plans to sell insurance to a potential Iowa member of the American Pulpwood Assn.'s purchasing group, said K.S. Rolston, the association's president.

In addition, spokesmen for four insurers say the notice from the Insurance Division does not apply to them because either they were planning to insure purchasing group members through affiliated insurers that are admitted or authorized surplus lines insurers in Iowa or have been replaced by other Iowa-authorized companies as purchasing group underwriters.

Those insurers are: Markel American Insurance Co. in Richmond, Va., which issues coverage in Iowa through affiliate Essex Insurance Co., also of Richmond; Bermuda-based Mutual Indemnity Ltd., which was replaced as a purchasing group insurer by Lexington Insurance Co. of Boston; Multi-Medical Insurance Co. of Bannockburn, Ill., and affiliate U.S. Security, Fire & Casualty, of Memphis, Tenn., both of which will use affiliate American Continental Insurance Co. of Kansas City, Mo.

Six insurers summoned by the department could not be reached for comment. They are: Golden Eagle Insurance Co. in San Diego; Century American Insurance Co.; Stone Mountain Insurance Co. in Marietta, Ga.; Dart & Kraft Insurance Co. Ltd. of England; Transatlantic Insurance Co. Ltd. of England; and Capital Insurance Co. Ltd. of Barbados.

If the Iowa dispute goes to court, it may take a U.S. Supreme Court decision to clarify states' control over purchasing groups, said David Thornberry, a member of the Texas Board of Insurance in Austin.

Jon Harkavy, general counsel and government affairs director for the Risk & Insurance Management Society, predicts courts will favor insurers and purchasing groups.

Otherwise, he expects Congress to amend the federal act to say that only the insurance departments of the states in which purchasing groups are based—and not those where members are located—have authority over group member's insurance.

However, Mr. Harkavy fears "over-reaching will continue to occur by numerous state insurance departments," as he wrote in a July 29 letter to Edward T. Barrett II of the U.S. Commerce Department's Office of Economic Affairs.

As a result, RIMS is urging that "the U.S. Department of Commerce should be empowered to adjudicate disputes involving permissible state regulatory authority under the risk retention act, which do not involve the solvency of a risk retention or purchasing group."

# States' financial criteria called unfair to purchasing groups

By MEG FLETCHER

Liability insurance purchasing group members are being turned away by several states because they cannot meet what some risk management observers call discriminatory financial responsibility requirements in those states.

Several states are denying purchasing group members licenses to operate because the members' liability risks are insured by unauthorized insurers. But most risk management observers contend that the coverage is permitted under the federal Risk Retention Act of 1986, as long as group members are insured by either an insurer admitted in the state in which the group is based or by an eligible surplus lines insurer in that state.

While the federal law pre-empts state laws prohibiting employers from purchasing casualty insurance on a group basis, it does not prevent a state from imposing financial requirements on members of those groups to ensure that group members can pay for damages or injuries resulting from their operations.

However, a state cannot arbitrarily discriminate against insurance provided through purchasing groups—or risk retention groups—to meet financial responsibility requirements, asserts Jon Harkavy, general counsel and director of government affairs for the Risk & Insurance Management Society.

In some states, agencies responsible for assessing an operation's claims-paying ability have, at the prompting of their respective state insurance departments, "been using financial responsibility requirements in a discriminatory fashion against risk retention and purchasing groups," Mr. Harkavy charges in a July 29 letter to Edward Barrett II of the U.S. Department of Commerce's Office of Economic Affairs.

"It's a broader problem than people originally anticipated," noted Mr. Barrett, who is scheduled to report to Congress by Sept. 1 on the implementation of the Risk Retention Act.

Questions raised by state regulators about whether liability insurance that covers purchasing group members meets financial responsibility requirements pose a "significant" problem, agreed Arthur Blumeyer, president of Bel-Aire Insurance Co. and Risk Retention Service Corp., both in St. Louis.

Financial responsibility requirements typically are imposed on companies whose operations must be licensed by a state agency.

Typically, to meet a state's financial responsibility requirement, a company must show proof of insurance from an acceptable insurer, post a surety bond or have adequate self-insurance reserves.

"The NAIC model bill seems to take the position that state legislatures have absolute au-

thority to preclude risk retention/purchasing groups' coverage from satisfying state financial responsibility requirements," Mr. Harkavy said, referring to the model bill unanimously adopted by the National Assn. of Insurance Commissioners at its summer national meeting in Chicago in June (BI, June 29).

However, NAIC spokesmen previously have said the model act merely reflects the federal act.

Further complicating the problem for purchasing groups is that the agency responsible for approving methods of meeting financial responsibility requirements varies from state to state, resting with the insurance department in some states and with the agency charged with licensing companies in others.

For example, the railroad commission in Texas decides whether applicants for some truck licenses have acceptable insurance arrangements, said David Thornberry, a member of the State Board of Insurance.

Beth Kravetz, a Washington, D.C., attorney representing the Danville, Va.-based Assn. of Truck Operators' purchasing group, said that some state insurance departments have told the ATO that the commercial automobile coverage that group members have obtained does not meet the departments' requirements for use of admitted insurers or surplus lines insurers.

But she argues that "it is not their call." The agency in each state responsible for licensing companies—not that state's insurance department—should be making that decision on a case-by-case basis, she contends.

Greg Breyfogle, risk manager for the Tucson, Ariz.-based Ugly Duckling Rent-A-Car System, said that the system's purchasing group, which purchases rental car liability insurance for its franchisees located in many states, is having similar trouble with state vehicle registration departments in five states: New York, Massachusetts, Michigan, Maryland and New Jersey.

Those departments require a franchise operator to provide proof of insurance to register a car. However, they have rejected the purchasing group's insurance because the insurer, Ugly Duckling's Swanco Insurance Co. captive, is not on their list of approved insurers, according to Mr. Breyfogle.

The transportation departments are "reluctant" to interpret the federal act and accept the insurance arranged by the purchasing group, Mr. Breyfogle said.

The franchisees cannot afford other methods to prove their financial responsibility, he said.

He plans to meet with the states' attorneys general to resolve the problem, he added.

However, Mr. Breyfogle said that his franchisees have had no trouble dealing with many other state vehicle registration agencies.

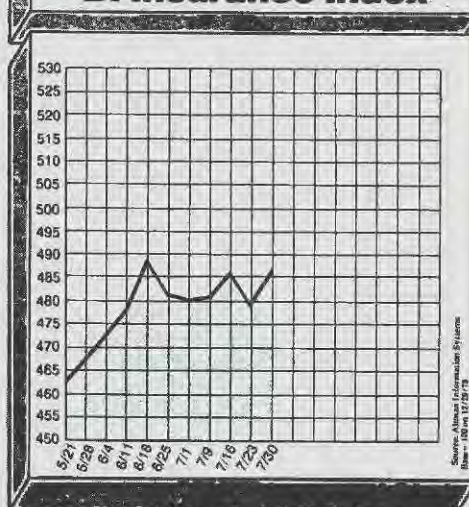
## BI Industry Stock Report

July 30, 1987

7/24/87 thru 7/30/87

Brokers	Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol.(000)	
Alexander & Alexander Svcs	NYSE	23.13	-3.1	27.5	1.00	4.3	23.75	23.13	999.6
Baldwin & Lyons Inc	OTC	20.00	0.0	8.4	0.20	1.0	20.00	20.00	0.0
Corroon & Black Corp	NYSE	39.25	0.0	14.1	0.84	2.8	31.38	30.13	240.6
Gallagher Arthur J & Co	OTC	21.25	3.7	16.0	0.40	1.9	21.25	21.00	74.0
Hall Frank B & Co Inc	NYSE	9.88	-16.8	0.0	0.00	0.0	12.00	9.88*	627.5
Harsh & McLennan Cos Inc	NYSE	60.75	1.5	15.8	2.40	4.0	61.53	59.50	989.4
Poe & Assoc Inc	OTC	11.75	-4.1	14.9	0.40	3.4	12.25	11.75	6.2
AGENTS/BROKERS	AVERAGE			14.7		3.1			
<b>Conglomerates &amp; Holding Cos.</b>									
Berkley W R Corp	OTC	27.00	10.2	9.2	0.28	1.0	27.25	24.50	504.6
Berkshire Hathaway Inc Del	OTC	3820.00	2.7	126.8	0.00	0.0	3820.00*	3720.00	1.7
CIGNA Corp	NYSE	62.50	-2.0	8.9	2.80	4.5	64.13	62.50	856.0
CNA Finl Corp (CNA)	NYSE	52.88	1.4	12.1	0.00	0.0	53.00	51.88	116.5
General Re Corp	NYSE	52.25	4.2	16.0	1.00	1.9	52.25	50.50	2,135.0
ITT (Hartford Group)	NYSE	63.13	1.6	13.8	1.00	1.6	63.13	62.38	1,874.5
Sears Roebuck & Co. (Allstate)	NYSE	53.00	1.9	12.9	2.00	3.8	53.00	51.38	2,795.5
Transamerica Corp (Occidental)	NYSE	43.75	2.3	8.9	1.76	4.0	43.75	42.50	1,722.9
CONGLOMERATES/HOLDING COS.	AVERAGE			68.1		0.2			
<b>Insurers</b>									
Acceptance Ins Hldgs Inc	OTC	13.75	3.8	7.6	0.00	0.0	13.75*	13.50	130.7
Aetna Life & Cas Co	NYSE	57.75	-1.1	8.8	2.76	4.8	59.00	57.75	1,349.9
American General Corp	NYSE	39.88	0.0	10.7	1.25	3.1	40.50	39.75	1,415.7
Ameri Heritage Life Invnt Co	NYSE	31.50	0.0	15.9	0.96	3.0	31.50	31.50	3.9
American Indty Finl Corp	OTC	13.25	2.9	0.0	0.56	4.2	13.25	12.88	94.2
American Intl Group Inc	NYSE	70.63	4.1	15.6	0.25	0.4	70.63	68.50	1,066.6
Aneco Reins Ltd	OTC	2.88	35.3	0.0	0.00	0.0	2.88	2.13	34.2
Avemco Corp	NYSE	23.50	1.1	14.8	0.28	1.2	23.50	23.25	72.0
Business Mens Assurn Co Amer	OTC	39.25	-3.3	0.0	1.10	2.8	41.25	39.25	380.8
Chubb Corp	NYSE	62.63	3.3	8.8	1.68	2.7	62.63	60.00	552.0
Aon Corp	NYSE	27.75	1.8	9.8	1.20	4.3	28.00	27.25	416.5
Continental Corp	NYSE	46.13	0.8	10.5	2.60	5.6	46.25	45.88	382.1
Crown Life Ins Co	OTC	270.00	0.0	9.3	6.40	2.4	270.00	270.00	1.0
Durham Corp	OTC	33.25	0.0	19.6	0.92	2.8	33.50	33.00	22.0
Farmers Group Inc	OTC	43.50	3.3	13.7	1.20	2.8	43.50	42.00	737.5
Fairmont Fnl Inc	AMEX	17.63	0.0	9.9	0.00	0.0	0.00	0.00	0.0
Firemen Fd Corp	NYSE	35.50	1.4	0.0	0.40	1.1	35.75	34.75	771.0
Freemont Gen Corp	OTC	17.63	6.0	0.0	0.60	3.4	17.68	17.13	376.0
Great West Life Assurn Co	OTC	700.00	0.0	14.4	18.00	2.6	0.00	0.00	0.0
Home Group Inc	AMEX	18.88	-0.7	4.9	0.20	1.1	19.38	18.88	669.5
Hanover Ins Co	OTC	32.25	0.4	7.7	0.36	1.1	32.75	31.75	58.7
Hartleysville Group Inc	OTC	16.00	-1.5	5.0	0.40	2.5	16.25	15.75	24.7
Hartford Steam Boiler Inspn	OTC	29.25	-1.7	12.1	1.00	3.4	29.50	29.25	322.9
Kans City Life Ins	OTC	29.25	0.0	11.3	0.96	3.3	29.25	29.25	25.8
Kemper Corp	OTC	30.75	-4.7	10.6	0.60	2.0	32.00	30.75	1,153.1
Liberty Corp S C	NYSE	45.75	2.8	16.5	0.72	1.6	45.75	44.25	27.9
Lincoln Natl Corp Ind	NYSE	53.25	4.2	11.2	2.16	4.1	53.25	51.38	220.1
Mission Ins Group Inc	PAC	1.38	0.0	0.0	0.00	0.0	4.38	0.69	1.1
Monumental Corp	OTC	55.63	0.0	18.8	0.00	0.0	55.63	55.63	1.1
Nac Re Corp	OTC	24.00	-1.0	31.6	0.00	0.0	24.25	23.50	15.7
Nobel Ins Ltd	OTC	12.38	-1.0	9.3	0.37	3.0	12.63	12.25	31.5
Northwestern Natl Life Ins	OTC	27.75	-5.7	7.9	0.96	3.5	27.75	26.50	117.4
Onto Cas Corp	OTC	43.25	-0.6	10.8	1.68	3.9	43.50	42.75	83.3
Old Rep Intl Corp	OTC	30.38	0.0	10.8	0.80	2.6	30.50	30.25	261.7
Orion Cap Corp	NYSE	23.75	2.2	0.0	0.76	3.2	23.75	23.13	41.1
Protective Corp	OTC	15.13	1.7	12.3	0.70	4.6	15.13	14.88	208.2
Provident Life & Acc Ins Co	OTC	22.00	-1.1	12.2	0.84	3.8	22.00	21.63	287.6
Reliance Group Hldgs Inc	NYSE	9.88	-1.3	11.0	0.16	1.6	10.00	9.88	91.2
St Paul Cos Inc	OTC	49.25	3.7	11.4	1.76	3.6	49.25	47.25	1,312.4
SAFECO Corp	OTC	29.25	-4.1	10.2	0.96	3.3	30.75	29.25*	1,464.9
Scor U S Corp	OTC	12.00	2.1	14.3	0.00	0.0	13.50	11.88	188.9
Seibels Bruce Group Inc	OTC	16.75	8.1	104.7	0.80	4.8	17.25	15.75	116.3
Selective Ins Group Inc	OTC	27.00	3.8	10.4	0.92	3.4	27.00*	26.00	117.4
Statesman Group Inc	OTC	6.88	14.6	0.0	0.05	0.7	6.88	6.13	851.7
Tokio Marine & Fire Ins Co	OTC	66.75	0.0	77.2	0.19	0.3	66.75	68.75	7.8
Torchmark Corp	NYSE	30.38	6.6	10.8	1.20	4.0	30.38	29.00	758.5
Travelers Corp	NYSE	45.25	1.7	9.7	2.28	5.0	45.63	45.13	1,471.9
Transwick Group Inc	OTC	12.63	1.0	21.4	0.00	0.0	12.75	11.50*	714.5
United Fire & Cas Co	OTC	30.00	1.7	9.6	0.96	3.2	30.00	29.75	5.1
United States Fld & Cty Co	NYSE	38.88	0.0	9.4	2.48	6.4	39.38	38.63	1,789.3
Unim Corp	NYSE	23.38	1.6	0.0	0.40	1.7	23.38	22.88	585.9
UsLife Corp	NYSE	38.50	1.3	9.8	1.20	3.1	38.63	38.13	259.2
Washington Natl Corp	NYSE	33.50	5.9	17.3	1.08	3.2	33.75	31.88	101.2
Zenith Natl Ins Corp	OTC	21.50	0.0	12.4	0.80	3.7	21.50	21.25	60.7
INSURANCE COMPANIES	AVERAGE			12.1		2.7			

## BI Insurance Index



Industry stocks rose this week as the Business Insurance stock index climbed 7.9 points to 486.0 on July 30 from 478.1 on July 23. Of 65 industry stocks monitored, 35 posted increases, 15 showed declines and 15 remain unchanged. Advancing issues were led by



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