Employee Benefits Communications Awards . . . Page 3

AUGUST 5, 1985

business insurance®

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

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update

Manville, future claimants agree on plan elements

NEW YORK—Representatives of Manville Corp. and future asbestos injury claimants have agreed on the principal elements of a reorganization plan that would compensate current and future claimants and allow Manville to emerge from its 3-year-old bankruptcy proceedings, the company confirmed late last week.

The plan, which still must be approved by other creditor groups, the

Continued on next page

Broker results soar with rate increases

By DOUGLAS McLEOD

The explosive revenue and earnings growth reported by most of the publicly held insurance brokerages should continue through the end of the year and possibly beyond, analysts and brokers say.

Second-quarter revenue and earnings gains for the bulk of the publicly held brokers outpaced the gains posted in the first quarter, reflecting both rising property/casualty insurance rates and expanding production of new business, analysts observe.

"It's pretty obvious that rates are really working their way into the revenue numbers and business production is strong," said Leonard M. Wilson, a special limited partner at L.F. Rothschild, Unterberg & Towbin in New York.

"All the brokers' revenues sharply accelerated in the quarter, with the exception of Hall, which continues to be disastrous," said Thomas G. Rosencrants, director of research and a general partner with Conning & Co. in Hartford, Conn.

Frank B. Hall & Co. Inc., the third-largest publicly traded broker, produced only a 9.9% revenue increase during the second quarter, while the increases for the other top brokers were all at least twice that amount.

"It's clear that Hall is losing substantial market share," Mr. Rosencrants said, adding that Conning has raised its 1985 earnings estimates for all the top public brokers but Hall.

Analysts and brokers agree that things will continue getting better for brokers throughout 1985 and possibly beyond.

"The increase in our revenues and earnings resulted from our continuing and successful new business efforts and the tightness of the property and casualty insurance markets. We expect this trend to continue as the year progresses," said Robert F. Corroon, chairman and chief executive officer of Corroon & Black Corp.

"We continue to be confident that brokers' overall revenue growth will be quite robust," Mr. Rosencrants said, adding that improvements in earnings will continue through 1985 and 1986, and possibly into 1987.

Although it's more difficult to place coverage in a tightening prop-

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	Gross revenues	% change	Net income	% change
Emett & Chandler	$12,075	51.2%	$1,433	N/M
Crump Cos. Inc.	23,365	30.8	2,286	77.2%
Corroon & Black Corp.	59,378	28.4	6,049	N/M
Arthur J. Gallagher	17,253	26.5	989	157.6
Poe & Associates	6,604	25.1	535	50.7
Alexander & Alexander	160,900	22.9	7,800	200.0
Marsh & McLennan	332,800	21.7	40,400	39.3
Frank B. Hall	103,164	9.9	-10,704	N/M

European countries adopt product liability directive

By STEPHEN TARNOFF

BRUSSELS—Companies manufacturing or distributing goods in 10 European countries could face more product liability lawsuits and higher insurance costs following the adoption of a directive on product liability by The European Community.

After almost a decade of debate, the European Community—which includes the United Kingdom, Belgium, Netherlands, Ireland, Luxembourg, France, Italy, Denmark, Greece and West Germany—adopted on July 25 a directive that requires member countries to impose strict liability standards on manufacturers and distributors.

However, it still allows the individual countries to decide independently if their product liability laws will allow a state-of-the-art defense or cap the size of awards against manufacturers and distributors. Critics say these provisions go against the original purpose of the directive, which was to harmonize product liability laws in the EC member countries.

Although the lack of a uniform law will be a disadvantage for business, manufacturers and distributors in Europe still will escape the heavy risk of product liability faced by manufacturers in the United States because of the differences in the legal and social structures of Europe and the U.S., attorneys say.



Map: Amy Palmer

The directive was first proposed by the Commission of the European Communities in 1976 to address the problem of differing national product liability laws that restrict the free movement of goods and provide uneven consumer protection in member countries.

Although even as late as this spring, imminent passage of the directive was not expected, apparently the Italian minister who was heading the EC Council of Ministers pushed to have it passed before the end of his term.

Under the directive, which would allow compensatory damages for death or personal injury caused by a product or damage to third-party property, a product is defined as any "movable." Excluded, however, are primary agricultural products, such as crops and livestock.

Governed by the directive would be all "producers," which the mandate defines as manufacturers of finished products, producers of raw materials or manufac-

Continued on page 30

Race track owners covered for losses in spectacular blaze

By MEG FLETCHER and CAROL CAIN

ARLINGTON HEIGHTS, Ill.—Property and business interruption losses caused by the spectacular 16-hour blaze that destroyed Arlington Park Race Track last week will be covered by an estimated $120 million in insurance purchased by the track owners.

In addition, the village of Arlington Heights, where the track is located, has $400,000 in contingent business interruption insurance to cover the loss of revenues from its largest taxpayer.

The fire of unknown origin destroyed the track's grandstand, clubhouse and exclusive Post and Paddock Club in the middle of the track's racing season.

Park Ridge, Ill.-based Protection Mutual Insurance Co., a member of the Factory Mutual System, wrote an estimated $120 million in property and business interruption insurance on a replacement-cost basis for the owners of the premier thoroughbred race track, *Business Insur-*

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Photo: Chicago Tribune

Firefighters wage a losing battle against flames at the Post and Paddock Club at Arlington Park Race Track.

Regulators still questioning ISO's claims-made liability form
Page 2

update

Manville, future claimants agree

Continued from previous page
U.S. Bankruptcy Court in New York and Manville's board of directors, was being discussed by Manville's board last Thursday, a company spokesman said. The company declined comment on details of the plan until the board meeting ended.

However, sources say the plan probably will be funded by a bond issue by Manville of at least $1 billion, recoveries from Manville's liability insurers, a substantial percentage of Manville's stock and a large cash payment by Manville.

Leon Silverman, an attorney with the New York firm of Fried, Frank, Harris, Shriver & Jacobson who represents future claimants in the bankruptcy proceedings, told a July 29 bankruptcy court hearing that he had reached an agreement on principal elements of a reorganization plan with Manville.

"Naturally, all matters will be fully discussed and negotiated with the other constituencies, and there are items of importance which still must be worked out among the various constituencies, Manville and the legal representatives," he told the court.

Manville filed for reorganization under federal bankruptcy laws in August 1982, citing the overwhelming number of asbestos claims pending against it. Since then, all lawsuits against the company have been stayed.

Fed denies Citicorp bid

NEW YORK—The Federal Reserve Board last week denied Citicorp's application to acquire a South Dakota bank, which the New York-based bank holding company hoped to use to enter the insurance business.

In denying Citicorp's application to buy American State Bank of Rapid City, S.D., the Fed said the acquisition "was simply a device" to evade the federal Bank Holding Company Act, which generally prohibits banks from engaging in insurance activities.

Citicorp announced plans to acquire the bank in 1983 to take advantage of a South Dakota law allowing state-chartered banks to sell and underwrite insurance. Citicorp argued that loopholes in federal law would allow banks to enter the insurance business if the operations were permitted by state law.

The Fed suspended Citicorp's original application in January 1984, ruling that Congress should settle the "legal and policy questions" raised by the application (*BI*, Jan. 16, 1984). However, Citicorp reactivated the application last February after Congress failed to settle the issue.

In its ruling last week, the Fed said that it would consider a new application to buy the South Dakota bank, provided that Citicorp's plans for the bank were limited to banking.

Citicorp can appeal the decision to a federal appellate court, but a Citicorp spokesman last week would not comment on whether the bank plans to do so.

Retiree benefits continued

BALTIMORE—About 225 retirees of Maryland Shipbuilding & Drydock Co. who have sued the company over its attempt to terminate their medical benefits will continue to be covered until the case is decided.

On July 31, the day the company had wanted to cancel the benefits, the retirees won an injunction in the U.S. District Court for the District of Maryland ordering the company continue to provide coverage until the case is decided.

The retirees filed a class-action suit April 3 against Maryland Shipbuilding and its parent, Fruehauf Corp. of Detroit, in response to an Aug. 15, 1984, letter from the company informing retirees that their medical benefits would cease on July 31, 1985.

According to the retirees' attorney, John T. Ward of Quinn, Ward & Kershaw in Baltimore, the retirees received verbal and written assurances during their employment that medical benefits would continue for life.

But, Stephen M. Silvestri, attorney for Maryland Shipbuilding and Freuhauf, said, "There is no documentation that was sent to employees that said they are to receive lifetime (medical) benefits."

Hilton says D.C. loss insured

WASHINGTON—Hilton Hotels Corp. is "fully insured" for losses at its Washington Hilton Hotel, which will be closed for more than a month after explosions in two electrical switchboards last week knocked out the power in the hotel, a company spokesman said.

The 1,154-room hotel faces at least $2.5 million to $3 million in losses from equipment damage, extra expenses like finding alternative accommodations for guests and revenue lost while the hotel is closed. It expects repairs to be completed in time for the hotel to reopen by Sept. 1, the spokesman said.

The cause of the explosions is unknown, but the loss is "fully insured," said the spokesman, who would not provide coverage de-

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Vol. 19, No. 31—*Business Insurance* (ISSN 0007-6864) is published weekly at 740 Rush St., Chicago, Ill. 60611. Second-class postage is paid at Chicago, Ill., and at additional mailing offices. Postmaster: Send address changes to *Business Insurance*, circulation department, 740 Rush St., Chicago, Ill., 60611; 312-649-5221.
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RTD finds last-minute coverage

By STEVE TARAVELLA

LOS ANGELES—Southern California Rapid Transit District buses will continue to roll after the RTD was able to find $6 million in excess liability coverage the day before its existing coverage expired.

However, the RTD is still looking for another $20 million in coverage.

Marsh & McLennan Inc. in Los Angeles, which had been working against the clock to find replacement coverage, obtained the excess layers about 3:30 p.m. July 31, according to Ralph C. Baggs, the M&M vp who supervises the RTD's account.

If the coverage had not been secured, the RTD's directors might have halted bus service until more insurance is found, an RTD spokesman says.

M&M was still trying to arrange the additional $20 million sought by the RTD last week.

Even if M&M does find all the coverage sought by the district, the total cost of the coverage could increase more than 5,000%, the RTD spokesman said.

The RTD says its liability losses have not exceeded its self-insured retention for at least the past five years.

The coverage that expired last week was a three-year package, placed by M&M in 1982, that provided $28.5 million in excess liability coverage above a $1.5 million self-insured retention. The insurance covers about 2,600 vehicles, some of which are RTD staff automobiles but most of which are buses that serve

Continued on page 6



RTD photo

RTD buses will continue to operate after the agency found sufficient liability coverage.



Mr. Ross



Ms. Bauer

Two appointed to *BI* ad staff

NEW YORK—Martin J. Ross and Courtney Bauer have been appointed advertising district managers in *Business Insurance's* New York office.

Before joining *Business Insurance*, Mr. Ross was a national account representative at Lanier Business Products in New York. He also served as administrative assistant to the vp of the New York Mets baseball team. He received a bachelor of science degree from St. John's University in Jamaica, N.Y., in 1981.

Ms. Bauer is a recent graduate of the University of Vermont in Burlington, where she received a bachelor of arts degree in political science.

Mr. Ross can be reached at 212-210-0228, while Ms. Bauer can be reached at 212-210-0135. ■

Superfund bill allows risk retention groups

By ROBERT A. FINLAYSON

WASHINGTON—Companies unable to obtain pollution liability insurance could gain some relief under a Superfund reauthorization bill passed by a House committee.

The measure, H.R. 2817, approved late last month by the House Energy and Commerce Committee, would allow insurance buyers to form risk retention groups to write environmental impairment liability risks.

In addition, the bill, which would extend the 5-year-old Superfund Act for five more years, would make a number of significant amendments to the current federal pollution cleanup law.

The reauthorization measure now goes to the House Judiciary and Public Works committees, which are scheduled to consider the bill in early September. A companion measure to reauthorize and amend the Superfund Act is pending in the Senate (*BI*, March 11).

Unlike last year, when the Energy and Commerce Committee approved a bill that would have added expansive liability provisions to the Superfund law, the bill approved by the committee July 25 is far more restrictive (*BI*, Aug. 20, 1984).

For instance, the bill does not include a federal cause of action, which would allow citizens to sue defendants in Superfund suits for third-party damages.

In addition, the measure includes provisions that would allow defendants in Superfund suits to recover from parties not named in the suit that are allegedly responsible for a portion of the pollution.

Lobbyists say that insurance industry and risk management groups are generally pleased with the measure approved by the committee.

"We did very well," says Leslie Cheek, vp of federal affairs for Crum & Forster. "On balance, we're pleased with the bill."

Mr. Cheek and industry representatives lobbied the committee heavily to get a bill more acceptable to the industry than the one approved by the panel last year. That bill was later approved by the full House, but died when the Senate failed to act on a companion bill.

Continued on page 25

Regulators question claims-made form

By STEPHEN TARNOFF

CHICAGO—Insurance regulators in states that have not yet approved the new commercial general liability claims-made policy are demanding answers to some controversial questions:

- Will the occurrence policy form eventually become extinct and all insurance buyers be forced to purchase the more restrictive claims-made coverage—despite the risks involved and promises that occurrence coverage will not be eliminated?
- Will the new claims-made form increase rather than decrease litigation over coverage provided under the policy?
- Will the new claims-made form ultimately shift risk away from insurers—the professional risk-takers—and throw it back to policyholders?

State insurance regulators sought answers to these and other questions about the Insurance Services Office's new commercial general liability forms at a national forum in Chicago late last month.

Regulators from 18 states that have not approved the new forms sharply questioned insurance industry and ISO representatives on whether the new forms would really do what they promise.

The forum was convened at the urging of insurance regulators, said Illinois Insurance Director John E. Washburn. The Illinois department hosted the forum—the largest public hearing yet on the forms—in Chicago on July 25. The regulators' interrogation—led by representatives of the Illinois, New York, Texas and Connecticut departments—lasted more than two hours.

"I am of the opinion that once there is an authorization for claims-made, we can kiss occurrence goodbye—in all lines," commented Connecticut Insurance Commissioner Peter W. Gillies. "That seems to me what is really going to take place out there."

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errors & omissions

- The president of Rubell Helm Inc., risk management and employee benefit consultants in Tustin, Calif., is James B. Helm. Mr. Helm was quoted in an article on hospitals offering health insurance (*BI*, July 22), but his name was incorrectly reported.

Employee Benefits Communications Awards

They're the best

Communicating benefits to employees can be one of the toughest parts of a benefit manager's job—and one of the most rewarding.

Answering employees' questions, putting their minds at ease and helping them to make the best choices about their benefits are among the rewards of a good communications program.

Business Insurance—through its annual Employee Benefits Communications Awards—recognizes those companies that do an exceptional job of communicating benefits.

This year's winners covered a wide range of topics, from flexible benefit plans to 401(k) plans. But, all had in common a fresh, successful approach to giving employees the information they need to make the best use of their benefits.

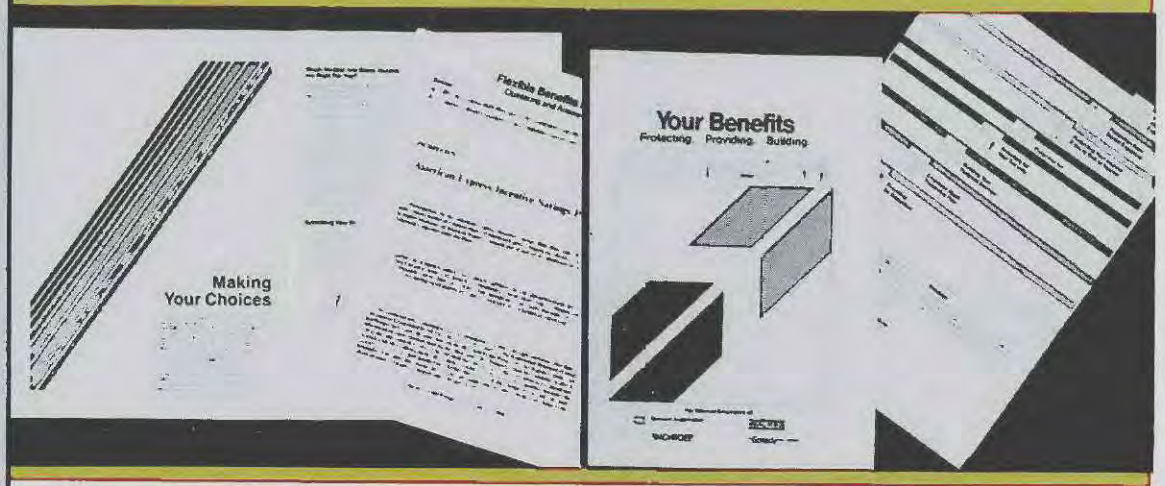
First-place winners were named in four categories: personal correspondence, special projects, total communications programs and audio-visual programs. And, there was a tie for first place in the fifth category: booklets.

In addition, runners-up were named in all five categories, and special awards were given in the audio-visual and total communications categories.

A panel of 12 judges evaluated 143 entries from 129 different companies to select the winners in the 13th annual competition. Profiles on the winners are on pages 11-22.

The winners, and their consultants, are being honored this week at the *Business Insurance* conference, "The Dollars & Sense of Communicating Employee Benefits," in New York. Coverage of the conference will appear Aug. 19.

Booklets



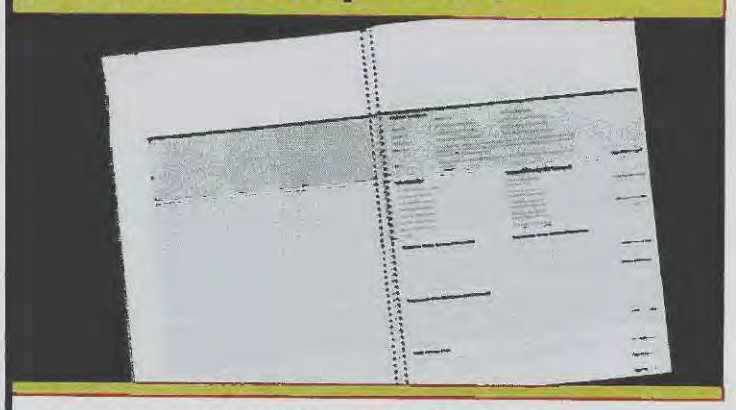
1st **American Express Co.**
New York
William M. Mercer-Meidinger Inc.

1st **Tenneco Automotive**
Bannockburn, Ill.
Hewitt Associates

2nd **PepsiCo. Inc.**
Purchase, N.Y.
William M. Mercer-Meidinger Inc.

3rd **National Westminster Bank USA**
West Hempstead, N.Y.
Hewitt Associates

Personal Correspondence



1st **BASF Wyandotte Corp.**
Parsippany, N.J.
Kwasha Lipton

2nd **Ex-Cell-O Corp.**
Troy, Mich.
The Wyatt Co.

3rd **CPC International Inc.**
Englewood Cliffs, N.J.
Kwasha Lipton

Special Projects



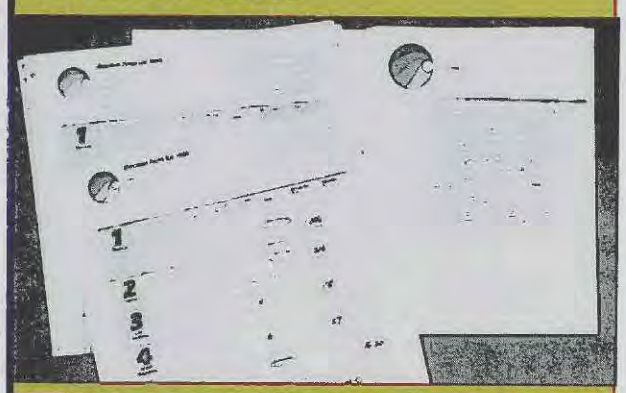
1st **Colgate-Palmolive Co.**
New York
Kwasha Lipton

2nd **Southwestern Bell Corp.**
St. Louis
Hewitt Associates

3rd **Carrier Corp.**
Syracuse, N.Y.
Hewitt Associates

3rd **Capitol Records Inc.**
Hollywood, Calif.
William M. Mercer-Meidinger Inc.

Total Benefits



1st **Bell Atlantic Enterprises Corp.**
Princeton, N.J. **Hewitt Associates**

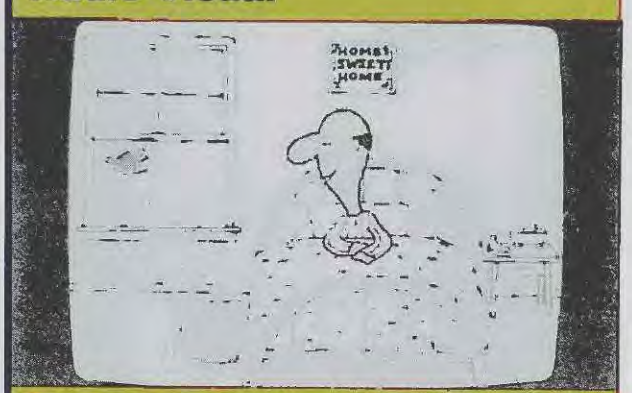
2nd **Gulf Canada Ltd.**
Toronto, Ontario
Cooper Communications

3rd **Bell Atlantic Corp.**
Arlington, Va.
The Wyatt Co.

3rd **Southeast Bank N.A.**
Miami
The Wyatt Co.

SPECIAL AWARD **Beatrice/Hunt-Wesson Foods**
Fullerton, Calif.
Hewitt Associates

Audio-Visual



1st **ITT Corp.**
New York
Hewitt Associates

2nd **Schering-Plough Corp.**
Madison, N.J.
Hewitt Associates

3rd **Aviall Inc.**
Dallas
Towers, Perrin, Forster & Crosby

SPECIAL AWARD **The Lubrizol Corp.**
Wickliffe, Ohio
In-house production

Page design: Amy Palmer

Warehouse may be underinsured for fire

By DIANE LYNN KASTIEL

TOLEDO, Ohio—The owner of a Toledo business center and warehouse complex and at least one its tenants may not have enough property insurance to cover damage caused by a fire set by an arsonist that destroyed most of the complex.

Willis Day Properties Inc., the owner of the complex, has $11 million in property insurance underwritten by Industrial Risk Insurers in Hartford, Conn., according to an IRI official.

Willis Day officials would not comment on the company's property or liability coverage.

While the IRI official said Willis Day suffered only about $10 million in property damage, other sources, including a spokesman for Willis Day, said the industrial property management company's losses from the July 7 fire totaled $12.9 million.

Willis Day's liability coverage is written by Cincinnati Insurance Co. in Cincinnati, says Richard Hilbold, Cincinnati Insurance claims manager. He wouldn't reveal the limits of the liability policy.

In addition to the damage to Willis Day's 550,000-square-foot structure, the fire caused an estimated $7 million in damage to the inventory of the 14 tenants of the complex.

According to Robert Stellingworth, the agent for the U.S. Treasury Department's Bureau of Alcohol, Tobacco and Firearms who handled the department's investigation of the arson, each of the tenants has its own property insurance.

But Jerry Mayer, president of Ginger Products Co., one of the tenants, noted that his company has only $400,000 in property coverage, $200,000 less than the damage to Ginger's inventory.

The coverage is written by United States Fidelity & Guaranty Co. of Baltimore.

Ginger, which manufactures aquarium products in the 18,000 square feet of space it rented at the Willis Day complex, also had $300,000 in business interruption coverage written by USF&G, he said.

Mr. Mayer said he expects business interruption losses to total about $30,000 a month during the three months that Ginger is shut down, adding the company won't be fully operational for seven to eight months.

Mr. Korn said Purex had property insurance 'ample to take care of this loss.'

Purex Corp., a sub-tenant that rented about 100,000 square feet of space from Able Warehouse Inc., a tenant of Willis Day, reported $3 million in property damage from the fire, according to Ralph Korn, vp of insurance for Greyhound Corp. in Phoenix, Ariz., Purex's parent.

Mr. Korn said Purex had property insurance 'ample to take care of this loss," but he would not reveal the policy's limits or the insurer.

In addition to the property damage that resulted from the fire, subsequent pollution and a malfunctioning of the center's fire protection system could trigger liability claims.

The pollution damage was caused by the burning of 300,000 cases of Purex ammonia, bleach and detergents that were stored at the complex, said Ray Norris, the safety director for the city of Toledo.

"We had a significant amount of air pollution" from the burning cleaning products, according to Mr. Norris.

He said the pollutants included chlorine, hydrogen chloride and ammonia gases.

The dangerous fumes prompted a 36-hour evacuation of 250 to 300 residents in a 12-block area near the Willis Day complex, Mr. Norris said.

In addition, residents were advised to throw out any food that had been open while the fumes were present and to destroy crops, he said.

And, Mr. Norris said there may be long-term damage to the soil because of the exposure to the chemicals.

"We have advised the neighborhood to destroy the crops from this year, and we are doing soil samples to determine if they can grow plants next year," Mr. Norris explained.

"The potential is there for long-reaching effects," he added.

Mr. Stellingworth of the Bureau of Alcohol, Tobacco and Firearms, said the chemicals also were washed into nearby Maumee Bay by the water used to extinguish the fire, and that the resulting pollution killed 100,000 fish.

Mr. Stellingworth estimated the damage related to the water pollution at between $3 million and $5 million.

The fire was started by an arsonist, who set five different fires and may have tampered with the complex's fire protection system, according to James Jagodzinski, deputy chief of the Toledo Fire Department.

According to Mr. Jagodzinski, Columbus Gas Co. of Ohio turned off the gas supply to the building after the fire began, a normal procedure.

However, since Willis Day's auxiliary pump used to supply water to the sprinkler system was gas-powered, turning off the gas caused a decrease in the water pressure to the sprinklers, Mr. Jagodzinski explained.

Officials at the gas company did not return phone calls from *Business Insurance*.

However, Mr. Norris, the Toledo safety director, said the building's fire protection system—which included the fire pump, a sprinkler system and 11 hydrants that were located underground in a circle around the complex—malfunctioned at the time of fire, regardless of the interruption of the gas supply.

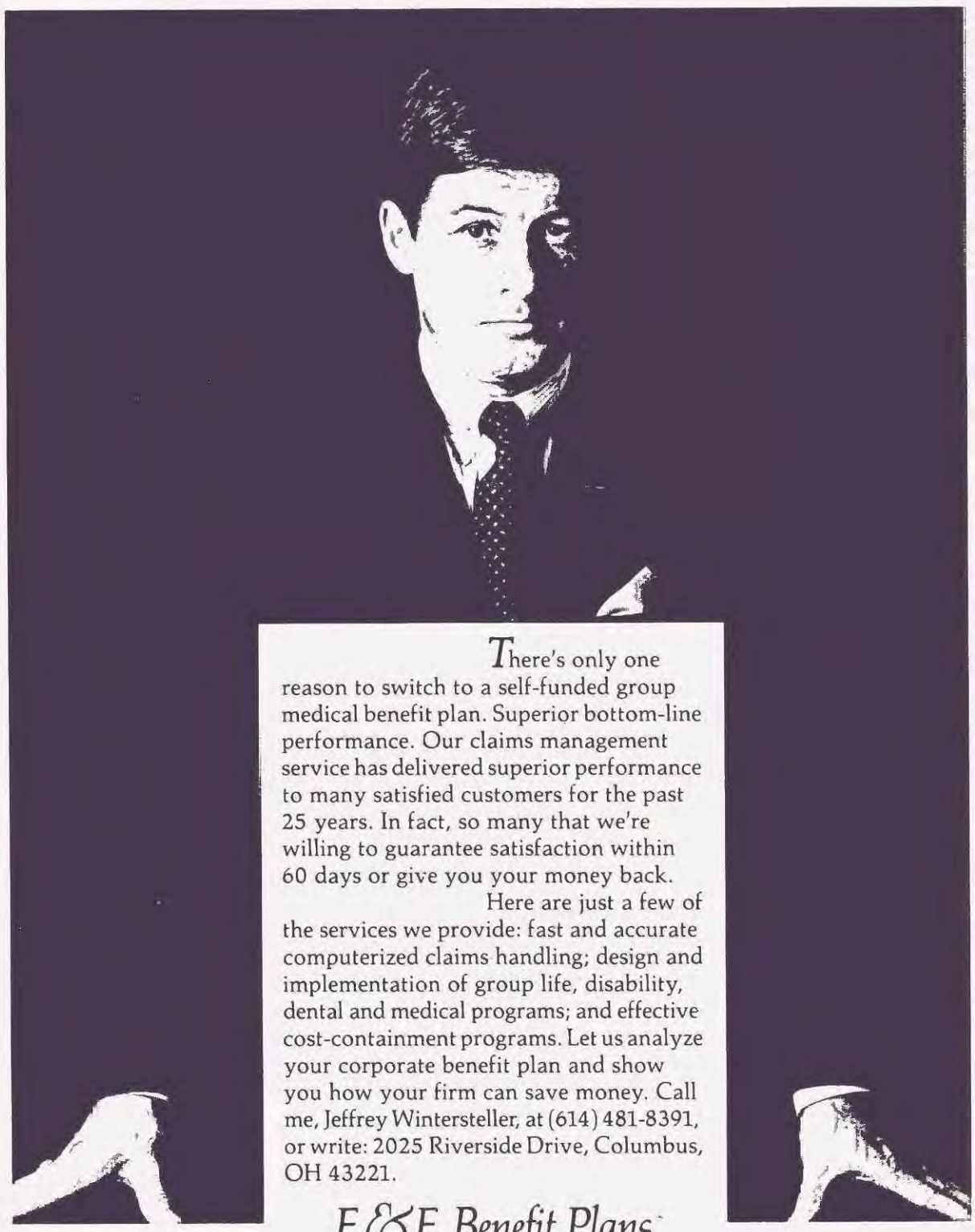
The fact that the gas was turned off "really didn't make any difference because their system wasn't working when the firefighters arrived at the scene," according to Mr. Norris.

For instance, only one of the system's 11 hydrants was working at the time the fire broke out, Mr. Norris said.

The arson and problems with the fire protection system still are being investigated, including whether the arsonist may have tampered with the fire protection system.

The Fire Department fought the fire by tapping into the city's water system, according to Mr. Norris. ■

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BI-8

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opinions

Don't let the defense issue rest

THE LONG-AWAITED product liability directive of The European Community will not exactly create a field day for plaintiffs, but the directive does fail to assure manufacturers and distributors that they will have an important defense against product liability lawsuits.

While imposing strict liability on manufacturers and distributors in the community's 10 member countries, the directive limits plaintiffs' opportunities to recover damages by imposing such restrictions as a three-year statute of limitations and a ban on lawsuits involving products more than 10 years old.

And, punitive damages are not permitted.

Manufacturers in the United States would consider it a great victory if they secured such reasonable defenses against product liability suits throughout this country.

But, the directive fails to guarantee manufacturers and distributors one important defense.

While incorporating a state-of-the-art defense, the directive permits individual member countries to deny manufacturers and producers this defense. Therefore, in those countries that deny a state-of-the-art defense, manufacturers and producers will be held liable for damages caused by their defective products even if scientific and technical knowledge did not enable them to know of the defect at the time the product was sold.

Furthermore, by permitting each country to decide whether to adopt a state-of-the-art defense, the directive fails to achieve its purpose of harmonizing the member countries' product liability laws.

That means that manufacturers in countries without a state-of-the-art defense certainly will pay more for product liability insurance than those in countries that provide such a defense. That defeats the purpose of harmonizing the member countries' product liability laws.

Furthermore, plaintiffs will be encouraged to forum-shop among the member countries for the country that offers them the best opportunity for recovering damages.

Manufacturers and distributors in European Community countries should not give up their effort to secure the important state-of-the-art defense. They should start lobbying now for its adoption.

And liability insurers, well aware of the huge product liability losses suffered by insurers in the United States, should join forces with manufacturers and distributors to secure this needed defense.

letters

Should defense costs be included within CGL limits?

To the editor: Your recent editorial entitled "The Truth, Please" (*BI*, July 15) challenges insurers to be more honest about the motivation behind the Insurance Services Office decision to include defense costs within policy limits of commercial general liability policies. You stated the primary reason for this decision is not to control defense costs, but rather to cap insurers' liability for defense costs.

That's true, and we believe ISO has been upfront about that.

Certainly, insurers hope that including defense costs within policy limits will result in fewer suits filed, shorter trials, faster claim payments and reduced defense cost spending. Our expectation is that insurers and policyholders alike will benefit from these changes.

However, the primary reason for insurers' support of ISO's decision *is* our honest and open acknowledgement that we *must* limit exposure to skyrocketing defense costs.

In today's litigious society, it is unreasonable and unrealistic to expect that any insurer can accurately set premiums without knowing what maximum dollars it might potentially pay.

There has been an unprecedented increase in litigation costs during the past two decades. Between 1978 and 1983, defense expense grew 79%, more than twice the growth rate for damages. Civil suits in federal courts rose 14% in 1982 alone, and million-dollar awards rose from one in 1962 to 251 in 1982.

The cost of legal defense for third-party commercial general liability claims is now more than $2 billion a year—34 times the 1960 total.

Trials are becoming longer, more complicated and more expensive. Latent injury cases involving DES, Agent Orange and asbestos that go to trial result in almost two-thirds of the settlement being used for legal costs; only one-third of the compensation ultimately reaches the injured party.

It is no more practical or correct for anyone to affix blame on defense lawyers and insurers for large sums of money spent on litigation than it is to exclusively blame over-eager plaintiffs and their attorneys. The fact is that all of us have allowed, if not encouraged, the evolution of an inefficient civil justice system—and we all have a role to play in solving the problems.

We are convinced that the inclusion of defense costs within CGL policy limits is a valid, viable and essential action.

A. Kent Shamblin
Vp
St. Paul Fire &
Marine Insurance Co.
St. Paul, Minn.

'Incentive for all concerned'

To the editor: As you discussed in your editorial of July 15, we agree that insurers want to include defense costs within limits to help hold down expenses, as well as for other reasons, such as knowing total loss exposure at any given time.

However, we would like to respond to your comments that insurers are helping to cause rising defense costs through wasteful defense spending. Perhaps we can bring a different perspective to this issue.

Although it is true that insurers are in charge of claims brought against the insured—at least in professional liability and specialty casualty claims—the insured has a great deal of input and involvement in how a claim is handled. We seek the insured's approval in the choice of defense counsel, defense strategy and settlement. The defense counsel's first duty is to the insured, not the insurer, which means that the insured can have the final say in many issues involving the claim. The insured is either addressed or copied on all correspondence. If he does not agree with the insurer's recommendations, he can suggest an alternative that must be considered.

Major decisions regarding the way the claim is handled are a team effort involving insurer, insured and defense counsel.

Although the policyholder and insurer do have significant control in professional liability and specialty casualty claims, we do not mean to imply that rising defense costs are necessarily the fault of the policyholder or that the insurer is completely blameless. Rather, we have found that the plaintiff has far more control over how quickly a liability case progresses than the defendant.

When the insurer places defense costs within limits, the plaintiff recognizes that possible indemnity payments diminish each day the case is extended. As a prolonged case could mean fewer resources available for payment to the plaintiff, the plaintiff has incentive to help resolve the case quickly.

Both insurer and insured have a significant interest in resolving claims as quickly and economically as possible. It only makes sense that they work hard to achieve this goal. Shand, Morahan & Co. Inc., for example, has a national network of legal counsel experienced in handling various types of claims. Because of these law firms' expertise, claims can be handled competently and without needless delay and expense.

Including defense costs within limits creates incentive for all concerned to hold down expenses and find economical resolution to claims: Because limits are reduced by a defendant's claim expenses, the plaintiff recognizes that the potential for payment of damages diminishes as the case continues; the insured has a greater financial stake in the claim; the defense attorney's compensation from the insurer is limited, and the insurer can more effectively negotiate for quicker and more economical claim resolution. None of these factors is operating to the same degree when defense costs are exclusive of limits.

While there are many factors contributing to prolonged litigation and high defense expenditures, it is clear that placing defense costs within liability limits should help all concerned gain greater control over insured liability claims.

E.L. Calhoun
President
Shand, Morahan & Co. Inc.
Evanston, Ill.

(Letters continue on page 10)

Gibson wins third place in national contest

Business Insurance Deputy Editor Lorrie Gibson has won third place in the 1984 national awards competition sponsored by the American Society of Business Press Editors for her editorial that was entitled "Belts vs. Bags Debate Is Overblown."

The editorial, which was published Sept. 17, 1984, urges risk managers not to join in the unending debate over mandatory passenger restraints in cars, but rather to recognize that not only is it a must that their employees wear seat belts, but it also is prudent to have airbags installed in company cars to offer added protection to employees.

In addition, Editor Kathryn J. McIntyre and Ms. Gibson earlier this year won awards in a competition sponsored by the Chicago Chapter of ASBPE.

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

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letters

Debating the new claims-made policy form

Letters continued from page 8

To the editor: James A. Robertson's letter (*BI*, June 24) contends that the Risk & Insurance Management Society's comments on the new CGL forms are an exaggeration.

Mr. Robertson has the wrong facts. There haven't been "10 years of discussion of the need for tort and product liability reform," at least not as far as the property/casualty industry is concerned.

A principal reason—although not the only one—we have not had tort reform is that the property and casualty industry profits from the present system.

The property/casualty industry is in a major way responsible for the present system. As at least a co-creator of the present tort system, the property and casualty industry shouldn't be permitted to wash its hands of the mess it has helped create by withdrawing from the risk-transfer business and leaving its customers without protection.

Mr. Robertson is right. There is a "public need for a solvent, healthy insurance industry."

Similarly, there is a public need for a solvent and healthy meat industry, a solvent and healthy aerospace industry, a solvent and healthy telecommunications industry and so on. The insurance industry is a service industry. It has long provided an essential risk-spreading service. The industry industry has no inherent value; it exists to serve other industrial segments of our economy.

There's no reason to exalt the industry's solvency or health above that of its customers.

The industry needs to go back to basics. The purpose of insurance is to insure. The purpose of insurance is not to maintain a "healthy and solvent" insurance industry.

There is very good reason to keep the property and casualty underwriters in the business of accepting risk transfer. I have no doubt that the industry, as a whole, would rather be in the banking business. If it continues to withdraw from the risk-transfer business, it will be in the banking business before long. Neither RIMS nor the state regulators should facilitate the insurers' withdrawal from the risk-transfer business.

In a most curious bit of mental legerdemain, Mr. Robertson contends that the present policy forms benefit most policyholders who litigate with their insurers. This is a bum rap for both the policyholders and the courts. Ninety percent of the insurance coverage cases involve one insurance company against another. The insurers are mostly litigating among themselves. The really unfavorable court decisions from the insurer's standpoint in Mr. Robertson's home state of California have come in cases in which no policyholder was involved! Even in the coverage cases to which the policyholders are a party, it is most usual to find insurance companies on both sides (or, one might say, "on all sides").

The basic problem with the new forms is that they are a giant step away from risk spreading and away from risk transfer. Why Mr. Robertson and others see the solvency of insurers as somehow a loftier goal than the solvency of their customers eludes me. Policyholders need real, honest-to-goodness risk-transfer insurance. They do not need financing; that they can get from banks.

RIMS is to be commended for taking a stand. It is about time that insurance buyers counted for something. The purpose of insurance is to insure.

Eugene R. Anderson
Anderson Russell Kill
& Olick P.C.
New York

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Self-destruction?

To the editor: Insanity or suicide?

Perhaps both! An industry that commits cyclical suicide is now poised to self-destruct by means of a new device—a dual general liability program—including the most complex, confusing, abstruse policy ever conceived and imposed on its customers, its agents and itself.

The claims-made form is complicated and, as such, will be costly to everyone. The collective time alone that will be expended in studying, understanding and explaining the concept to agents and policyholders will be staggering. "Coverage triggers, laser endorsements, retroactive dates, extended discovery and extended reporting" will contribute to the confusion, customer ill-will and cost in terms of time and new record keeping. Only bitterness and resentment will follow.

Surely, one of the worst effects will be the fertile breeding ground in which the claims-made form will help spawn a proliferation of litigation that will further congest the already overburdened courts. Hasn't our system given the legal profession enough of a bonanza? We directly and indirectly are their best and most lucrative customers.

If we are to remain a viable industry, we must address the costs of liability, but we must keep it easy and simple without a morass of confusion, paper and litigation. Including defense costs within policy limits is a restriction, but it is far more palatable than the proposed claims-made form. Aggregate limitations for premises and operations liability are also restrictive, but likewise palatable. Excluding certain previously covered forms of mobile equipment and contractual liability for automobiles and any items that should bear separate charges are not objectionable changes. If these solutions do not bring relief, the market will respond in the traditional fashion with higher premiums. It is true that this approach will unquestionably increase the cost of excess coverage and excess underwriters will demand higher underlying limits, but the savings in paper work, confusion and legal costs will be enormous.

I've spoken with dozens of agents and brokers, risk managers and insurance company underwriters. They all agree that we would be better off without the claims-made form. Why then are we allowing ourselves to be led down this ruinous road? Let us speak out strongly in opposition to claims made. The insurance-buying public, its risk managers, brokers and agents and their associations (Independent Insurance Agents Assn., National Assn. of Insurance Brokers, Risk & Insurance Management Society, et al) should join together to resist this proposal.

Industry media have been laden with items overwhelmingly critical of the claims-made form and forecasting the dire consequences of its introduction, not only for policyholders, but ultimately for the industry. These are neither imagined nor dramatized hazards. They are real and, in the long run, will be more injurious than beneficial.

One of the most serious problems of the claims-made form is not inherent in the program itself, but rather in the way it's being promoted and misrepresented as beneficial, modern and easy-to-understand when, in fact, it is significantly more restrictive and arcane than the present form.

Insurance has had a long and progressive history of broadening and improving policies and coverage and serving the needs of its customers. Never during this history has any proposition met with such universal and egregiously negative reaction. We must not sit idly by and allow this travesty to be committed. We must get off our collective chairs, join together and prevent the claims-made form from being implemented.

Abe Lincoln said: "Simplicity is another name for genius." Let's have the good sense to heed his words.

Charles Dann
Dann Brothers Inc.
Northbrook, Ill.

Potential coverage gaps

To the editor: As the insurance industry gears up for the implementation of a claims-made policy form, many risk managers are waiting on the sidelines trying to develop some approach to providing their employers with protection without potential gaps in insurance coverage.

An alarming gap in protection is brewing as the insurance industry raises premiums, reduces coverage and changes conditions of policy formats. This gap deals with the variance in "extended discovery period" terms and conditions.

There should be uniform criteria for this period of time that applies to primary and excess policies with a predetermined cost for extension at the election of the insured. The period should have options for extension but allow no less than 24 months as one of those. This variance is needed due to nonconformance of statute of limitations in jurisdictions.

If there is no uniformity in language or predetermined pricing for allowing an extended discovery period, policyholders will be literally captives of the insurance carrier either at the time of a loss or shortly thereafter. In addition, at the carriers' whim, they could quickly become uninsured and uninsurable.

The industry is making changes that are reactionary to judicial interpretations of coverages. The problem is the consumer in the marketplace, insurance buyers, are being the scapegoat for a social problem. The policy form changes are not the answer. Social reform is.

Let us all begin to put forth the efforts to change the case laws dealt by the courts. This can be done in the legislature and not in the world insurance marketplace. We are treating the symptoms of the illness instead of the cause.

In the interim, a concerted effort should be made by the Risk & Insurance Management Society and other insurance buyer organizations to seek uniformity in the "extended discovery period" section of claims-made policies.

James E. Loeb
Independent Risk & Insurance
Management Services Inc.
Scottsdale, Ariz.

The 'occurrence menace'

To the editor: Is all the scorn heaped upon the new form to be taken as implicit support for the old occurrence trigger, or is it really veiled hostility toward other aspects of the ISO's new wordings?

We have been treated to visions of unscrupulous insurers hijacking competitors' business with cheap and inferior covers (here read: "claims made"). And, we are told late reporting and irresponsible laser exclusions threaten many otherwise collectible claims. Furthermore, the intellectual adjustment expected of Corner Mutual's staff we must believe is nothing short of a chainsaw massacre.

Nevertheless, as the rhetoric fades, the demands on expertise and human resources involved in claims made appear very real indeed. On the other hand, buyers and underwriters of professional liability covers, where claims made is the norm, would readily concede that although in practice difficulties are encountered in processing claims, given proper management these are rarely insurmountable. They'll also say that without claims made, the long tail, a traditionally prominent feature of the class, would be quite unmanageable.

As technology and medical science advance, the distinction between long- and short-tail exposures in most liability classes is increasingly blurred. Who will predict which of the products and processes used widely today will be labeled as toxic or harmful tomorrow? How much of what we do or fail to do now will likewise be held against us in the future?

When the extent of the damage or injuries caused over time spans of 50 years and more is finally recognized, who in today's market will have purchased enough cover to pay claims at 21st century values?

This is, however, precisely the risk assumed when purchasing an "occurrence" policy. It is not surprising that the U.S. courts were disposed to tearing up the rulebook in order to maximize coverage to the asbestos producers.

The new aggregate limits, retroactive dates and defense costs within limits are equally vital elements of the ISO program, but without the underwriting control offered by claims made, their contribution to market stability and continuity of insurance products will be forfeited, and neither insured nor insurer will have any real way of knowing if the right deal has been struck.

Claims made is gaining acceptance not for the misguided, cynical reason of "second best or nothing at all," but because the marketplace is at least acknowledging, albeit quietly, that menace we know as the occurrence trigger.

Andrew Crouchman
Merrett Syndicates Ltd.
London

PWS-Spectrum relationship clarified

To the editor: You made reference to the troubles of PWS International P.L.C. and Spectrum Insurance Co. Ltd. in particular (*BI*, June 17).

Whilst it is true some rather unexpected losses have materialized for Spectrum, it should be recorded that although Spectrum was registered in Bermuda, none of its business was introduced by the PWS Bermuda office.

Ironically, the business produced by PWS Bermuda into the PWS underwriting facilities over the last five years was extremely profitable from an underwriting viewpoint.

I would like the above observation noted on behalf of myself and my ex-staff.

A.W. Hunt
Hamilton, Bermuda

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Employee Benefits Communications Awards

Colgate-Palmolive explains 401(k) using familiar product campaign

By DANA DAVIS

NEW YORK—For employees at Colgate-Palmolive Co., the "MFP" acronym on tubes of Colgate toothpaste stands for more than "Maximum Fluoride Protection."

The company is telling its employees that MFP also means "More Financial Power."

Employees learned about the new meaning of MFP last year when New York-based Colgate-Palmolive introduced a benefit communications program to explain the company's new 401(k) savings program in a "new and innovative way" said Mike DiStefano, manager of domestic benefits.

Colgate-Palmolive decided to capitalize on the familiarity of its Colgate MFP toothpaste in an attempt to create a relationship between the company's personal care products and the new savings plan, he said.

To accomplish this, the company also decided to radically change the way it communicated benefits, Mr. DiStefano added.

"In the past we didn't use audiovisuals to communicate benefits to our employees. I think most of the information was relayed through mimeographs. It was very unsophisticated. We knew we needed something new and more organized," Mr. DiStefano said.

Colgate-Palmolive's efforts in explaining the new 401(k) plan to its employees and benefits personnel earned the company a first-place award in the special projects category of the *Business Insurance* Employee Benefits Communications Awards competition.

That "new and more organized" communications program included:

- A sophisticated videotape presentation entitled "More Financial Power."
- Several slick posters using a political campaign theme to communicate the upcoming changes in the savings plan.
- A kit containing detailed information on the plan, a plan enrollment form and a "savings estimator" with which employees can estimate, among other things, the tax savings of participating in the 401(k) plan.
- A special "pump" package, designed to resemble the company's new toothpaste pump. The package contains a toothpaste-tube-shaped flyer explaining the features of the new savings program.
- And, finally, a real pump of wintergreen-flavored toothpaste gel.

Colgate-Palmolive's new 401(k) plan, which went into effect April 1, replaces a savings and investment plan that did not contain a tax-saving salary reduction feature.

Under the new plan, Colgate-Palmolive employees can defer up to 10% of their annual earnings to the plan on a pretax and/or after-tax basis.

The company makes matching contributions on the first 6% of the employee's pay contributed to the plan. The size of the company's contributions—which range from 55% to 75% of the employee contribution—is based on an employee's years of service with the company.

The plan allows employees to withdraw funds from the plan, but funds contributed on a pretax basis must be used for so-called financial hardships, like the purchase of a primary residence, college expenses or medical expenses.

A loan option will be added to the plan in 1987.

When it began to consider a new communications program to explain the 401(k) plan, Colgate-Palmolive decided it needed a consultant to "obtain the special creative effects we really wanted," said Mr. DiStefano.

"We reviewed approximately 15 firms for the project. After viewing the work these firms had done, we decided to go with Kwasha Lipton. Their work seemed to be the most creative and the most appealing. In short, we thought it was the best," Mr. DiStefano said.

Pamela Kekich, a writer and consultant with Kwasha Lipton in Fort Lee, N.J., agreed that a "new look was definitely in order" for Colgate-Palmolive's benefit communications.

"Before the project, Colgate-Palmolive had only used one or two color pieces to bring the company's benefit and savings programs to the attention of its employees. The company is very traditional and conservative. We knew we needed to do something very different to make a statement," Ms. Kekich said.

Both client and consultant faced several challenges during the ini-

Continued on next page

Southwestern Bell, Carrier, Capitol runners-up

NEW YORK—The runners-up in the special projects category were:

- Second-place: Southwestern Bell Corp. in St. Louis.

Southwestern Bell placed second in the special projects category with its "401(k) Caper" program designed to promote the company's new 401(k) savings plan.

The program featured a videotape using a Sam Spade detective theme and a kit that contained a booklet on plan highlights, a question-and-answer booklet and a wheel designed to show potential tax savings.

The $100,000 program was shown and distributed to the 26,000 salaried employees at Southwestern Bell Corp.

One judge said "the objectives were very well stated. The content got your attention and kept it through effective use of humor. The presentation fulfilled objectives superbly and consistently," he added.

The project was coordinated by Marian Posdamer, who is staff manager of employee information at Southwestern Bell, and Kathryn Collura, who is a consultant with Hewitt Associates in Lincolnshire, Ill.

- Third-place: Tie between Carrier Corp. in Syracuse, N.Y., and Capitol Records, in Hollywood, Calif.

Carrier, an air-conditioner manufacturer, won a share of third place with its presentation "Where the Smart Money Goes," made up of a slide-tape and a kit of print material.

Employee interest in the kit was piqued by a mailing that included an attached 50-cent piece.

The program was created to revitalize interest in 401(k) provisions of Carrier's Employees Savings and Investment Plan.

One judge said the project accomplished what it set out to do by putting together "a high-class production that was very impressive as well as including a great attention grabber by using the 50-cent piece."

The project was coordinated by the team of Ellen Mitchell, who is manager of employee communications at Carrier in Syracuse, and Al Schlachtmeyer, who is a partner with Hewitt Associates in Rowayton, Conn.

Capitol Records, the music and film entertainment company based in Hollywood, also received a third-place award in the special projects category for the company's six-part project entitled "Solid Gold Savings."

The $100,000 campaign, viewed and read by the company's 1,189 employees, was intended to promote interest and participation in Capitol's new 401(k) savings plan.

The campaign featured an announcement letter and brochure, paycheck stuffers, posters, a video presentation, booklet, enrollment card and a personalized statement.

The presentation was "entertaining, educational and believable. It was absolutely targeted to their audience and. . .pleasant to watch. It reiterated the sales message and used good graphics," one judge said.

The program was coordinated by Sherel A. Wingard, director of benefits at Capitol, and Reggie Hall, an associate with William M. Mercer-Meidinger Inc. of Los Angeles.

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Colgate-Palmolive

Continued from previous page

tial concept and subsequent development of the communications project.

"We constantly had to keep in mind the type of culture these people came from. Not only did we need to communicate and create something that would appeal to the people at 300 Park Ave., but we also had to develop an idea that would interest assembly-line workers in the southern regions of the country," said Ms. Kekich.

Kwasha Lipton then developed a 13-minute videotape resembling a familiar commercial format often used in the company's television marketing campaigns.

In trying to copy the familiar marketing theme, Colgate-Palmolive went so far as to retain its regular television advertising spokesman to appear in the savings and investment video as well.

By using this approach, both Colgate-Palmolive and Kwasha Lipton believed they would be able to meet their primary objective of effectively communicating and sparking the interest of most of Colgate-Palmolive's 20,000 employees.



"We thought if we could do something similar to the intense marketing efforts that appeal to the general market, we would be able to accomplish our goal," Ms. Kekich explained.

In order to generate excitement and curiosity about the new plan before employees saw the videotape or attended group meetings explaining the program, bold red, white and blue posters resembling those of a political campaign were posted last year at each of the company's 67 U.S. sites. The posters sported "Coming Soon" and "Vote Now" captions.

To further emphasize the political campaign angle, smaller printed copy underneath the captions read "An opportunity to elect all the benefits that are right for you," and "Elect the benefits that you feel are best qualified to serve you in the next year."

"Through the posters, which resemble the familiar Colgate toothpaste packaging, we were able to give an introduction about the purpose of the plan and hint at what the meeting would be about," according to Ms. Kekich.

Employees then viewed the videotape at group meetings led by a specially trained group leader. At the meetings, employees received the special toothpaste pump imprinted with summary information about the new 401(k) plan, and they were also given their "real" packages of Colgate toothpaste.

In addition, employees received matching red and blue kits containing a detailed summary of the savings plan, an enrollment form with easy-to-follow instructions and the "savings estimator."

The savings estimator is a wheel-shaped device that allows employees to plug in their annual earnings and how much of their salary they want to defer to the 401(k) plan. The device then tells employees their annual tax savings, how much they and the company will contribute to the plan during the year, and how much money will accumulate in their accounts over 10-, 20- and 30-year periods.

If employees still had questions after watching the videotape and consulting their kits, they could ask the meeting leader to further explain the information to them in a specially designed question-and-answer session following the video presentation.

"We had various employees attend our 'train-a-trainer' meetings which lasted for 2½ days. These people learned to explain the more technical aspects of the program during the presentations concerning the company's savings programs," Mr. DiStefano said.

The meetings, held on company time, usually lasted from one to two hours, Mr. DiStefano said. "Of course, the time factor was directly affected by the number of questions people had after the presentation, or how much review of the program was actually necessary.

"People have different savings wants and needs, so their questions are going to be as varied as our employees. Sometimes the leader would have to cover a lot of ground," Mr. DiStefano noted.

The videotape begins with the advertising spokesman telling viewers that the tape was only meant to be a 30-second commercial, but that the "new and improved" Colgate-Palmolive savings plan cannot be summarized so quickly without missing vital details.

The spokesman then tells the audience that Colgate-Palmolive opted for a series of 30-second commercials explaining all the elements of the new plan.

From there on, subjects such as how employees can choose pretax savings, borrow money from the plan, choose how their funds will be invested and how the company matches employee contributions are explained as employees are given a "behind-the-scenes" look at the creation of a series of television commercials.

If the employee missed a point of interest or didn't fully understand the subject during the videotape presentation, he can refer to the enrollment kit, which follows the same basic easy-to-understand format.

To ensure employee enrollment and participation in the savings program, follow-up posters—again with a political theme—were posted throughout the company's different locations. The posters read "Exercise your freedom of choice" and were accompanied by reminders that "election forms must be returned by Nov. 26, 1984."

The company's multimedia communication effort netted enthusiastic comments from the EBC judges.

"The relationship between the company's well-known toothpaste products and the savings pump was very clever. The marketing emphasis was also very creative. The entire package fit very well together."

Another judge stated: "It was the most cohesive corporate package that worked on long-term strengths of marketing."

"We are very pleased with the results of the presentation," said Mr. DiStefano, who would not reveal the cost of the program.

"I believe we fully realized our objective of generating further interest in the company's savings plan. I believe the project will clarify many questions and doubts employees may have had about the program before." ■

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ITT Corp. targets health care costs

By DANA DAVIS

NEW YORK—ITT Corp. is conscious of its health care costs and wants its employees to be the same.

So, to help control the company's health care costs, which totaled $200 million in 1983, ITT developed "The Picture of Health," a video presentation designed to educate employees to be cost-effective health care consumers.

The videotape won first place in the audio-visual presentation category of the *Business Insurance* Employee Benefits Communication Awards Competition.

A major problem ITT and consultant Hewitt Associates faced when they created the video was to correct "the audience's perception that health care costs were someone else's problem. We needed to show employees how thoughtful and cost-effective use of the health care system was in their own best interest," said the video's producer, Mac Bradford, a consultant in Hewitt's Rowayton, Conn., office.

Based on a survey of ITT benefit personnel and on consultations with health care cost-containment experts, ITT developed four additional points that it wanted to stress to the company's 128,000 U.S. employees. These included:

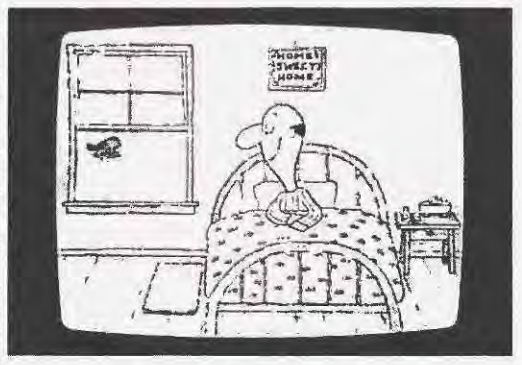
- The value of obtaining a second surgical opinion.
- The availability of alternatives to hospital care.
- Avoiding weekend hospital admissions.
- Practicing good health habits.

"We needed to do something both informative and interesting," Mr. Bradford said. "Although the health care cost issue concerned the company as a whole, we wanted to personalize the video so that it would appeal to people on an individual basis. As a result, we elected to go with a vignette format."

"It was imperative that employees liked this video enough to pay attention," said Robert Brokaw, ITT's manager of insurance benefits.

"We wanted something that would be informative but also interesting. I feel the short segments, cartoons and a variety of video techniques accomplished this nicely," he said.

Mr. Brokaw said the tape has met with "favorable and positive response from employees who appreciated the company's effort in this project."



The video is made up of a humorous cartoon, an array of special effects and two skits. At the conclusion of each vignette, two narrators summarize and emphasize the points that have just been made.

Much of the video's success centers on the constant use of common life experiences to illustrate potentially confusing health care issues. It also takes into consideration the many different lifestyles of ITT employees in 500 plants and offices throughout the United States.

At the beginning of the 18-minute presentation, a woman is shown pushing a shopping cart through supermarket aisles while carefully checking product ingredients and prices.

Suddenly, groceries are replaced by eye charts, bandages, crutches and prescription drugs—and the woman's formerly cautious shopping manner metamorphoses into an erratic grabbing of any medical-related product she can find.

The comparison is obvious: ITT wants its employees to be just as selective about shopping for health care services as they are about buying their groceries.

In another segment, set in a small-town diner, the cook asks one of his regular customers why he didn't obtain a second opinion before his recent knee surgery, while he obtained second opinions before having the brakes on his car fixed and before taking care of a sick oak tree in his yard.

"Were you sure it (the surgery) was absolutely necessary?" asks the cook.

"The doctor told me to have it done, so I had surgery," the man responds.

"Well, there are some alternatives," the cook says.

At the conclusion of the vignette, narrators appear and provide statistical data indicating that almost 33% of those who sought a second opinion found the need for surgery was not confirmed by the second doctor.

The videotape also emphasizes cost-effective health care alternatives, like free-standing emergency centers, hospices, home health care and outpatient care. These are options worth considering, the narrators point out, citing another study that says hospitals sometimes charge three times what a free-standing medical center would charge for the same procedure.

Instead of rushing to a hospital for sprains, breaks, minor eye injuries, cuts and cases of the flu, the tape encourages employees to go to a walk-in emergency center or to see if care can be obtained in a physician's office.

"It was critical that we approach the material from a caring, helpful stance," Mr. Bradford said. "We wanted to show ways in which wise use of the health care system would benefit not only the employer but also the employee as well."

For instance, the video points out that weekend hospital admission is not the most efficient way to manage both time and money.

In one vignette, a man is admitted to the hospital on a sunny Saturday morning, only to find out his doctor won't be in until Monday, the necessary tests won't be done until Monday and his physical examination won't take place until Monday.

"Then why am I here on Saturday?" he asks a nurse.

"I don't know Mr. Jones. Why *are* you here?" she responds. The man shakes his head and stares out the window at the beautiful weekend weather he is missing.

Although the video offers many tips and important points to consider when looking for responsible health care, it does not cover the specific

Continued on page 14

Schering-Plough, Aviall, Lubrizol runners-up

The runners-up for audio-visual presentation were:

• Second place: Schering-Plough Corp. in Madison, N.J.

Schering-Plough, a pharmaceutical and consumer product company, took second place for its slide-tape presentation, "The Dream Machine," intended to introduce the company's 5,000 employees to its new savings plan.

One judge said the company's presentation "made its point with what appeared to be very simple graphics. They were not simple. The graphics fit together beautifully."

The presentation cost $32,000 and was supervised by Charles A. Acklin, director of benefits planning at Schering-Plough.

Laurie A. Austin of Hewitt Associates of Rowayton, Conn., served as writer and consultant on the project.

• Third place: Aviall Inc. of Dallas.

Aviall, which is an aircraft repair and maintenance company, won third place with its "Take Charge" video.

The video was designed to encourage the company's 2,100 employees to "take charge" of managing their health care and future financial security.

The $20,000 production featured actor George Kennedy.

One judge said the tape was effective because, "Rather than inundate employees with details, the video set out to increase awareness, and this was easily accomplished."

The presentation was coordinated by Janice F. Dales, director of employee benefits at Aviall, and Betty J. Barnett, a consultant with Towers, Perrin, Forster & Crosby of Dallas.

• A special award went to the Lubrizol Corp. of Wickliffe, Ohio, for its videotape called "Family Matters." The $8,000 production, which was produced in-house, was devised to give the 2,500 U.S. Lubrizol employees a clearer understanding of what their employer-provided benefits entailed.

All the people appearing in the tape were Lubrizol employees or were connected with the specialty chemical company through their spouse's or parent's benefits. The tape was viewed by 25 to 60 employees per meeting session, and copies of the videotape also were sent to small regional sales offices for individual viewing.

Lubrizol management said they received many "unsolicited positive comments from all levels" showing that "the program had the impact intended." The production was coordinated by Barbara C. Megery, manager of employee benefits for Lubrizol and Michael M. Roecker, supervisor of publications and video at the Lubrizol Corp.

ITT Corp.

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health benefit options available to ITT employees.

"The employees work in many different ITT companies and are covered by a variety of medical plans. This presentation is designed to be very general and not specific to any one company or plan provision," Hewitt's Mr. Bradford explained.

The video is shown to ITT employees in small groups during company time, Mr. Brokaw says. If, after viewing the presentation, employees still have questions or are confused, they can ask a specially trained member of the company's benefits department to clarify or elaborate on the various issues in the video, Mr. Brokaw says.

In addition, if an employee thinks of a question after the presentation, he can "refer to a printed pamphlet which summarizes the key points," Mr. Brokaw says.

ITT sales employees, who often are out of the office when the videotape is shown, receive written materials that include most of the same cost-effective savings tips that are presented in the videotape. If sales personnel wish to view the tape, they can make arrangements to see it at a more convenient time.

Some employees are also invited to have their spouses attend the presentations, Mr. Brokaw said.

The production cost $80,000 including duplication costs, and garnered favorable comments from Employee Benefits Communications Awards competition judges.

"The ITT production stood far and above all other entrants. The ITT objectives were clear, they wanted to help redirect employees' attitudes and behaviors regarding health care cost management," one judge commented.

The video tries to encourage ITT employees to hold the line on health costs while becoming healthier individuals by adding some "preventive maintenance" into their daily lives. In one vignette, an actor tells viewers all about his married middle-aged friends, "Joan and Ed." Joan and Ed are each 20 pounds overweight, smoke cigarettes and enjoy a highly caloric and sedentary lifestyle.

Although Ed owns a pair of barely-been-used running shoes and has a membership to the a downtown gym, he has only run around the block once or twice and works out nominally. Consequently, he suffers from high blood pressure.

"Eddie," the doctor says, "You're asking for trouble."

"But Doc," Ed replies, "I run every day and I belong to a gym. Can't you just give me a pill or something?"

While Eddie pleads with the doctor for a panacea pill, Joan searches madly for the latest in fat-dissolving miracles.

"Oh, Joan's very concerned about her weight, all right," says the friend. "She's tried every fad diet around.

"If Joan would try a sensible diet for a change, she could drop that weight and keep it off," says the friend, warning "an ounce of prevention..."

The narrators also note that, under ITT's benefit programs, nonsmokers' premium contributions are lower than smokers'. And, besides feeling better about themselves, the narrators point out, employees save by avoiding hospitalizations caused by unhealthy habits.

In the past, ITT has used slide/tape presentations to communicate employee benefit information. But, Mr. Brokaw said he had no problems selling top management on the idea of an employee benefit video production.

"We thought video was definitely they way to go," he said.

ITT selected Hewitt via a competitive bidding process. "We looked at five to 10 other companies, saw some of Hewitt's work, liked what we saw, received the bid and selected Hewitt," Mr. Brokaw said.

The original length of the tape was not to exceed 15 minutes, Mr. Bradford said. "But, several portions of the tape, mainly the sketches, ran longer than we anticipated. But, they were good, so we kept them and made it a little longer. It didn't present a problem," Mr. Bradford said.

The judges didn't think so either.

One judge said the tape was appealing "because it didn't undermine the employees' intelligence by being too cute or too simple. It was humorous but still managed to convey important points. It was obvious to me that ITT made a real effort to produce a tape that would appeal to most of its employees all over the U.S."

In addition to receiving the first place award in the *BI* Employee Benefits Communications Awards competition, "The Picture of Health" also received a first-place award from the American Assn. of Business Communications, Mr. Brokaw said. ■

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Bell Atlantic makes benefit info simple

By DANA DAVIS

PRINCETON, N.J.—Bell Atlantic Enterprises Corp.'s benefits communication program, "A New Wave in Benefits," is helping employees learn about a complex new flexible benefit plan without drowning them in a sea of information.

The multimedia program—which cost $120,000 and includes a poster, payroll stuffers, company newsletters, two slide presentations, benefit information kits and detailed enrollment forms—won first place in the total benefits communications program category of this year's *Business Insurance* Employee Benefits Communications Awards competition.

Bell Atlantic Enterprises, the holding company for Bell Atlantic Corp.'s non-telephone company operations, designed the elaborate communications program to inform and reassure its 8,000 employees about changes in their benefit program.

Some of the company's employees had been employed by other Bell System units prior to the 1984 divestiture of regional Bell units. Others worked for companies that since have been acquired by Bell Atlantic Enterprises.

"Because Bell Atlantic is brand new, we really needed an organized method of telling workers what their benefit program was all about," said Don Olsen, manager of benefit plans at Bell Atlantic Enterprises.

"Of course we had to replace all the old (communication) material when the company split up and the benefit program subsequently changed," Mr. Olsen said.

Bell Atlantic Enterprises' flexible benefit plan, which took effect in April, offers employees a variety of benefit options, including a choice of six medical plans; three dental plans; various group life insurance and accidental death and dismemberment insurance options; and three long-term disability plans.

In addition, employees have the option of contributing a portion of their pretax pay to two flexible reimbursement accounts—one for uncovered health care expenses and one for dependent care expenses.

Employees can "purchase" these benefits using "flexible dollars." The amount of flexible dollars given to each employee is determined in part by the employee's pay. If an employee does not spend all of his or her flexible dollars on benefits, the employee can collect the remainder as taxable income.

Before attempting to communicate such a complex plan to its employees, Bell Atlantic Enterprises established several objectives.



"First of all we needed to explain the concept and rationale of flexible benefits so that employees could understand why the program was implemented," said Laurie Austin, a consultant with Hewitt Associates in Rowayton, Conn., which served as the consultant on the project.

In addition to explaining why the change was necessary, both Bell Atlantic Enterprises and Hewitt wanted to find a clear and concise method of describing how the changes in the plan would affect the company's employees.

"We wanted to be up front and honest about the coming changes, and we also knew we needed to present this information without causing unfounded and unnecessary worry," Mr. Olsen said.

The communications program was kicked off with an introductory letter from company management that briefly described the concept of flexible benefits and the reasons the company was implementing the plan.

The letter was followed by two articles about the plan in the company's newsletters. In addition, posters and payroll stuffers touted the new plan.

None of these materials, however, furnished exact details about how the flexible plan would work. That information was passed along at group meetings, led by members of Bell Atlantic Enterprises' benefits department.

At these meetings, employees viewed a slide-and-tape show during which a narrator explained what the flexible benefit plan would offer to a single employee, a married employee with a working spouse and no children and an employee with a non-working spouse and children.

Following this presentation, the group leader then explained the flexible plan in more detail, using informational slides to reinforce key points and prompt discussion among the employees.

At the meeting, employees received a kit containing detailed descriptions of all the different components of the flexible plan.

They also received personalized enrollment forms, which told employees exactly how many flexible dollars they would be given to spend on benefits and the cost of each benefit option. Employees also received a sample enrollment form, so they could more readily understand how to select their benefit options.

Following the formal presentation, the group leader answered questions from the employees. If employees had additional questions after reading the informational material passed out at the meeting, they could call a special hot line staffed by benefit department personnel.

"At the height of implementation, there was a variety of questions. That was to be expected, so we made arrangements to anticipate this need," Mr. Olsen said, referring to the hot line.

The group presentations seemed to "calm down" a few employees who were apprehensive about changes in their benefit packages, he said.

"Many people are wary of changes, but the presentation was designed expressly to inform and educate the employees about just what exactly was taking place concerning their various benefit plans. I think after they attended the meeting, viewed and read the material they felt more comfortable about the whole thing," Mr. Olsen noted.

To generate employees' interest and get their attention, Bell Atlantic Enterprises management felt it was necessary to develop a presentation guaranteed to "generate employee involvement," added Ms. Austin.

"We decided to use a multimedia format because this was something

Continued on next page

Total program runners-up

The runners-up in the total communications program category were:

• Second place: Gulf Canada Ltd. of Toronto.

The Canadian oil company took second place for its presentation, which Gulf Canada said was designed to "increase understanding and effective use of benefits."

Central to the presentation was a videotape explaining the company's corporate philosophy and the roles of employee and employer. The video also introduced the new Gulf Canada user's manual, which is designed to condense and simplify the benefits information that employees previously had received in several booklets.

Gulf Canada's 6,300 employees viewed the video and received the benefits manual during company-sponsored benefit workshops.

One judge thought the Gulf Canada presentation deserved an award because: "The team approach for shared responsibility and shared benefits was an excellent strategy. The handbook was well-organized, logically sequenced and unusual in that it was sequenced to life events."

Another judge said the video was "highly motivating, even to being inspirational. The video was unusual in that symbolism was used instead of numbers and charts."

The $126,000 project was coordinated by Claudia B. Lynch, manager of employee benefits at Gulf Canada Ltd., and Barbara Cooper of Cooper Communications in Toronto.

• A third-place tie was shared by Southeast Bank N.A. in Miami and Bell Atlantic Corp. of Arlington, Va.

Southeast Bank received a third-place award in the total communications program category for its "Flex Plus" communications campaign. The bank's multimedia campaign included newsletters, buttons, posters, workbooks, a videotape and a confirmation statement.

The presentation, designed to generate enthusiasm for the company's new benefits program, was viewed by 6,150 employees. Southeast Bank would not disclose the cost of the program.

One judge said the presentation merited an award because "the campaign was cohesive and the use of the logo was extensive. The strategy was clear and logical."

One of the judges said the Gulf Canada video was 'highly motivating, even to being inspirational.'

The project was coordinated by Lynn T. Cambest, vp and director of compensation at Southeast Bank, and Lynn Ackerson, a consultant with The Wyatt Co. in Washington.

Bell Atlantic Corp., parent company of Bell Atlantic Enterprises Corp., which won first place in the total communications program category, also received a third-place award in the same category for its entry, entitled "Personalized Benefits Program."

The multimedia campaign featured six newletters, a folder, a training manual for meeting leaders, enrollment workbooks and a 55-minute videotape.

Approximately 22,000 employees viewed the videotape in special group meetings and asked questions about recent changes in the company's benefit program.

The tag line for the program—"Answers for You, Answers for the Future"—conveyed to employees that the company wanted to keep its workers informed on recent changes in its benefit program.

Bell Atlantic would not disclose the total cost of the communication program.

One judge said the Bell Atlantic Corp. program was effective because it "was designed to alleviate fears and concerns of employees, and it was honest, straightforward and believable. It was a top-quality job."

The project was coordinated by John Falk, division staff manager of benefits planning at Bell Atlantic Corp., and Lynn Ackerson, a consultant with The Wyatt Co. in Washington. Ms. Ackerson also was the consultant on the Southeast Bank presentation, with which Bell Atlantic tied for third place in the Total Benefits category.

• A special award in the total communications program category was presented to Beatrice/Hunt-Wesson Foods Inc., a food processing unit of Beatrice Cos. in Fullerton, Calif.

The $68,000 program, called "Benefits Yearbook" was received by 3,000 salaried employees.

The complete print package consists of a description of the company's benefit plans, summaries of how government-sponsored plans integrate with employer-provided benefits, a summary chart of "event-triggered" changes in benefits and a personalized benefits statement.

The company's primary objective in creating the package was to "simplify finding and understanding benefits information for employees and to increase employee appreciation of the value of the company's wide-ranging benefits program," a written statement said.

One judge liked the program because "it gave the employee a deep and thorough knowledge of what the individual's plan entailed without bogging them down with complex information. The graphics were also very effective and prompted interest and attention."

The project was coordinated by J. Brent Ayre, the company's benefits counsel/manager, and Angela Sinickas, Larry Ewing, Tina Hamlett, consultants with Hewitt Associates in Newport Beach, Calif.

Bell Atlantic

Continued from previous page

people had to take an active role in, in order to fully understand it. The discussion slides served as an aid in prompting the employee to take part," Ms. Austin said.

Because of the vast amount of information that needed to be conveyed, it was necessary to "carefully manage the organization," Ms. Austin said. "There was so much material concerning the flexible benefits we had to be careful how much we presented at a given time. It was a case of not being able to see the forest for the trees."

'It was a case of not being able to see the forest for the trees,' Hewitt Associates' Ms. Austin said.

Besides making sure that employees understood the communications program, Ms. Austin said the company wanted to give the program its own identity. So the company adapted its logo, which is the letter "A" drawn in the shape of an ocean wave," to form a blue and green circular wave that was embossed on all the communications material. That played off the title of the program, "A New Wave in Benefits."

"It was important to tie in the look of the benefit program with the wave because the company was still new," Ms. Austin said.

Throughout the nine months it took to produce the communications program, Bell Atlantic and Hewitt "worked very closely together to achieve the final product" Ms. Austin said. "In the end I think we were able to accomplish what we set out do by creating and designing a multimedia production that adapted itself to their organization's needs."

The judges thought the production served both the organization's and employees' needs by providing "a clear, realistic, foundation for a positive communication program." One judge thought the company met one of its primary objectives by utilizing "the corporate symbol, which was well-leveraged."

The program "agenda was logical, attractive and exciting," another judge said. ■

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July 18, 1985

BASF strives to make plan crystal clear

By DANA DAVIS

PARSIPPANY, N.J.—Clarity is an important quality of the magnetic recording tapes produced by BASF Wyandotte Inc.

And, when the company's benefit department began setting out to design a personalized benefit statement to communicate BASF's new flexible benefit plan to its 3,200 salaried employees, it was looking for that same kind of clarity.

In addition to devising a program that would be informative, management wanted to create a "personalized and visually appealing presentation" that would appeal to employees and prompt them to fully examine what BASF's new flexible benefit plan had to offer, said Jeanne Kosartes, manager of of employee benefits and planning at BASF.

For its efforts in designing the 27-page booklet, "Benefits Choice Guide," BASF earned the first-place award in the personal correspondence category in the *Business Insurance* Employee Benefits Communications Awards competition.

"In this program, employees needed to know specifically what their benefits will cost them, so there was a real need and advantage to personalizing the material," said Pamela Kekich, a consultant with Kwasha Lipton of Fort Lee, N.J., which assisted BASF with the project.

The 27-page, spiral-bound "Benefits Choice Guide" looks sleek and attractive. The workbook walks employees through the process of deciding on various benefit options. The booklet is color coded by area of benefit, so employees can find answers in different sections of the booklet quickly without becoming confused.

This is especially useful because the company's new flexible benefit plan gives employees many new options. For example, employees have three options for medical and dental care, ranging from low-coverage to high-coverage plans.

Employees also can choose life insurance coverage ranging from one-half to six times salary, or an option that provides $50,000 worth of life insurance coverage regardless of salary. The life insurance options all include coverage for accidental death and dismemberment equal to their annual salary.

The plan also includes an option to purchase voluntary group accident insurance. And, it allows employees to contribute on a pretax basis to a reimbursement account to pay qualified dependent care expenses.

Finally, the plan includes a 401(k) salary reduction plan.

BASF's goal in creating the booklet was to educate employees about their new benefit plan and how to use it to their best advantage.

"We wanted to ease our employees' minds that, even though their benefits had changed somewhat, ultimately the decision regarding their benefits was still theirs," Ms. Kosartes said.

And, to help them make these decisions, the company included in the booklet all the relevant personalized data for each employee. For example, each employee's booklet tells the employee how much life insurance he or she could buy, or how much each of the medical care plans would cost.

"Because the piece is personalized, it is more inviting and more conducive to actually reading and reviewing what could have potentially been a cumbersome and bulky amount of material," Ms. Kekich said.

In addition to helping the employee put his or her benefits choices into perspective, the personalization reinforces the point that the new benefits program was geared toward and designed for the individual.

To personalize the booklets, BASF used a laser printing technique that allowed individualized information to be printed on both sides of the page and included within the text of the booklet.

"By using the laser technique, it made it possible for us to present the information to the employee in a more tailored fashion," Ms. Kekich said.

And, Ms. Kosartes added, "The look was very professional."

The booklets were given to employees in group meetings of 20 to 25 people, at which human resources people were available to answer questions.

"By combining the booklets with group meeting sessions, we wanted to show that we supported them by presenting examples in the workbook of how to go about making educated choices regarding their benefits," according to Ms. Kosartes.

BASF accomplished this goal by providing its employees with a well-organized, point-by-point guide to the decision-making process.

"Before we began the design work on the project, we decided we had to present the information in a logical sequence, so that it would be readily understandable. My biggest

Continued on next page

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Continued from previous page
challenge came about in thinking through the material, organizing it and presenting it in a manner that permitted the reader to stop after each section," Ms. Kekich said.

In considering ways to organize the material, Ms. Kekich theorized that the best approach would be to put herself in the employee's position.

"We needed solutions to enable the employee to be able to digest the information. So I devised a method of color coding because I thought, 'If I knew nothing about this, how would I want it presented to me? How would I go about making these choices?'" Ms. Kekich said. "All these choices can be overwhelming."

Although the personalized booklet was the heart of the BASF communication effort, there were other elements.

For example, if employees still had questions about their new flexible benefits after reading the booklet and attending the group meetings, they were encouraged to call a BASF hot line.

"The hot line was highly utilized," Ms. Kosartes said.

And, before the booklet, meetings or hot line were introduced, BASF conducted "focus groups" to learn what employees hoped to get from the new benefit plan.

"With the focus group, we were able to solicit the needs and wants of our employees," Ms. Kosartes said.

"The focus group enabled BASF to consider and answer these needs," she added.

Ms. Kosartes declined to reveal the cost of the communication effort. She said most of the feedback the company has received concerning the communications project has been positive.

"I think the employees appreciate the personalized tone of the booklets and the program in general," she added.

And, the reaction of the judges for the award competition was positive as well. The judges agreed that the overall personalization of the program was executedwell.

One judge said, "This is a super educational and reference tool, readily understood and clear."

Another judge said, "It is straightforward... and in general an excellent presentation." ■

Ex-Cell-O, CPC named runners-up

The runners-up in the personal correspondence category were:

• Second-place: Ex-Cell-O Corp. of Troy, Mich.

The diversified manufacturing company received the award for its personalized booklet entitled "Flex-Cell-Options for Hourly Employees."

The booklet was distributed to the company's 4,000 hourly employees at 40 plant and office locations.

The kit, composed of a 16-page personalized enrollment workbook and form, was designed to help hourly employees weigh the many choices available to them through the company's new flexible benefit program.

After the employees made their selections, they received a large one-page personalized statement confirming their choices.

Ex-Cell-O would not disclose the total cost of the program.

Throughout the campaign, Ex-Cell-O used a graphic of a thumbprint and a tag line stating "Put your imprint on your benefits" to emphasize the personalized nature of the program.

One judge said the presentation deserved an award because it "utilized a nice identification theme and used a relatively simplified approach, which enhanced the readability."

The project was coordinated by William E. Lenz, vp of human resources at Ex-Cell-O, and Vicki Dungan, a consultant with The Wyatt Co. in Washington.

• Third place: CPC International in Englewood Cliffs, N.J.

The company, a producer and marketer of grocery products, received the award for its "1984 Benefits Statement."

In designing the program, CPC management wanted to provide a comprehensive description of benefits, generate enthusiasm among employees for the value of their benefits and create a permanent and ongoing reference piece.

The company used a laser printing technique to print personalized information on two sides of the page.

In addition, the statement was designed so that it could be "physically incorporated into the three-ring binder employees use for benefits information year-round," according to a written statement accompanying the contest entry.

The company would not disclose the cost of the program.

One judge said the program met its objectives and "covered all its bases well, used nice descriptions and statements."

Another judge commented that "the strategy was easy to follow."

The program was coordinated by Douglas Horan, corporate director of personnel and employee relations at CPC International, and Pamela Kekich, a consultant with Kwasha Lipton of Fort Lee, N.J.



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American Express stresses readability

By DANA DAVIS

NEW YORK—"Changes and Choices."

That's what 3,000 corporate employees of American Express Co. faced on Jan. 1 when the financial services giant introduced a new flexible benefit plan.

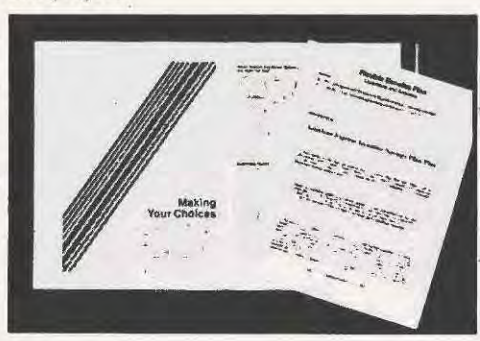
And that's the name of the benefits booklet that American Express gave to the employees to help them understand the new plan and all the options from which workers could choose.

The $15,000 communication effort received enthusiastic comments from judges and a share of the first-place award in the booklet category of the *Business Insurance* Employee Benefits Communications Awards competition.

"Readability" was one of American Express' primary objectives when it began work on the booklet, said Karen Manning, director of benefits planning at American Express.

"We wanted to make it really easy to understand. Most of the employees were not familiar with the benefits implementation. There were also a number of different plans being communicated," Ms. Manning said.

"We wanted to increase the receptivity of communication and eliminate some of the apprehension that might accompany a change of this nature," said Alan Turetz, a consultant with William M. Mercer-Meidinger Inc. in New York, who assisted with the project.



"There was an overwhelming amount of information, and we had to find a way to induce employees to take time and read this," Mr. Turetz continued. "Most employees in general have a hard time getting interested in a subject like benefits. They have a tendency to be confusing."

To accomplish this goal, several design features were incorporated into the booklet to encourage readership and facilitate understanding, Mr. Turetz said.

"We used bright colors throughout to attract initial attention. We also used large summary charts that varied in size but still conveyed manageable amounts of information. Along with the charts there were summaries and descriptions of each benefit area," Mr. Turetz explained.

The summary charts clearly compare different benefit options under the flexible plan. For instance, an employee glancing at the chart for the medical plan can quickly compare deductibles, coinsurance levels, stop-loss limits and premium contributions required by various plan options.

An index tab marks the beginning of the description of each benefit, so employees can find information quickly on a specific benefit, Mr. Turetz noted.

The booklet begins with an introduction to the new plan. Then, tabbed sections describe each individual benefit offered under the flexible plan. These benefits include:

- Medical. American Express employees have a choice of three fee-for-service medical plans, plus health maintenance organizations options. Under the new plan, all employee premium contributions to the medical plan are made on a pretax basis, meaning that employees are not taxed on the amount they contribute to the plan.

Continued on page 21

Booklet runners-up

The runners-up in the booklet category were:

- Second place: PepsiCo Inc. in Purchase, N.Y.

PepsiCo won the second-place award with "Your Benefits at PepsiCo," a benefits guide created for the company's 10,000 salaried employees. The $250,000 program was developed to relay comprehensive benefits information in an easy-to-understand format.

The guide consisted of a self-enclosed, boxlike three-ring folder containing color-coded benefit information. The guides were distributed to employees through PepsiCo's interoffice mail system.

One judge enjoyed the presentation because "the material was presented in a very easy reference manner. The color theme and layered effect of the different booklets is excellent. It was very impressive."

The presentation was coordinated by Suzanne Samuelson, PepsiCo's manager of benefits communication, and by Marleen Pasch and John Kunowski, communication consultants with William M. Mercer-Meidinger Inc. of Stamford, Conn.

- Third place: National Westminster Bank USA in West Hempstead, N.Y.

The commercial banking firm's presentation, entitled "Passbook to Personal Security," consisted of four booklets contained within a slim silver cardboard portfolio. The packages were distributed to 4,500 hourly and salaried employees.

The four booklets in the $90,000 communication effort included summary plan descriptions of the company's medical, dental, survivor income, savings and pension plans.

"The employees like the look of the package. . .and they enjoyed reading the books because they felt they were very easy to understand," said a written statement accompanying the National Westminster entry.

One judge enjoyed the booklets because "the presentation was excellent and was consistent with the organization's philosophy. It is very comprehensive."

The project was coordinated by Jeanne Ragonesi, vp of human resources with National Westminster, and Barbara Philbeck, a writer and consultant with Hewitt Associates in Rowayton, Conn.

Decisions revolutionize RICO

Supreme Court opinions change the rules for fraud litigation

By Ronald A. Jacks

ON THE NEXT to last day of its current term, the United States Supreme Court handed down opinions in two related cases that could virtually revolutionize the common law of commercial fraud and undo years of carefully crafted decisions designed to limit the reach of specific federal statutes dealing with such conduct.

In the companion cases of *Sedima v. Imrex Co.* and *American National Bank v. Haroco Inc.* (Nos. 84-648 and 84-822), the court rejected two increasingly popular defenses to the application of the civil penalty provisions of the Racketeer Influenced and Corrupt Organizations Act, otherwise known as RICO.

In *Sedima v. Imrex*, Justice Byron R. White, writing for a slim 5-4 majority, held that the plaintiffs in civil RICO cases need not plead and prove a criminal conviction arising out of the underlying "predicate act," such as mail fraud, in order to sustain an action for civil penalties.

In the majority justices' view, there is nothing in the statute or its legislative history to indicate that Congress intended to restrict its application in such a manner.

Nor, in their view, is there any evidence to support the proposition that plaintiffs have to plead and prove a separate and distinct "racketeering injury" beyond the injury that is alleged to have resulted from the predicate acts themselves in order to maintain a private triple damage action under RICO.

'It is not for the judiciary to eliminate the private action in situations where Congress has provided it simply because plaintiffs are not taking advantage of it in its more difficult applications,' says Justice Byron R. White, writing for the slim 5-4 majority.

In so holding, the Supreme Court recognized that, instead of being used against "mobsters and organized criminals," the statute has become a tool for everyday fraud cases that are brought against "respected and legitimate enterprises."

In the words of the majority opinion, "Yet this defect—if defect it is—is inherent in the statute as written, and its correction must lie with the Congress. It is not for the judiciary to eliminate the private action in situations where Congress has provided it simply because plaintiffs are not taking advantage of it in its more difficult applications" (i.e., against organized crime).

But, the majority did offer what may be a partial solution to the dilemma created by its decision when it emphasized it was not deciding whether the defendants in *Sedima* committed the required predicate acts or whether the commission of those acts fell into a "pattern" required under the statute.

"The 'extraordinary' uses to which civil RICO has been put appear to be primarily the result of the breadth of the predicate offenses, in particular the inclusion of wire, mail and securities fraud, and the failure of Congress and the courts to develop a meaningful concept of 'pattern,'" according to the majority opinion.

In their dissenting opinions, Justices Thurgood Marshall and William J. Brennan Jr., who were joined by Justices Harry A. Blackmun and Lewis F. Powell Jr., seized upon the majority justices' admission that civil RICO was evolving into something quite different from the original concept of its drafters.

They drove home the point with a sweeping charge that, "The Court's interpretation of the civil RICO statute quite simply revolutionizes private litigation; it validates the federalization of broad areas of state common law of frauds, and it approves the displacement of well-established federal remedial provisions.

"We do not lightly infer a congressional intent to effect such fundamental changes. To infer such intent here would be untenable, for there is no indication that Congress even considered, much less approved, the scheme that the Court today defines," the dissenting justices wrote.

The dissenting justices pointed out that the majority's interpretation of the statute (or, perhaps more accurately, its refusal to interpret the statute) "virtually eliminates decades of legislative and judicial development of private civil remedies under federal securities laws," and the dissenting justices concluded that there was simply no evidence to indicate that Congress intended to effect such "fundamental changes in the structure of federal law."

What Congress did or did not intend at the time it enacted the civil penalty provision of RICO is now, unfortunately, largely irrelevant.

What is relevant is that the Supreme Court has indeed revolutionized and federalized the common law of fraud—especially as it applies to commercial transactions.

The majority decision in *Sedima* virtually invites every attorney with a client who has a real or imagined grievance arising out of a commercial transaction to file a federal action charging a violation of RICO and demanding triple damages and attorney's fees.

In fact, failure to do so could very well be considered evidence of malpractice in some more enlightened circles of the bench and bar.

The potential damage to the administration of justice and the orderly development of the law is incalculable. It is no exaggeration to say that, from this point forward, virtually every commercial dispute is in danger of being converted into a civil RICO suit if there are any grounds whatsoever for alleging a statutory violation.

As applied to the business of insurance in general, and commercial insurance and reinsurance in particular, the results of this Supreme Court action could be equally chaotic.

The majority justices' interpretation of the civil RICO statute 'virtually eliminates decades of legislative and judicial development of private civil remedies under federal securities laws,' according to the opinion of the dissenting justices.

It does not take a great deal of imagination to conjure up the possibility of civil RICO actions arising out of disputes between insurers and their policyholders relating to the handling of retroactive premium increases and other charges.

Nor is there likely to be a paucity of RICO allegations in disputes between policyholders and their brokers and agents—especially when markets here and abroad begin to collapse due to the inevitable weight of overexposure and undercapitalization.

Added to this is the growing enthusiasm on the part of regulators to invoke the awesome power of RICO in pursuit of parties alleged to have contributed to the impairment or insolvency of once-active insurers and reinsurers.

Indeed, the combination of paranoia and politics produces an almost insatiable desire to invoke RICO in a cascade of self-righteous indignation and official outrage, even if it sometimes obscures the fact that the regulators themselves must bear a fair share of the blame for a failed company.

This is not to say that there are no legitimate uses for RICO in the insurance industry. The well-publicized use of civil RICO in a suit in Southern California against a group of attorneys, adjusters and claimants allegedly involved in a scheme to defraud auto insurers is a good example of a responsible use of the statute.

And, there are other situations, such as the *Kenilworth* case and other more recent scandals here and there abroad, where civil RICO may be the only way of dealing with the consequences of cold, hard, calculating fraud.

The key is (or was) to distinguish between those cases and the more common "garden variety" commercial disputes arising out of the all-too-frequent combination of failed promises and unreasonable expectations.

Historically, these cases have been tried according to well-settled principles of commercial law or the selected use of the federal securities law where appropriate.

However, the day of refined or semi-refined resolution of complex commercial disputes may be over, and the insurance industry, as one of the largest "consumers" of the civil justice system, will have to absorb a great deal of the bill in defense costs quite apart from settlements or judgments that may be inadvertently covered because of ambiguous or incomplete wording of policies.

What, if anything, can the insurance industry do in the face of this challenge?

The most obvious, immediate answer is for the insurance industry to join forces with other sophisticated entities in petitioning Congress for a redress of its grievances in the form of amendments to the RICO act, which would eliminate one or more of the fungible predicate offenses, such as mail fraud, and insert provisions calling for proof of a more clearly defined "pattern" or "practice" of racketeering.

The American Bar Assn. study dealing with the abuses of RICO that was referred to in *Sedima* should be a prime source of constructive reform.

Pending congressional action, which is neither certain nor swift, the insurance companies and their policyholders should, at the very least, exercise great restraint in invoking RICO to settle their disputes, especially where other alternatives such as arbitration might be available.

Having said this, it should be noted that it will take a great deal of intellectual honesty and moral courage to resist efforts of ambitious counsel to invoke RICO in an attempt to escalate the conflict and drive up the risks and rewards.

The insurance industry and its policyholders, especially large corporate insureds, also should begin to address the long-overdue task of becoming more directly involved in the selection, retention and promotion of competent judges, both at the federal and at the state level, since they will be the ultimate arbiter of civil RICO or its state law equivalent for many years to come—with or without any congressional action.

But, further comment on that project will have to await the dawn of another day, since in the words of Oliver Wendell Holmes, "Judges are apt to be naif, simple-minded men, and they need some of Mephistopheles. We too need education in the obvious."

If Holmes needed education in the "obvious," what hope is there for mortal man?



Ronald A. Jacks is a partner in the law firm of Isham, Lincoln & Beale in Chicago.

Unraveling Egypt's insurance scene

By S. Robert Beane

international issues

TODAY, THOUSANDS of years after the reign of the pharoahs, Egypt continues to have an economic and political presence on the world scene. Egypt can be viewed as an oasis of stability in what is considered an unstable region. This, together with a foreign policy aimed at stimulating foreign investment, makes the country an attractive investment opportunity for many multinational companies.

With an area of more than 1 million square kilometers, Egypt would seem to be a land of great potential wealth. But, since most of the country is desert, 95% of the population lives in an area of only 36,000 square kilometers situated along the banks of the Nile and its delta.

Nonetheless, the country has made considerable economic progress. The completion in 1971 of the Aswan Dam, situated approximately 600 miles upriver from Cairo, transformed the economy by taming the Nile, the main lifeline of the country.

Manufacturers have benefited significantly from the generous new source of electrical power. Farmers, traditionally plagued by devastating droughts, have been aided by the irrigation provided by Lake Nasser, the 500-foot reservoir formed by the dam.

One of the country's main problems is its growing population, currently estimated at 45 million and increasing at a rate of 3%, or more than 1 million people a year. The Egyptian government therefore is putting a great deal of effort into further developing its agricultural and industrial sectors and creating jobs.

In an attempt to attract foreign investment, a law was passed in 1974 to inaugurate the current "open door" policy in Egypt. Amended in 1977, the law still is considered deficient in many respects and has not succeeded in attracting the foreign capital necessary to develop Egypt's economy as planned.

Nonetheless, the economy's performance over the past few years has been satisfactory, with a real average rate of growth of approximately 8%. Petroleum and agriculture together accounted for 38% of total output. Finance and insurance have grown from 3% of the gross national product in 1974 to 18% in 1981-82. Other service industries grew to 19% from 6% during the same period.

While the insurance industry has followed the general economic prosperity, the scene has changed tremendously since the Egyptian economy was nationalized in the late 1950s. In the years preceding nationalization, more than 100 insurance companies operated in Egypt. Today, the market is dominated by three national companies: Misr Insurance Co., Al Chark Insurance Co. and the National Insurance Co. In addition, there are three major privately held companies: the Suez Canal Insurance Co., Al Mohandes Insurance Co. and the Delta Insurance Co.

In 1974, Misr and Al Chark formed insurers known respectively as the Arab International and the Egyptian American, authorized to write business in legally established free zones and to underwrite insurance and reinsurance on a worldwide basis.

The international relationships created by the free-zone companies still are in effect today: Arab International represents CIGNA Corp. while Egyptian American represents American International Underwriters. Together, they have handled the local insurance problems of many U.S. multinationals operating in Egypt. Aided by Egypt Re, Egypt's nationalized reinsurance company, the eight major insurance companies handle the bulk of business insurance in the Egyptian market.

Foreign brokers do not have a direct presence in Egypt. They deal mainly in reinsurance, whether facultative or treaty. Business in the local market usually is handled by insurance company agents, either employees or independents. This gives insurance companies a strong position in the market. Non-admitted insurance is excluded; combined with the limited number of insurers in Egypt, this has led to numerous complaints about market rigidity.

The situation is further complicated by conservative rating practices, because insurance coverage for property damage, business interruption, automobile and marine are all tariff-regulated. The few U.S. corporations that operate in the free zone are exempt from the insurance tariff and can obtain more competitive rates by placing their business with one of the two companies authorized to deal in the free zone.

The free-zone companies are obligated to write their coverages in hard currency. U.S. dollar coverage is available on the condition that premiums are paid in the same currency. While this is generally advantageous for most U.S. corporations because it enables them to protect their assets against the erosion of inflation and the devaluation of the Egyptian pound, coverage written in dollars can create administrative problems locally.

Tight foreign currency controls cause exchange rate difficulties. The Egyptian government has fixed the official rate a so that currency entering Egypt through official channels is exchanged at this rate. Often, however, a foreign corporation that wishes to buy U.S. dollar coverage finds itself paying a rate that is 50% to 70% higher than this official rate, thus reducing the economic advantage of using hard currency.

Multinationals involved in construction projects must consider a special coverage known as decennial liability, which indemnifies third parties, including tenants, for damage or injuries resulting from collapse due to faulty design or workmanship in the construction elements of a structure.

For many years, Egypt has had legislation requiring the purchase of this coverage for all construction projects.

A February 1982 revision of the law now requires that multinational companies obtain coverage limits of 2 million Egyptian pounds ($1.6 million U.S.) per occurrence for property damage and business interruption, with a sub-limit of 50,000 Egyptian pounds ($40,000 U.S.) per claimant for business interruption. It is important to note that no coverage is afforded for the owner's interest in the property.

The gross rate is fixed by the government at 1.36% of the value of the project, although the government's Insurance Federation usually allows the rate to be applied to the maximum probable loss when projects are of extremely high value.

U.S. corporations may be exempt from this mandatory coverage if the project is financed by U.S. foreign aid funds and the contract specifies this exemption.

Automobile liability coverage is mandatory, with unlimited liability for bodily injury. In most cases, coverage for property damage is non-existent. This can be a problem in the event of a serious accident, but for minor accidents, the traditional Egyptian solution of "Malesh"—"never mind"—usually resolves the problem.

Insured employee benefits are available but are not common. Employers must contribute to the Egyptian social security system, which provides old age pension plans as well as health, disability, death, unemployment and workers compensation coverage. This helps reduce, if not eliminate, the need for supplemental benefit plans.

Risk managers whose companies have exposures in Egypt or are planning investment in that country should keep in mind that the insurance market poses certain problems resulting from limited capacity and a rigid tariff system. At the same time, some flexibility does exist, especially in the free zone.

An understanding of local conditions and innovative risk management planning should make it possible to operate in Egypt with full insurance protection.



S. Robert Beane is vp and manager of the New York International department of Johnson & Higgins. His column on international issues appears the first Monday of every month.

Book outlines retirement planning programs

"Retirement Programs: How to Develop and Implement Them"
By Patrick J. Montana
Published by Prentice-Hall Inc., Englewood Cliffs, N.J. 07632
$24.95, 126 pages

By Stephen G. Deutsch

books & ideas

AS THE American population grows older—especially considering the increase in the number of people aged 45 to 65—the need for pre-retirement planning becomes greater. In this book, Patrick J. Montana, a professor of management at the Hofstra University School of Management, examines this need and how to meet it.

The author, who primarily is concerned with corporations offering pre-retirement programs, as part of their human resources management programs, has developed a comprehensive and annotated guide to various programs, books and articles that help human resources personnel evaluate and implement a pre-retirement program.

The book follows a logical progression. Chapter One reviews the need for pre-retirement programs, Chapter Two provides a method for analyzing a corporation's specific needs in this area, and Chapter Three develops a schedule and reviews the material that should be covered in the program.

Chapter Four provides a case study of how IBM Corp. implemented a pre-retirement program, and Chapter Five offers advice on communicating a program.

The book's appendix contains a wealth of information about organizations that provide counseling, literature, speakers and consultants for pre-retirement programs. It also provides various checklists for implementing the programs, and it discusses programs offered by General Electric Co. and Westinghouse Electric Corp.

The book provides advice on establishing a pre-retirement program in-house, if the company has the facilities, personnel and money to do so. The cost of the program will vary according to its scope and depth, Mr. Montana says.

However, he suggests that companies hire an outside consultant experienced in setting up pre-retirement programs.

The author stresses that retirement is a developmental step for employees, and that the idea gradually takes shape as employees get older and becomes more vital as the time of retirement nears.

Corporations can help their employees nearing retirement to organize, plan and shape their futures. The assistance the soon-to-be retiree needs to meet the problems of retirement can be provided through a carefully planned pre-retirement program.

Mr. Montana has written a book that compiles a wealth of resources a company can use to begin planning a pre-retirement program. And, companies with established programs also will find the book useful, to help them compare, update and revise their programs.

The book enhances the opportunity for a company to view its employees as a collective asset and to help ease their transition into retirement.

Stephen G. Deutsch is manager of employee benefits for Berkey Photo Inc. in White Plains, N.Y.

American Express

Continued from page 18

• Dental. Employees have a choice of two dental plan options. Like the medical plan, premium contributions to the dental plan are made on a pretax basis.

• Long-term disability. Employees choose among three LTD programs.

• Life insurance and accidental death and dismemberment insurance. Employees can purchase life insurance coverage equal to 100%, 200%, 300% or 400% of base pay. Five dependent life insurance options are available, two of which provide coverage for spouses only, two of which provide cover for spouses and children and one that provides cover for children only.

Employees have five different AD&D options to choose from.

• Dependent care account. Employees can contribute up to $5,200 a year on a pretax basis to a reimbursement account to cover qualified dependent care expenses.

• A "benefit allowance." American Express is crediting each employee with $350, which represents a portion of the savings the company hopes to achieve with the flexible plan. Employees can either take the benefit allowance as tax income or invest it in American Express shares.

The book's final pages contain instructions on how employees can decide which benefit options are best for them and serves as a guide to filling out the enrollment for the flexible plan.

. . .The contents of the booklet were not simply 'business as usual,'" Mr. Turetz explained.

The book's inside back cover contains a pocket in which the enrollment form and other supplemental information can be placed.

The multicolor graphics used in the booklet include the "familiar American Express blue," Mr. Turetz noted. "We had a corporate image to maintain, and there was a continuing effort to uphold a high professional dialogue between management and employees. The American Express blue conveyed a healthy impact. "We wanted to show that although the information pertained to work-related matters, the contents of the booklet were not simply 'business as usual,'" Mr. Turetz said.

The 16-page booklet was handed out to company employees during small group meetings consisting of 20 to 25 employees.

"The meetings were the focal point of the presentation. Employees could receive any additional information they felt they needed or ask any question they may have had," Ms. Manning said.

American Express had anticipated and prepared for many questions by "holding numerous meetings as well as rehearsals for trained personnel who would lead these employee discussions," Ms. Manning said.

"The leaders were well-trained, but just in case they might have been unable to answer someone's question, an individual from corporate benefits sat in on the meetings as a backup. By the end of the first few meetings, most of the questions had already been established," Ms. Manning said.

Employee feedback indicated many employees thought the communications program was helpful and offered good insights, Ms. Manning said.

One judge thought the American Express product merited a first-place award because "It was very well-developed and executed." ■

Tenneco takes first shot at benefit book

By DANA DAVIS

BANNOCKBURN, Ill.— Employees at Tenneco Automotive, a division of Tenneco Inc., are learning how to "protect, provide and build" for their future with the help of a new booklet explaining their benefits.

"Protecting you and your family. . .Providing for your needs. . .Building for your future. This is a general description of our benefit program," reads the introduction to the booklet, which tied for the first-place award in the booklets category of the *Business Insurance* Employee Benefits Communications Awards competition.

"By producing the program, we wanted to make employees more aware of their benefits and the importance of them," explained Debbie Konieczny, corporate compensation and benefits specialist with Tenneco Automotive.

Ms. Konieczny said the booklet marked the first time the company had used a formal communication tool to relay a general overview of its benefits package to employees.

"We wanted to generate more awareness of what the company had to offer," Ms. Konieczny explained. "We wanted to put together a package that would basically say, 'These are what your benefits mean and include. You have some of the best benefits that are available. They will protect, provide, and build for you now and in the future.'"

Ms. Konieczny noted the project attracted strong support from the company's top management.

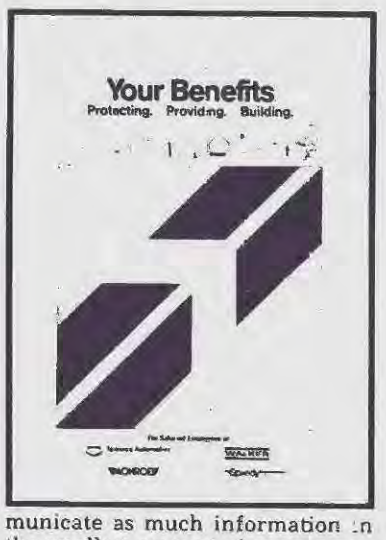
"We went to the vp of human resources, Arthur Davidson, and he immediately OK'd the project because of the way we went with it and because the costs were reasonable," she said. "He wanted to get the information right out to the employees."

The booklet is actually a glossy white folder containing nine color-coded insert cards, each describing a particular benefit.

The folders, which cost the company $3 each, were sent to about 3,000 salaried employees.

"We did not have an initial budget in mind but we didn't go overboard. The amount was generous, and we feel the product we presented was well worth what we paid," said Ms. Konieczny, adding that the company has not yet determined the total cost of the project.

Tenneco decided to use separate, removable cards to describe each benefit area rather than a more traditional booklet format "to communicate as much information in the smallest amount of room possi-



Continued on next page



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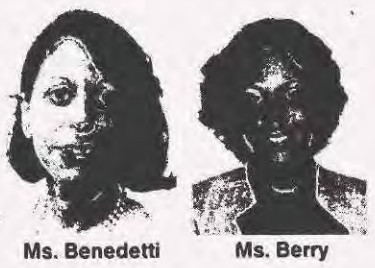
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business insurance

More employers use videotape communications


Ms. Benedetti

Ms. Berry


Mr. Bricker


Mr. Ciquera


Mr. Murray


Ms. Sieloff

NEW YORK—It appears that benefits communication has entered the Video Age.

About 85% of the audio-visual programs entered in the 13th annual *Business Insurance* Employee Benefits Communications Awards competition were videotape rather than slide-tape presentations, according to Ronnie Drachman, director of communications for *Business Insurance* and the coordination of the competition.

However, Ms. Drachman said, many of those programs originally had been slide-tape presentations but were converted to videotape to make them easier to show to employees.

In addition, many of the multimedia presentations also had been converted to videotape, she said.

"That was the big change," Ms. Drachman said.

But there were other changes, said Ms. Drachman, who has coordinated the last 12 benefits communications competitions.

"In general, there was a much more sophisticated sense of humor as opposed to a cutesy sense of humor...in print as well as audio-visual programs," she said. "Most of the programs were executed in a much more direct way," she added.

The contest drew 143 entries, representing 129 different companies in the United States and Canada. A total of 16 consulting firms were involved in the production of the programs.

About five of the 143 entries were "newfangled computer" entries, which incorporate the use of personal computers by employees to understand their benefits.

"I don't think the judges were ready for these entries, but they all agreed this new trend will eventually take hold," Ms. Drachman said.

"We at *Business Insurance* hope to review the potential increase in computer-type programs and hopefully will establish a distinct category for these types of programs, with the additional background information needed for judging purposes," Ms. Drachman said.

"The judges in general felt there are a lot of unanswered questions" about the computer-type programs," she added.

For example, she said, the design and execution of these programs are very different from traditional communications efforts, and judges will need more details, not only about the program's objectives but also about strategy and execution.

Also, she said, these types of communication programs also open up a new set of problems for the communicator: Does this, or is it meant to, eliminate printed material? Are employees without a personal computer at home missing out on something their counterparts with a PC would have?

Also, does the use of the personal computer as a benefit communication tool take away from work time or distract employees? And, how hard are the programs to understand and use?

Of the five such programs entered in the *BI* competition, three "were so user-friendly that anyone who could use an automatic teller machine at a bank could use these," Ms. Drachman said.

A panel of 12 judges, including experts in the fields of employee benefits and media, weighed the entries. The judges were:

- Anita Benedetti, director of research and education for the Risk & Insurance Management Society in New York.
- Romayne Berry, director of benefits and insurance for Woodward & Lothrop Inc., a retail department store company based in Washington.
- Raymond Bricker, president of Communicative Graphics Inc., an audio-visual production firm in New York.
- Fred Ciquera, president of Fred Ciquera Inc., an audio-visual and photographic company in New York.
- Ellen Conlan, account executive for Doyle, Dane, Bernbach, an advertising agency based in New York.
- Molly Ingram, director of marketing for Electronic Media, a publication of Crain Communications Inc. in New York.
- Cristina Lanken, pension manager for Ryder Systems Inc. in Miami.
- Robert Murray, manager of public relations and advertising for Prudential Reinsurance Co. in Newark, N.J.
- Kenneth Nickerson, personnel manager for the North Colorado Medical Center in Greeley, Colo.
- Alice Sieloff, marketing manager for Crain Communications Inc. in Detroit.
- Anthony A. Stewart, manager of benefits planning for Tenneco Inc. in Houston.

The 12th judge was Sherry Kalan, associate director of employee communications for Baxter-Travenol Labs Inc. in Deerfield, Ill. Ms. Kalan died last month as the result of injuries suffered in an auto accident. ■

Tenneco benefit book

Continued from previous page

ble while still getting the important points across," Ms. Konieczny said. "We used the booklet because we already have an employee handbook similar to a notebook. The notebook involves a lot of reading. It's something every employee receives when they come to the company and then they put it away in a drawer and forget about it.

"We thought this type of booklet would be simple, and we wanted people to keep it around in the office or on their desk and occasionally refer back to it," she explained.

The format serves another purpose, adds Steve Grey, an associate with Hewitt Associates in The Woodlands, Texas, Tenneco's consultant. Individual cards can be revised if particular benefits are changed.

"Because the piece was ongoing and various Tenneco subsidiaries might update or change certain benefits, we had to include some type of replacement piece," Mr. Grey said.

The individual color-coded cards of graduated lengths can be reprinted if certain benefits are altered without changing the entire package, he explained.

"This way it would only be necessary to reprint one or two cards and not an entire booklet," Mr. Grey said. "Even though there were a number of separate cards, the presentation can still be viewed as one whole piece because of the manner in which the cards were arranged."

Each of the cards is topped by a colored stripe, a phrase describing the benefit and a logo. For instance, the card describing the dental plan is captioned "Protection for Dental Expenses" and contains a logo depicting a toothbrush and a tube of toothpaste.

Besides the card describing the company's dental plan, other cards describe Tenneco's medical plan; accident, sickness and long-term disability benefits; group life and accidental death and dismemberment benefits; pension benefits; 401(k) and savings plans; employee stock ownership plan; educational reimbursement benefits; and vacations and holidays.

The cards vary in size so that only the stripe, logo and caption appear when they are stacked in the folder. Employees must remove the card before they can read the information printed on it.

As arranged in the folder, the logos on each card form a diagonal stripe, which mirrors the red and blue diagonal logo on the front cover of the folder. The use of diagonals helps keep the booklet "visually together in one piece," Ms. Konieczny said.

The nine logos on the individual cards also are printed on the front cover of the folder under the title "Your Benefits. Protecting. Providing. Building."

The inside of the front cover contains information on the value of benefits Tenneco provides its employees. The copy points out that some employees and dependents that may be uninsurable automatically receive medical coverage under the Tenneco plan.

According to feedback received by the benefits department office, employees appreciate the booklet because "it's easy to read and understand," said Ms. Konieczny. "I also think the colors and diagonal pictures made it a little more conducive to looking at and studying."

Mr. Grey said he did not know what kind of impact the booklet's graphics had on the overall readability but he believed the booklet was viewed by employees as helful.

"I'm sure the employees probably appreciate the fact that the company was trying to give them something tangible in which to relay this kind of important information," Mr. Grey said. "It was a different approach for them but one they began to view as necessary and really wanted to try."

One EBC competition judge remarked that "the presentation was clearly a winner. It was well-organized and thought-out."

Besides Ms. Konieczny, the project was coordinated by Dan Barker, who was manager of corporate compensation and benefits when the project was begun and who is no longer with Tenneco. ■

Chamber opposes ruling on mandated benefits

By JERRY GEISEL

WASHINGTON—The U.S. Chamber of Commerce says it will ask Congress to overturn a recent Supreme Court decision that gives states the right to mandate benefits offered by employer-sponsored health insurance plans.

In the ruling, involving a Massachusetts law requiring all group insurance policies to offer certain minimum mental health benefits, justices rejected arguments by the insurance industry and employers that the Employee Retirement Income Security Act pre-empts states from imposing benefit requirements on insured plans (*BI*, June 10).

"The big losers will be workers and families," said Chamber President Richard Lesher. "Costly new (state) requirements could force cutbacks in popular benefits or increased deductibles and other out-of-pocket expenses."

At least 26 states already impose some type of benefit requirements on insured plans, insurers say.

To overturn the Supreme Court decision, the Chamber will seek passage of an amendment to ERISA to make clear that ERISA pre-empts state laws that mandate benefit requirements on insured plans. It hopes Congress will consider its amendment this fall.

The Supreme Court ruling applies only to insured plans; the court noted that states cannot require self-insured plans to provide certain benefits.

Tort reform revision

A revised federal product liability bill prepared by Senate Commerce Committee staffers gives manufacturers some new protections against punitive damage awards and calls for the establishment of an elaborate no-fault compensation system.

Under the draft bill, which is being circulated for comment, punitive damages could not be awarded in a product liability action if the product that caused the accident met federal safety, design, labeling or performance standards.

Also, the draft bill would make it more difficult for plaintiffs to introduce evidence from expert witnesses that a manufacturer was negligent in designing a product or did not provide adequate warnings or instructions. Expert opinions would have to receive "substantial support" from other experts in the field.

"Substantial support" is not defined in the draft bill.

The measure also sets up a complex no-fault compensation system for accident victims who are willing to give up their right to sue product manufacturers in exchange for prompt payment of economic losses like uncovered medical expenses and lost wages.

The draft bill, prepared at the request of Senate Commerce Committee Chairman John Danforth, R-Mo., is expected to be revised after comments are received, and the draft's final version may replace a comprehensive federal product liability reform bill, S. 100, earlier introduced by Sen. Robert Kasten, R-Wis. (*BI*, July 15).

In releasing the draft bill, Sen. Danforth suggested that more work will be needed before the Commerce Committee tries to pass a product liability bill.

For a copy of the draft legislation, write to Arlene Sidell, Public Information Office, Senate Commerce Committee, Washington, D.C. 20510. A self-addressed mailing label should be enclosed.

Five-year vesting

Sen. John Heinz, R-Pa., says he will introduce comprehensive pension legislation that will, among other things, require employers to offer five-year vesting for their pension plans.

Currently, most employers require workers to stay on the job for 10 years before they are fully vested.

In addition, Sen. Heinz says he will propose that workers who change jobs with a vested benefit be required to roll the benefit over into an Individual Retirement Account rather than take the money as a lump sum.

The purpose of such a change, according to Sen. Heinz, is to ensure that employees still have the money from their pension plans when they reach retirement age.

The Heinz legislation also would place new limits on the extent to which employers could integrate their pension plans with Social Security. ■

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New laws limit liability for Louisiana entities

By MEG FLETCHER

BATON ROUGE, La.—The state of Louisiana could save $300 million in liability judgments and settlements over the next five years because of a six-bill package that was signed into law last month.

The six-bill package cuts the liability exposures of the state or other Louisiana public entities by, among other things, capping awards for intangibles like pain and suffering at $500,000, providing for structured settlements and reducing the interest that must be paid on judgments.

The legislation is expected to stem the "tremendous" growth in payment of liability claims by the state and other public entities, including school boards, said Charles Patin, chief of the state Department of Justice's civil division.

The state's appropriation for liability claims was $47 million in fiscal 1983-84, up from $3 million in fiscal 1978-79, according to a report by Richard de la Houssaye, an analyst in the state's legislative fiscal office in Baton Rouge. Much of the increase was due to one suit that cost the state about $24 million.

Mr. de la Houssaye estimates that the provisions in the six bills will save the state $300 million in the next five years.

"The situation was getting so bad in the state. It was just snowballing," said Jim Percy, deputy director and attorney for the Louisiana Municipal Assn. in Baton Rouge.

Also, some local governments, including the city of Baton Rouge, have been unable to find liability insurance (*BI*, July 8). "I think that played a large part" in passage of the bill, Mr. Patin said.

Officials hope the six-bill package will make it easier for Louisiana public entities to buy affordable liability insurance.

"I feel confident it (the package) will open a whole new market in Louisiana," said Charles Pasqua, executive director of the Louisiana Municipal Assn. and administrator of association-sponsored insurance programs through which 165 municipalities purchase liability, workers compensation and health and accident coverage.

Specifically, the new laws are:

- H.B. 67, which says that public entities are not liable for the acts of employees or officials in performance of their duties or by their failure to act, unless such actions or failure to act are done criminally, maliciously or recklessly.

Mr. Patin explained that for approximately five years, courts have applied a standard of strict liability to judge government officials that wrongly acted or failed to act. As a result, public entities could be liable even if plaintiffs did not prove an official was negligent.

For example, a public entity could have been found liable if a fire marshal missed something small in his inspection of a privately owned building and the building later burned down.

- H.B. 68, which says that a public entity is strictly liable only for injury or damage related to its buildings, and even then only if it knew of the defect and had a reasonable opportunity to remedy it.

Previously, a public entity was strictly liable for other property, including roads and recreational areas, and could be held liable even if it didn't know a defect existed.

- H.B. 65, which says that a plaintiff against a government entity can receive a maximum award of only $500,000 for intangibles like pain and suffering. However, there is no cap on a government's liability for medical bills, economic loss or loss of income.

Previously, there was no cap on awards for intangibles.

- H.B. 60, which says the state no longer is liable for the actions of parish—or county—officials, including the assessors, sheriffs and district attorneys. In addition, the state is not liable for injuries to or caused by National Guardsmen on active duty.

Previously, the state could be held partly liable in these cases.

- H.B. 1898, which sets interest on judgments against public entities for personal injury or wrongful death at 6% from the date the suit was filed to the date the judge signs the judgment order, and at 12% from the date of the judgment order to the date of payment.

Previously, public entities had to pay 12% interest from the date a suit was filed until the date a judgment was paid.

- H.B. 57, which gives judges express authority to require judgments against public entities to be structured. But, judges do not have to order that a judgment be paid through a structured settlement.

Previously, the authority of state judges to order structured settlements was not clear, and consequently such settlements were rarely ordered, said Mr. Patin.

H.B. 57 is an extension of a 1984 law that permitted both parties in a lawsuit to agree to a structured settlement before a judgment is ordered.

The use of structured settlements between consenting parties saved the state at least $31.5 million in liability claim payments in fiscal 1984-85. That savings increased legislative support for the six-bill package and caused plaintiffs' attorneys to modify their opposition.

Plaintiffs' attorneys also became more receptive to the bills when the state Legislature refused to appropriate money to pay strict liability judgments for six months, from December 1984 until the legislative package was passed in early July.

"We held them (plaintiffs' judgments) hostage to pass the legislation," Mr. de la Houssaye said.

The state faced $86.5 million in liability judgments in 1984-85, which was pared down by at least $31.5 million through the use of structured settlements, he said.

Structured settlements save 20% to 40% of lump-sum judgments because the purchase of an annuity is less expensive and interest income helps to offset payments, he said.

The package of laws is the result of a compromise with the Louisiana Trial Lawyers Assn., the municipal association's Mr. Percy said. Also, he said, "tremendous" support was generated for the package by public entities and local mayors. "It was a barrage effort."

Another related bill, H.B. 1515, allows interlocal risk management agencies to form their own insurance companies to reinsure municipal pools.

Previously, the 165-member pool operated by the municipal association wrote liability insurance for its members and that coverage was reinsured commercially.

When it could not obtain commercial reinsurance for the pool during Jan. 1 renewals, a commercial insurer began underwriting the liability risks of pool members and the association merely administered the program, said Mr. Percy.

However, the association does not plan to take advantage of this new law, because passage of the six-bill package is expected to increase the availability of commercial liability insurance and provide rate relief over the next two or three years, Mr. Percy said.

In addition, it would take years to form the reinsurer, he added. ■

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Risk management runners

Gary D'Alonzo (inset) of Applied Data Research Inc. in Princeton, N.J., was the first risk manager to cross the finish line in the third annual Twilight Classic five-kilometer run in Parsippany, N.J. The race, sponsored by Johnson & Higgins of New Jersey and the New Jersey Chapter of the Risk & Insurance Management Society, raised about $4,500 for the New Jersey chapter of the National Huntington's Disease Assn. A total of 744 runners participated in the June 12 charity event, and Mr. D'Alonzo finished 12th overall.

GE pact includes pension changes

By DIANE LYNN KASTIEL

FAIRFIELD, Conn.—General Electric Co. has a new contract with two major unions that increases pension benefits and gives workers an incentive to take early retirement.

Some 47,300 members of the International Union of Electrical Workers and 8,700 members of the United Electrical, Radio and Machine Workers of America union ratified a three-year contract with the Fairfield, Conn.-based company last month.

The benefits negotiated in the contract will also apply to salaried employees, a GE spokesman said.

The contract, which is retroactive to July 1, calls for an immediate increase in pension benefits. Workers will now receive a monthly benefit ranging from $15 to $21 per year of service. The base amount of the benefit depends on the employee's length of service.

On Jan. 1, 1987, monthly benefits will again increase to $16 to $22 per year of service.

Under the old contract, monthly benefits ranged from $14.50 to $19.50 per year of service, the spokesman said.

Also, GE workers with at least 25 years of service will have a three-month early retirement window available to them at age 60. Workers who take the early retirement option will receive full retirement benefits, plus an additional $200 a month in pension benefits from age 60 to age 62.

Previously, workers were allowed to retire early at age 60 with full benefits but no bonus.

The contract also establishes a vision care program. Workers will be reimbursed for the cost of eye examinations, lenses and frames according to a fee schedule.

The plan provides maximum reimbursement of $25 over a two-year period for examinations; $25 to $80 for lenses, depending on the type of lenses needed; $30 for frames; and $75 for contact lenses.

Workers do not have to contribute to the vision care premium, the GE spokesman said.

In addition, the new contract waives the $100 individual and $250 family deductible on prescribed generic drugs. Instead, workers will pay 15% of the cost of these drugs, up to a $1,000 out-of-pocket maximum.

Workers also receive additional life insurance under the new contract, equal to 200% of their pay or $35,000, whichever is greater. Previously, workers received $30,000 in life insurance.

Sickness and accident benefits also are increased under the new contract to $250 a week from $225.

The maximum reimbursement under the dental plan was changed so that workers can receive up to $1,500 in reimbursement over a two-year period. The maximum reimbursement had been $750 a year.

The company won one benefit concession from workers. Under the new contract, workers must contribute $200 a year for dependent health care coverage, up from $100 under the previous contract. The company pays the balance.

The contract also includes other measures to control health care costs, including requiring pre-admission certification on all non-emergency hospital stays and second opinions on selected surgical procedures.

The company's health plan is underwritten by various insurers, although the spokesman said that Blue Blue Cross & Blue Shield plans and Metropolitan Life Insurance Co. are the primary underwriters.

CIGNA Corp. writes the company's dental coverage, while numerous insurers write the sickness and accident and group life insurance coverage, he said. ■

Washington mandates asbestos cleanup training

By DIANE LYNN KASTIEL

OLYMPIA, Wash.—The state of Washington is requiring that workers involved in asbestos cleanup operations be specially trained before the projects can continue, though a state official says the rules will not be rigidly enforced for some time.

Emergency rules, announced July 22 by the state's Department of Labor & Industries and effective July 28, require owners of buildings in which asbestos is being removed or encapsulated to notify the department of the projects and to stop the activity until workers complete a special training course. The rules were enacted in response to a law, passed in April, requiring all workers removing or encapsulating asbestos to complete state-approved training courses.

If workers are found working without certification, both the contractor employing the workers and the owner of the cleanup site can be fined up to $5,000, says James Burt, industrial hygiene compliance supervisor for the Department of Labor and Industries. The workers would not be fined if they were discovered working without certification, he said. The emergency rules could affect as many as 300 contractors that are known to have performed asbestos cleanup operations in Washington state and an incalculable number of property owners whose buildings contain asbestos, says Armina Nolan, an air pollution inspector for the Puget Sound Air Pollution Control Agency in Seattle who specializes in asbestos regulation.

Mr. Burt said the law was enacted in response to several building contractors that may be eager to remove or encapsulate asbestos from buildings but might not be qualified to work with asbestos safely.

"There's a significant number of buildings in the state of Washington that contain asbestos and people who would like to remove it," he said. "It's a monetary incentive that's at work—jobs can go into a half-million dollars."

However, exceptions to the rules could allow some untrained workers to continue to remove asbestos. The most notable exception applies to private businesses that use their own employees to remove or encapsulate asbestos. In these cases, only the workers who supervise the cleanup are required to be certified, Mr. Burt said, noting the exception came as a result of the lobbying efforts by the business community. Also, if a group can show that there is a "compelling public health concern" for asbestos removal to continue at a site like a school or a hospital, the department may allow the work to go on even if the workers have not been trained.

In these cases, Mr. Burt said, either the building owner or the contractor must file a report stating that the workers:

- Know they are working with asbestos.
- Have been informed about the hazards of the substance.
- Are qualified to work with asbestos.

However, building owners and contractors in these cases do not have to show they are seeking to enroll workers in a training course or designate a date by which workers will be trained, Mr. Burt added. He also said the department will not rigidly enforce the emergency rules until more courses are made available.

So far, the state has only approved one asbestos-removal course for certification—one developed by the Assn. of Wall & Ceiling Industries, a national association of construction contractors.

Mr. Burt said any group can submit a proposed course to the state for approval, but he expects most courses will be developed by health and labor groups. The application fee for approval of a course is $150.

Mr. Burt added he expects the department to approve three additional courses by mid-August and a total of 10 courses in all. Two courses currently are awaiting department approval.

The AWCI training course had been developed before the Washington law was passed and the association simply modified it to adhere to the law's minimum requirements for certification, Mr. Burt said.

These minimum requirements include:

- The course must provide workers with at least 30 hours' training.
- The course must cover the physical characteristics of asbestos and asbestos-containing material so workers can recognize asbestos.
- The course must explain the health hazards of asbestos, including factors, like cigarette smoking, that aggravate these hazards.
- The course must cover the use of protective clothing and equipment like respirators.
- Workers must be trained in the proper use, handling and storage of protective clothing and equipment.
- Workers must be informed about medical monitoring procedures and other Washington Industrial Safety and Health Act requirements.
- The course must cover air-monitoring procedures and state safety and health requirements.
- Workers must be educated in state-of-the-art techniques for the removal and encapsulation of asbestos.
- The course must include education of proper personal hygiene and other habits that should be observed when working with asbestos, including showering, eating and drinking.
- Workers must be made aware of additional safety hazards they may encounter while working with asbestos, such as electrical hazards and the hazards of working at heights.
- The course must inform workers of the requirements, procedures and standards of the U.S. Environmental Protection Agency, the state's Department of Ecology, local air pollution control agencies and the state Department of Labor & Industries.

After workers complete a course, they must apply to the state for certification. To do this, a $25 certification fee must be paid and proof that they took and passed an approved course must be furnished.

Certificates are valid for two years. Workers must take a seven-hour refresher course to renew their certificates.

Certificates can be revoked if workers are found to be ignoring the safety precautions or improperly performing asbestos cleanup operations, Mr. Burt said.

The department received "hundreds of calls" last week alone, Mr. Burt said, mostly from companies that now are having asbestos removed or encapsulated and from contractors that work with asbestos. He also received 20 requests for waivers of the emergency rules.

Public hearings to make the emergency regulations permanent will be held in October, Mr. Burt said. ■

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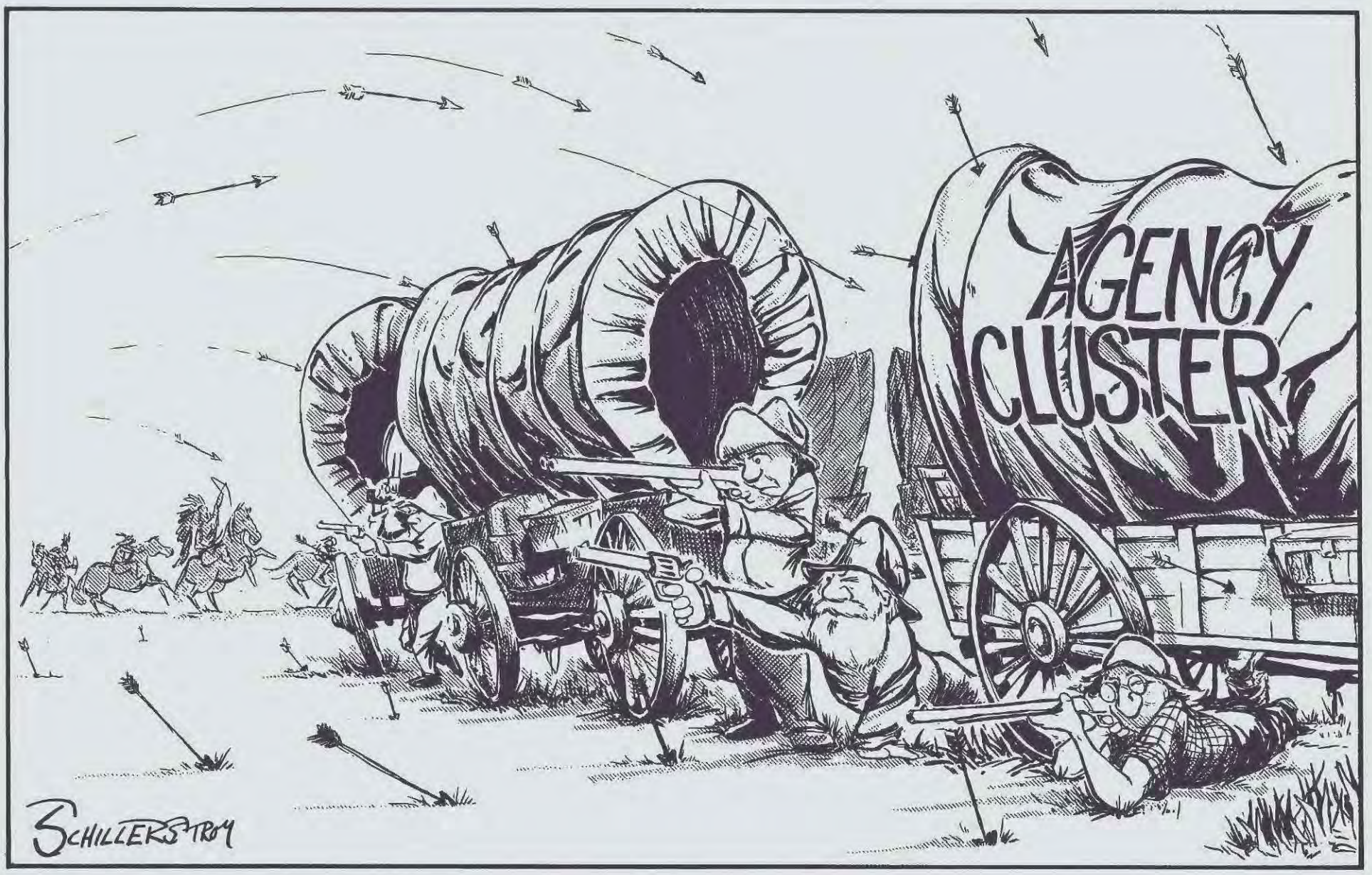
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Circling the wagons

Clusters help agents to find strength in numbers

By LINDA J. COLLINS

Like early settlers traveling across the American West, agents are banding together to find protection from a variety of hostile forces.

In response to competition from other agents, rising costs and the tightening insurance market, many are finding that agency clusters can be the key to survival.

"Clustering gives the small and midsized agency the same opportunity to succeed as the large all-service agency," said George T. Frazier, president of Insurance Advisors Inc., an agency in Hope, Ark., and a board member of Market Planning Group, an agency consulting firm in Boston.

In a cluster arrangement, agencies retain their own books of business but share support services, like marketing, computerization and administrative and clerical help. Clusters can take a variety of forms and can be used to accomplish a wide range of objectives. They can vary in size from as few as two agencies to as many participants as the cluster desires.

"Legally, a cluster is (simply) a joint venture. . . .But, labels are a catchy thing and 'cluster' seems to have caught on," said David A. Bakst, an attorney with Morrison, Mahoney & Miller in Boston who specializes in agency transactions.

Cluster arrangements let participating agents maintain some independence through ownership of their own book of business, while gaining some efficiencies of size. For example, members may pool their resources to purchase advertising, handle clerical tasks or computerize.

"Clusters are a salvation for the smaller agent whose back is up against the wall now. It's one way of survival," said Matthew A. Cantoni Jr., director of technical affairs for the Independent Insurance Agents of America in New York.

A cluster differs from an agency franchise program in several ways. Management and sometimes ownership of a cluster service company is shared by cluster members, while a franchisor is an independent company. In addition, cluster members share insurer contracts, while agency franchisees maintain their own contracts. And, franchisors do not provide services—like accounting and clerical help—that are shared by cluster members.

Some agencies in a cluster arrangement maintain their own agency offices; in these instances, the cluster arrangement is actually just a contractual deal.

Others maintain separate agency locations, but interface the agencies and a common service facility through a centralized computer system.

Still others relocate into a common facility and share clerical and support personnel.

But, no matter how the cluster arrangement is set up, the idea is attracting considerable interest among agents.

"There is definitely an increase in the use of clusters, mainly because many agents are grabbing at anything they can to survive," said Lou VonVille, agency consultant and president of The House of Fament Inc. in Columbus, Ohio.

An agency cluster is "one of a number of viable options that seem to be gaining in popularity among independent agents," said Kathleen A. Pasley, president of Market Planning Group, an agency marketing consulting firm in Boston. She said other options include joining an agency franchise network or merging with another agent.

"I have seen an increase in both mergers and clusters. There is, in general, some movement among smaller agents to band together. There is a trend among these

Continued on next page

Agency clusters

Continued from preceding page

agents to address the problems of how they can get more clout and how they can cut expenses. A cluster is one way of accomplishing this," said Rick Bourne, director of industry affairs for the National Assn. of Professional Insurance Agents in Arlington, Va.

According to agents and consultants, the potential advantages of a cluster include:

- The ability to retain and/or gain agency contracts with insurers —especially important in the current tight market—because of the additional volume the cluster can offer insurers.
- Potential bonuses from an insurer because of the increased premium volume generated by a cluster.
- The pooling of expertise of the principals in dealing with specialty coverages.
- Sharing expenses and possibly obtaining quantity discounts for office supplies, equipment, clerical and support staff and advertising.
- Sharing automation expenses.
- Freeing agents' time for selling insurance, if some of the management and processing functions are performed by the cluster service facility.
- Provisions for ownership perpetuation if the agency has not already made such arrangements.
- The ability to maintain a level of independence while gaining the benefits of a group arrangement.

"By transferring much of the back office detail and paperwork to a service core, the agent reduces expenses and gains more time for selling," Mr. Frazier said. "The core makes available to each cluster member the technical expertise, market access and total service capability now available in high-volume agencies.

"The cluster, with a combined volume of several million dollars, expanded markets, technical support and automation, is now in a position to seek more attractive contracts, broader authorities and more lucrative contingent agreements from its companies," he added.

Mr. Frazier currently is negotiating with several other agents in Arkansas to form a cluster. But, agents who already have formed their own clusters say the arrangement has several advantages.

"Clusters are the only way to go," said K.H. Bair, president of K.H. Bair & Co. agency and president of a cluster, Sunderland/Bair Insurance Agencies Inc., both in Albuquerque, N.M.

"Clusters allow you to have more capacity and more companies than you may have had individually," he said.

Ken Buehler, a partner in GBI Insurance & Financial Services and president of a cluster, INSCOR Inc., both in Albuquerque, said his cluster provides "clout and survival."

William N. Anderson, a partner in Anderson/Wilkenson Inc. and president of a cluster, Total Insurance Services Inc. in Pontiac, Mich., said the cluster has "definitely cut our expenses, increased our income and helped us to deal on a much more equal footing with our insurance companies."

Most of the agents who have formed clusters said the arrangements resulted in savings.

"None of the agencies could have afforded to do all of the services on their own," said Michael Leavitt, president and chief executive officer of Leavitt Group Agency Assn., a cluster in Salt Lake City.

For example, Mr. Leavitt said, his cluster offers automation, an extensive advertising program, extensive marketing products and programs and training programs that none of the 34 cluster members could have afforded on its own.

And freeing up the principals' time helps as well, says Roy Phillips, president of Muskie-Phillips Insurance Agency and vp of operations for cluster ABCO Insurance Management Inc., both in Houston.

"We have all experienced tremendous sales improvement in both personal and commercial lines," he said.

But, many agents say the most important benefit is that they are able to maintain their independence.

"We feel like we have achieved the benefits of merging without the adverse parts of a merger. . .and we feel like we have allowed each individual agent to maintain his independent identity and entrepreneurial attitude," said Anthony H. Morelos, president of The Corporate Agency Inc., and president of a cluster, Affiliated Insurance Center Inc., both in Houston.



Mr. Morelos

There are cautions, however. For example, it can take a long time to find the right partners for a cluster and to set up the arrangement. And, clusters can involve considerable start-up expenses.

While Ms. Pasley feels the cluster concept "makes a lot of sense" for agents, she admits the concept has some "intrinsic" problems. "When you have agents who are independent by their very nature, trying to move forward in planning a cluster is a tough one to handle. It's hard to get the cluster into a managable entity," she said.



Ms. Pasley

Potential problems associated with a cluster include:

- Insufficient planning or inadequate legal advice at the outset, which can become apparent only after the arrangement is final and the newness wears off.

Agents are urged to get expert legal advice and spell out all aspects of the cluster arrangement, such as how decisions will be made and expenses allocated, before entering into the arrangement (see story, page 24I).

- Poor management. This can occur when the principals, who may have done a fine job of managing their individual agencies, lack the skills to manage the much-larger cluster.
- The loss of some independence for individual agents because of the need for cooperation among all cluster members.
- Slowing down the decision-making process, because more people will be involved.
- Potential personality conflicts or conflicts of business philosophy, if members find they are incompatible or have differing goals.
- Problems if all agents do not contribute equally or if one agency begins to experience collections or other financial problems.
- Competition among agents for the same business.

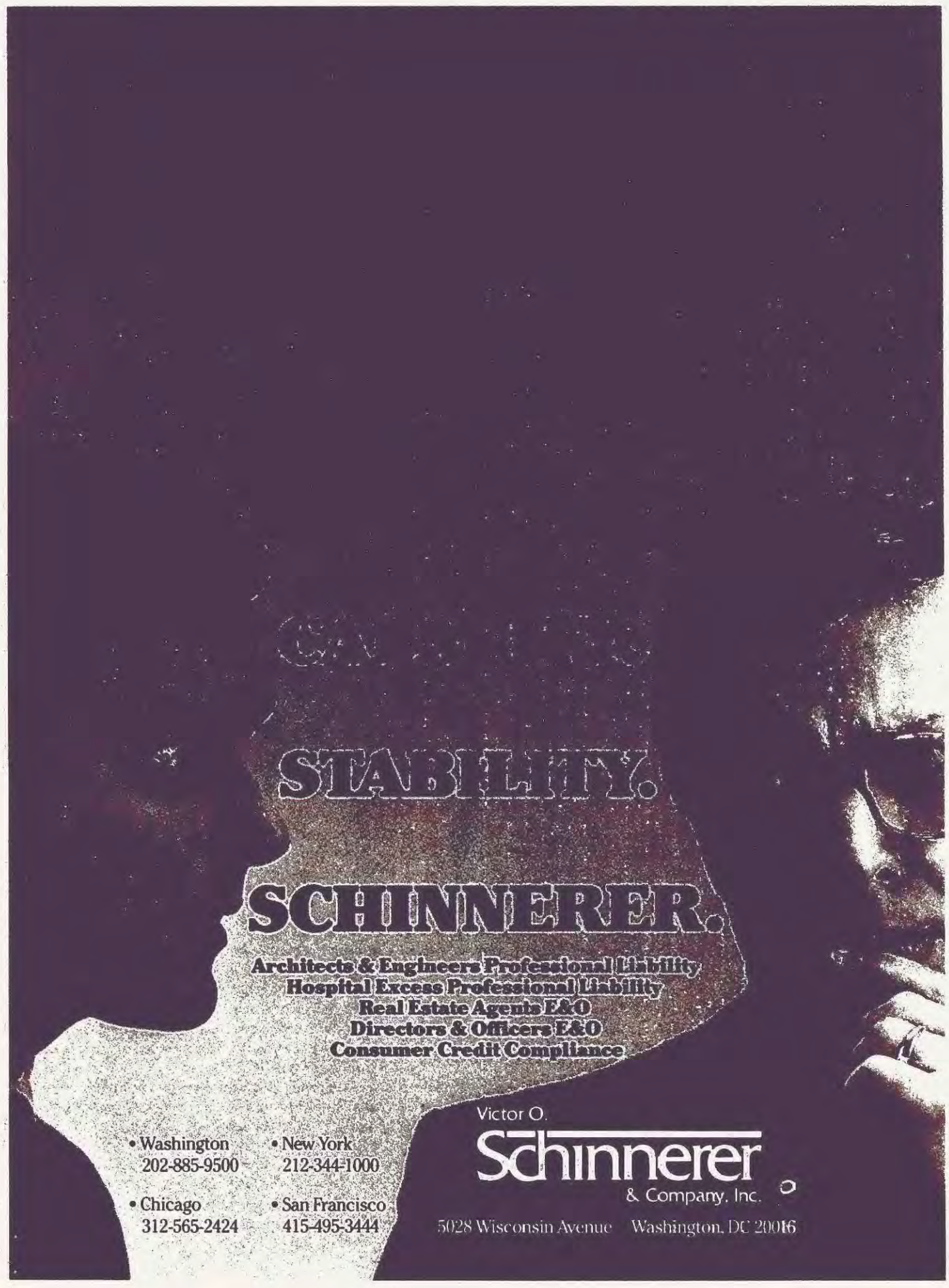
Automation can pose another problem for the cluster.

Carol A. Hammes, president of The Middleton Group, an agency consulting firm in Naperville, Ill., said that it is vital to find an automation system that will keep separate books and handle combined cluster functions as well.

"If part of the reason for forming a cluster is to share an automation system, you have to consider what is required of the system," she said.

And personalities play an important role in the success of a cluster,

Continued on page 24D





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GOOD SOUND THINKING THAT WORKS

Agency clusters

Continued from page 24B

too, experts agree.

"A lot of cooperation has to go along with a cluster arrangement, and with a lot of people involved, that can be a problem," said George Nordhaus, president of Insurance Marketing Services Inc., a Santa Monica, Calif.-based agency marketing organization.

Ms. Hammes agrees communication and cooperation are essential.

"I would estimate that maybe close to half of the clusters that form break up. Most of the time the break-up is within the first six months to a year, and usually it's because of poor planning and because the principals' egos got involved," she said.

One agent involved in a cluster arrangement also cautioned agents interested in clusters to go into the arrangement with their eyes open.

"A group of agencies should not try to do the cluster arrangement without considering the financial demands of the cluster itself," said Ned A. Mitchell, president of Bolivar Insurance Agency Inc. in Cleveland, Miss., and president of a cluster, Mississippi Insurance Managers in Jackson, Miss.

"In addition, some person is going to have to be the administrator of the cluster, and that person will have to spend quite a bit of time in putting the thing together and making it run," he said.

But, Mr. Mitchell is enthusiastic about his own experience with the cluster arrangement.

Not everyone endorses the cluster concept, however.

Although The House of Fament's Mr. VonVille acknowledges that "at the right time a cluster might be the right thing for agencies," he cautions that, in the long run, a cluster won't solve an agency's problems. And, he said cluster arrangements often are sought out by agents who already have problems.

"The cluster concept is good for agents who have determined that they will not grow," he said.

Mr. VonVille said agents interested in forming clusters usually are not market-oriented. "They go into the cluster to save money on computer and clerical expenses."



Mr. VonVille

And, he said they initially will save money, but that saving won't keep afloat agencies that lack a good marketing plan.

"We think clusters are a crutch, if you will, for those agents who do not want to aggressively market for business. . .Clusters save money at the front end, but a good marketing program, in the long run, will work much better," Mr. VonVille said. ■

Cluster arrangements take various forms

By LINDA J. COLLINS

A cluster arrangement offers agents a way to maintain their independence while pooling their resources. But, the individual arrangements can vary tremendously.

In some clusters, agency members are located in the same building. In others, they are located across town, across the state or across the country.

Management arrangements also can vary greatly.

The flexibility and variety of cluster arrangements is evident from an examination of nine clusters located throughout the country:

INSCOR Inc.

INSCOR Inc., a cluster of four agencies with seven principals in Albuquerque, N.M., was founded in December 1984.

The cluster, which is equally owned by the seven principals, was formed to give the four small agencies greater leverage in dealing with insurers.

"We were four relatively small agencies and there was no way we could survive. We had no clout with companies," explained Ken Buehler, president of the cluster.

The cluster contracts with insurance companies, and each agency has agreed to place all of its business through the cluster. It deals primarily with three insurers, though others are available for specific programs. The cluster has a combined premium volume of about $2 million, Mr. Buehler said.

INSCOR concentrates on target-marketed business. Mr. Buehler said the cluster chooses its target markets after asking its insurers what types of business they are interested in writing and what types of target market programs they have available.

The cluster concentrates on about 10 target markets at a time, though its insurer currently offers about 60 different target marketing programs.

All four agencies are housed in the same facility, with the principals on the top floor and the cluster's combined support staff on a lower floor. The support staff includes a telemarketing unit and sales center.

The objective of the telemarketers is to obtain expiration dates on prospects' existing policies and/or producer appointments. Mr. Buehler explained. The leads generated by the telemarketers are evenly divided among the cluster agencies.

The cluster keeps track of the business of the individual agencies and their producers. All members maintain their individual agency names, but they use the cluster name on their materials as well.

Walk-in business is written through the cluster, and profits on this business are split evenly among the seven principals.

All personal lines and most commercial lines business is billed directly to clients from the insurer, and the cluster plans to eventually use direct billing for all its business to avoid collections problems.

All the member agencies signed a three-year commitment up front, and then they must give notice 12 months in advance of intention to withdraw from the cluster. Mr. Buehler said.

If one principal retires, the cluster has the first right to buy that agent's business. If the cluster does not buy it and the member agent sells to a non-member who wants to join the cluster, all members must approve the new member, he said.

Rent charged by the cluster is based on the square footage each agent occupies, Mr. Buehler said. All member agencies contribute the same percentage of their commission income to pay the operating expenses of the cluster, he said.

Eventually, the cluster plans to sell all personal lines business in the name of the cluster corporation, rather than through individual agencies, and use the personal lines commissions to fund the cluster, he said.

Each of the seven principals has management responsibilities, and they meet each week to discuss operations. All of the principals have

Continued on page 24F

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Continued from previous page
different areas of expertise, which Mr. Buehler says is an important asset to the cluster.

Mississippi Insurance Managers Inc.

Mississippi Insurance Managers Inc. is a cluster of five agencies with five principals that operate a total of eight offices.

Although the agencies are spread across the state of Mississippi, the service corporation is centrally located in Jackson, which is the state capital.

The principals of MIM started a management group in 1983 to meet and exchange information, according to Ned A. Mitchell, president of the cluster. Out of one of these meetings came the idea to combine the agencies' volume to give each agency more leverage with insurers and more market options.

The group formed the cluster in 1984 and signed its first contract with The New Hampshire Insurance Group, which gave the cluster underwriting authority. MIM then established an underwriting and processing center in Jackson.

Ownership of the cluster is split evenly among the five member agencies.

Currently only about one-third of each agency's business is written through the cluster, though the members say they eventually would like to write all their business through the facility, Mr. Mitchell said.

The facility has a premium volume of about $7 million, according to Mr. Mitchell.

MIM now has agreements with seven insurers for property/casualty, life and financial services products. It can issue policies directly from the cluster office for several of these insurers, and it has some underwriting authority.

The insurers reimburse the cluster for some of its expenses and offer profit-sharing arrangements to cluster members in return for the added volume the cluster produces, said Mr. Mitchell.

The cluster office is interfaced with its insurers, but not all member agencies have been interfaced with the cluster's processing center yet, Mr. Mitchell said.

Six underwriters are employed by the processing center, and each member shares the center's expenses based on its premium volume.

The cluster executive committee, composed of all five principals, meets monthly. The committee also serves as an underwriting review board to examine business for profitability and suggest necessary changes.

Mr. Mitchell is reimbursed by the cluster for his role as president, and he is responsible for normal operating decisions.

Mr. Mitchell said the members must approve a sale to an outside party if the party wishes to remain in the cluster, but no provisions have been made by the cluster at this point for perpetuation arrangements.

The cluster has no non-compete agreements because members are scattered across the state and are not in direct competition with each other, Mr. Mitchell added.

Total Insurance Services Inc.

Total Insurance Services Inc. was founded in November 1981 by three agencies in different portions of Michigan.

The cluster, which has since grown to seven agencies and a premium volume of about $7 million, operates a service facility in Pontiac, Mich., and two remote production centers within 40 miles. All seven agencies are located in one of the three facilities, which are linked by computer.

A total of 10 agency principals own the cluster, according to William N. Anderson, the cluster's president. The principals pay a set percentage of their commissions to cover the expenses of the service facility, he says.

The agencies maintain their own agency names, but policies are issued under the cluster name.

Clerical, bookkeeping and customer service representative staff people are employed by the cluster.

Day-to-day decisions are made by the cluster manager, Charles Zanek, one of the agency principals, or by the cluster's executive committee, which consists of three principals.

Long-range decisions are made by a majority vote of the agency principals.

Agency accounts receivable are collected by the service center and then distributed to the producing agents, Mr. Anderson said. And, if a customer fails to pay his or her premium, the service center handles policy cancellation.

The principals all have signed

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Cluster setups

Continued from preceding page

confidentiality and non-compete agreements, he said.

The service center has the first right of refusal if an outside party offers to purchase a member agency. The cluster must be allowed the option to purchase the agency for the same terms as the offer made by the outside party. However, purchase offers by members of the family of the selling agency are exempt from this provision.

The cluster also is contractually bound to purchase a member agency at a fairly appraised price if the member agent dies, retires, is disabled or for some other reason decides to sell, Mr. Anderson said. However, this requirement is voided if the cluster cannot afford to pay a fair price for the agency, he said.

The cluster, in turn, can sell the business to other cluster agencies.

Total Insurance Services currently has about 22 insurance company contracts. "We are constantly consolidating and refining" these contracts, said Robert Moir, general counsel for the cluster. The cluster has binding authority with all the insurers and some underwriting authority, he said.

ABCO Insurance Management Inc.

When ABCO Insurance Management Inc. in Houston was founded in 1980, all five agency members were housed in the same building.

But, says Roy Phillips, vp of operations, "It just didn't work out. . .because it took the producers out of their areas of operation, so in 1983 we decentralized."

The cluster now has seven agency members and has since formed its own agency, owned by the agency principals, to place excess/surplus lines business.

All agencies are interfaced with the cluster's service center, and each also has a freestanding rating computer and word processor, Mr. Phillips said.

All accounting functions are handled by the cluster service center, he said, as are contacts with insurers.

Agency principals pay their own staffs, but the cluster locates, educates and monitors the work of all employees, Mr. Phillips said.

"We have taken the management function out of the agencies so the producers can sell," he said.

All business is coded separately by the service center to keep track of each agency's production. The cluster has contracts with about 14 insurers, Mr. Phillips said, but members are free to select from those the insurers they want to use.

Mr. Phillips said principals are responsible for collecting delinquent accounts, calling on prospects, gathering account information and selling. All other functions are performed by the cluster service center.

The management fee charged to each principal is based upon how much business the principal writes and how difficult the accounts are to service.

Dan R. King, president of ABCO, is responsible for the cluster's finances and for locating associates for the cluster. Mr. Phillips handles sales management and insurer relations for the cluster.

The service center has three full-time staff members.

Affiliated Insurance Center Inc.

Affiliated Insurance Center Inc. is a cluster of 10 agencies and eight principals in Houston. The eight principals are equal owners of the cluster.

Each agency is charged a management fee, which is a set percentage of gross commissions, according to Anthony H. Morelos, president of the cluster. The cluster handles all business processing for the principals.

All the agencies are housed in the same service facility, and clerical and support staff are hired by the cluster. Mr. Morelos said the cluster pays each agency's office expenses, except for travel, entertainment and automobile expenses.

Walk-in business belongs to the cluster, Mr. Morelos said, and the commission on this business is used to offset expenses of the cluster "so each principal benefits."

All business is written in the name of the individual agencies, though the cluster maintains records of the individual writings, profits and losses of each agency. Contracts with insurers are in the cluster's name.

The cluster has a premium volume of about $12 million, Mr. Morelos said.

All the agencies handle their own life and health business separately from the cluster, he said.

Mr. Morelos said the cluster has contracts with 27 insurers and places most of its business with eight insurers. Currently Affiliated has no underwriting authority, though it does have binding authority with all its insurers.

The cluster has in-house rating computers and a customer data base.

Mr. Morelos said the principals have signed non-compete agreements, and when a principal leaves the cluster, he or she is barred from soliciting other cluster members' business.

The cluster has first right of refusal on the sale of a member agency. If the agency is sold outside the cluster, the cluster has to approve the new agent if he or she wants to join.

Mr. Morelos said the cluster has an agreement to buy out a member upon death or disability. The purchase price is a predetermined multiple of gross premium written.

The cluster is managed by Mr. Morelos, who answers to a management committee composed of three principals. All the principals comprise the cluster's board of directors.

Mr. Morelos said that Affiliated Insurance Center protects its insurance company contracts from business that is likely to generate high loss ratios. The cluster controls the placement of each member's business, "and we'll put it where it belongs, even in the excess/surplus market," he said.

Golden Eagle Group

Golden Eagle Group is a franchise of 90 agencies across Florida. The cluster was founded in September 1983 to find markets for 29 agents who had held company contracts with an insurer that suddenly stopped writing business in most sections of the state.

Jeffrey Homes, president of the cluster, proposed to other agents who had placed a good portion of their business through the insurer that he would attempt to locate an insurer to write their business if they would pool their business into one company contract.

Mr. Homes found three insurers to write the business. The agencies then founded the cluster and set up a processing center in Lakeland to review and process and, in some cases, to underwrite business. Golden Eagle now has underwriting authority with two insurers.

The cluster has a premium volume of about $10 million, Mr. Homes said, adding that the cluster members have a combined premium volume of $30 million.

Member agencies own all their own business and pay the cluster 20% of the renewal commission on the business they write through the

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cluster. The cluster currently is installing computers in all agency offices with electronic bulletin board capability for posting messages. It expects to be completely interfaced with all agencies within 18 months, Mr. Homes said.

Until the offices are completely interfaced, agents will mail business to the management company for processing.

Golden Eagle has designed software with accounting, word processing, diary and suspense, appointments and client information retrieval capabilities.

Mr. Homes and his wife own 85% of the stock in the management facility.

The balance is owned by Golden Eagle's 14 employees.

Mr. Homes said the cluster is primarily for small, rural agents, adding that agents are not required to write all their business through the facility. Golden Eagle has first right of refusal to buy the members' books of business and is working on a guaranteed perpetuation program.

The group is currently advertising on a limited basis and plans to expand that effort.

Golden Eagle runs quarterly classes for all agency members to improve product knowledge and give training and group direction. It also offers training sessions on automation, management, acquisitions and bookkeeping at no additional charge.

The group is now expanding into Georgia and plans to expand into Alabama by 1987. Separate service corporations will be established in each of those states.

Sunderland/Bair Insurance Agencies Inc.

Sunderland/Bair Insurance Agencies Inc. was formed four years ago by J.A. Sunderland, president of J.A. Sunderland Agency, and K.H. Bair, president of K.H. Bair & Co., both in Albuquerque, N.M.

The two principals originally combined their operations into one facility, but have since gone back to separate offices. Mr. Bair said there were some problems involved in blending two management philosophies so the two principals decided to maintain separate offices.

The agents formed the cluster specifically to obtain contracts with insurers. The cluster currently holds two insurer contracts and is negotiating a third.

Sunderland/Bair has no service facility; both agents write their own business and maintain their own accounts. Their combined premium volume is $3 million, Mr. Bair said.

Each submits premiums to the cluster corporation, which then submits documents and a check to the insurers in the name of the cluster corporation.

Insurer volume bonuses are divided between the agencies according to premium volume, Mr. Bair said.

Not all the agents' business is written through the cluster at this time, though Mr. Bair said that eventually he and Mr. Sunderland would like to. He adds the cluster is actively seeking other participants.

Iroquois Insurance Group

Iroquois Insurance Group differs from the traditional cluster arrangement in that Iroquois owns a majority share in about 65% of the 125 agencies in the cluster.

The cluster agencies now operate more than 160 offices: about 100 in New York, about 60 in Pennsylvania, three in Ohio, two in Maryland and two in Vermont. A central service center, Iroquois Services Inc., is located in Buffalo, N.Y.

Iroquois was founded in 1977 by William Armstrong Branch and his father, Paul Branch, to give members additional leverage with insurers. The combined annual premium volume of Iroquois, which is owned by the Branch family, is slightly more than $100 million.

Mr. Branch said that the fact that the cluster is part owner of most of its members gives the cluster considerable control over individual members. As a result, he said, the cluster has a loss ratio that is far below normal, which he said impresses insurers.

Agency members pay Iroquois a monthly fee based on their premium volume. In return, they receive: access to markets for standard property/casualty business, excess/surplus lines business and life insurance; some group advertising; name recognition; a leasing facility for automation equipment; help in acquiring other agencies; and troubleshooting advice.

Bonuses from insurers are split among members, based on their premium volume.

Member agencies make their own operating decisions and maintain their own books.

Iroquois has contracts with about 100 insurers, but concentrates its volume with 20 companies.

Leavitt Group

Leavitt Group Agency Assn., like the Iroquois Group, differs from the traditional cluster concept, says Michael O. Leavitt, president of the cluster.

A partnership called Security Enterprises, owned by the Leavitt family, owns a majority interest in each of the 34 agencies in Utah, Nevada and Arizona that belong to the cluster.

Security Enterprises has a staff of 10 and provides financial and management services for the cluster members, which have a combined premium volume of $50.3 million and gross revenues of $7.5 million.

Leavitt Group agencies are all interfaced by computer and also are linked by computer to the cluster's three commercial lines underwriting facilities—in Provo, Utah; Phoenix, Ariz.; and Las Vegas, Nev.—and its personal lines facility in Salt Lake City.

LGAA has contracts with four insurers, and members can contract with other insurers on an individual basis.

LGAA, founded in 1978, provides member agencies with underwriting, training, standardized procedure manuals, advertising support, marketing assistance and data processing equipment.

The cluster is funded partly through extra commission paid by the insurers to the cluster because the cluster handles some servicing functions for insurers; partly through user fees paid by cluster members for some services like data processing or training; and partly through an assessment of 0.5% of the gross revenues of each agency member.

If LGAA has a year-end surplus, it is distributed to members in direct proportion to their use of the facility. If there is a deficit, it is billed to each agency in the same manner.

The Leavitt Group, unlike other clusters, makes extensive use of TV advertising and public relations for member name recognition.

Decisions that affect the cluster are made by the LGAA board of directors, composed of the chief executive officer, chief operating officer and financial officer of Security Enterprises, and six other board members elected by the entire group to two-year terms. Each LGAA group member is bound by the board's decision.

Fifteen people are employed by LGAA underwriting offices. The central facility in Salt Lake City employs five people, including Mr. Leavitt, a vp of agency services, two regional directors and a clerical person. ■



Agency cluster forms franchise operation

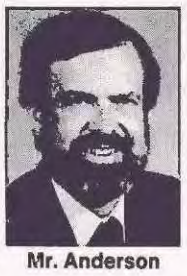
By LINDA J. COLLINS

PONTIAC, Mich.—An agency cluster formed by a group of Michigan agencies is drawing so much interest that the cluster principals have founded a nationwide franchise operation for agencies interested in starting their own clusters.

TIS of America Inc. of Pontiac was set up in March 1984 and began marketing franchises to agents in November.

TIS is owned by the 10 principals of Total Insurance Services Inc., a cluster of seven agencies whose service center is based in Pontiac. The franchise operation is located in a building next door to the cluster's service center.

The company currently is marketing franchises in 12 states. It is now negotiating with about 40 agencies, according to TIS President William N. Anderson.



Mr. Anderson

Mr. Anderson said that TIS also is negotiating with insurance companies to provide markets for its future franchisees.

Currently three TIS franchisees are operating in Michigan, he said.

Services provided by TIS to its franchisees include:

- Furnishing all legal agreements and documents.
- Locating partners for agencies seeking other cluster participants.
- Training programs.
- Operational manuals.
- Continuing counseling.
- A newsletter.
- The potential for name recognition, as the franchise grows, through use of the franchise name on materials.

And, for an additional cost, franchisees can obtain an automation system endorsed by TIS. The system has software specifically designed for use by a cluster.

For the most part, franchisees can set up the cluster as they wish, said Robert J. Lamb, TIS secretary/treasurer, although TIS may make recommendations.

Cluster franchisees can share as many services as they want, ownership of the service center can be set up any way and agencies can maintain their own offices or merge into one facility, he said.

But, there are a few requirements.

Franchisees must have a "cash management account" controlled jointly by the cluster and its agencies that guarantees payment of each agency's premiums to insurers, Mr. Lamb said. This ensures that if one agency has problems collecting its accounts, it will not have an adverse affect on the cluster's contracts with insurers.

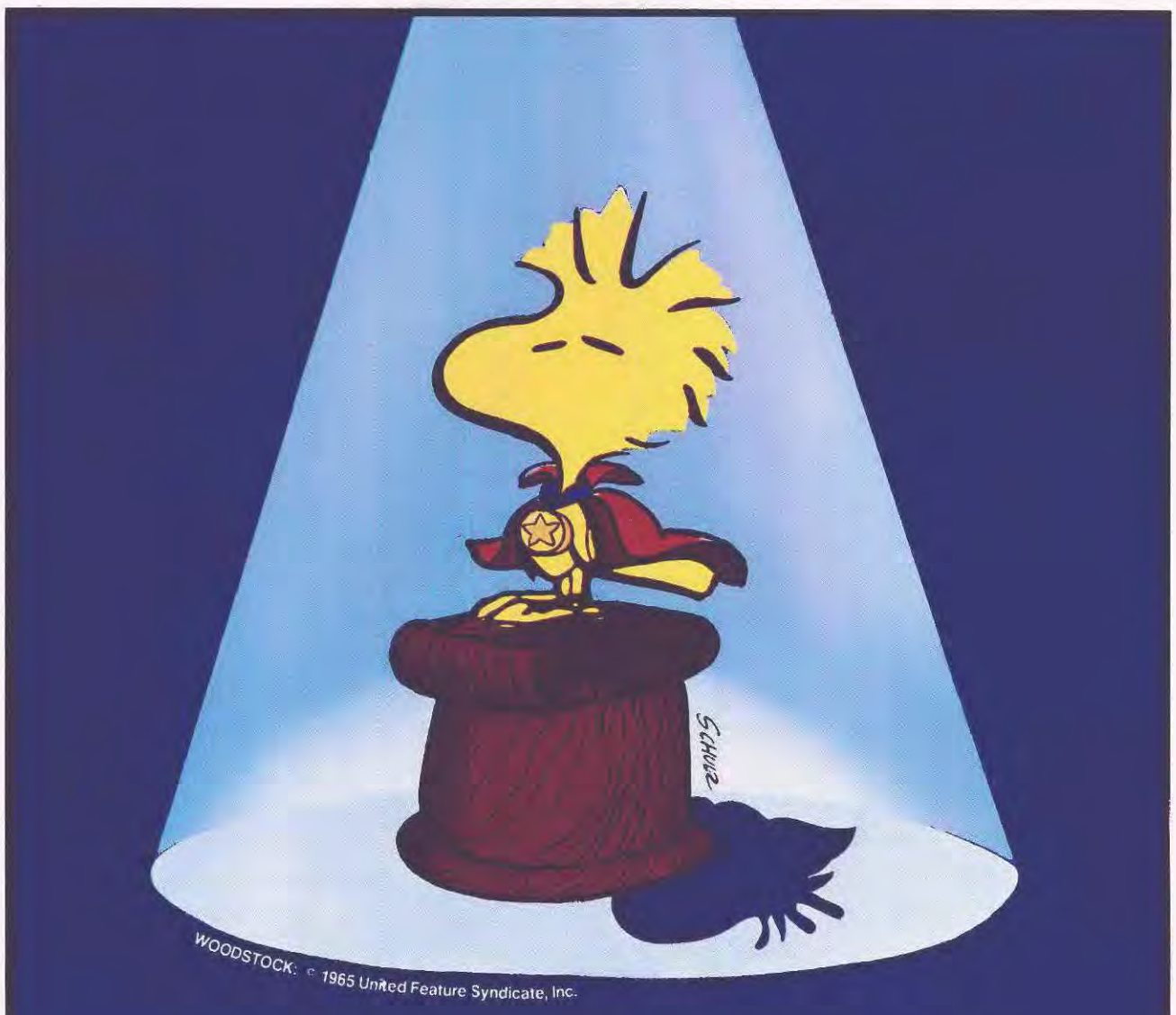
Member agencies cannot "loan" premium to clients, meaning that they cannot pay a client's premium if the client is late and then collect from the client later.

Another requirement is that the cluster contract include a mandatory clause for first right of refusal to purchase a member agency. This means that if a member is offered a price for his agency by a third party, the cluster has the first option to buy the business under the same terms set by the third party.

However, this does not apply to purchase offers made by members of the selling agent's family.

Mr. Anderson said TIS charges the first agency in a franchised cluster an initial fee of $5,000. In addition, it charges the agency a fee equal to 4% of any growth in commission income after the first year.

For other agencies that join the franchisee's cluster, TIS charges a $2,500 initial fee. These agencies then pay a flat $100 per month fee, he said, plus 4% of their commission growth after the first year. ■



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Use care in drafting cluster contract: Attorney

By LINDA J. COLLINS

CHICAGO—Although a cluster arrangement may be the answer to some agencies' problems, agents must be very careful when drafting the contractual agreement setting up the cluster, an expert advises.

The contractual agreement between agency cluster members should be carefully reviewed by lawyers experienced in handling agency transactions, said David A. Bakst, an attorney with Morrison, Mahoney & Miller in Boston.

"One of the things that a lawyer has to do is think of everything that can go wrong with a deal, and then make certain that the contract provides for a method of handling that issue," he said.

Mr. Bakst, who has specialized in agency transactions for 20 years, touched on the subject of cluster arrangements during a recent Insurance Marketing Services seminar in Chicago on agency mergers and acquisitions (see story, page 24J). However, the subject of clusters was met with such enthusiasm by agents that he expanded on his remarks at the seminar.

Cluster participants should make sure that the contractual agreement covers every potential problem, because a client usually takes the contract "out of the drawer" only when cluster members have a disagreement, Mr. Bakst explained.

When that happens, the agent has to "hope the document contains the rules for dealing with that disagreement," he added.

One of the first things to determine, he said, is how the cluster will be governed. For example, "You have to decide: Does every principal have a voice on the board of directors?"

Mr. Bakst said that if the arrangement involves several agencies, some of which have more than one principal, this can pose a problem. Usually each agency has one vote, he added.

Then members must decide whether these votes are to carry equal weight or the votes will be weighted, based on the size of the agency.

"More often than not, while we agree that we want to share expenses based on size, because it appears to be the most equitable way, we are willing to have management based on one agency/one vote," he said.

The ownership of the service facility—which in most cluster arrangements is shared by all members—is another key point agents should consider. Even if all agencies are approximately equal in size, that does not mean that they will still be equal in size in two years, Mr. Bakst explained.

"The bylaws, the participation of the board of directors. . .all of these operating problems have to be discussed and dealt with in the agreement," Mr. Bakst warned.

The agreement also should make provisions for future participants, acquisitions by individual members or by the cluster itself, and for retirement or disability of a cluster principal, he advised.

Cluster participants must decide if the cluster will hold the first option to buy if a principal decides to sell or retire, or in the event a principal becomes disabled, Mr. Bakst said.

In some cases the cluster may decide to guarantee purchase of an agency upon retirement or disability of a principal, which can be an advantage for some cluster members.

Even if the cluster does not have a buyout arrangement, it may decide to state in the contract that the cluster members must approve any new owner of an agency member—if that agency wants to remain in the cluster.

"The operation of the cluster requires that the agent recognize that he might not have the right to sell his agency to just anyone and still remain a member of the cluster," Mr. Bakst said.

He also urged that there be provisions in the contract for an agency to "disengage and get out" of the cluster arrangement if it so desires.

A cluster contract, he said, should include an anti-solicitation agreement to keep cluster members from competing for each other's business, although "more often than not clients tell me that that's not a problem."

He said that if a buyer actively seeks out the services of another cluster member, there should be a provision for a buyout or commission split between the two members.

And, Mr. Bakst said, "Certainly the contract should provide for confidentiality, where each agent agrees that should it have access to (another member's) accounts, it will keep that information confidential."

Another issue to consider if all members of the cluster are housed in the same facility is what will be done with walk-in business.

"Usually the service corporation will begin to own that business," Mr. Baskt commented. "Now, what do you do with the profitability of the service corporation once it begins to own a book of business?"

He explained that if the cluster has equal ownership of the service corporation, even if its members have an unequal volume of business, the walk-in business owned by the service corporation would be owned equally.

If ownership of the service corporation is based on each agency's volume of business, then profits from walk-in business would be divided accordingly.

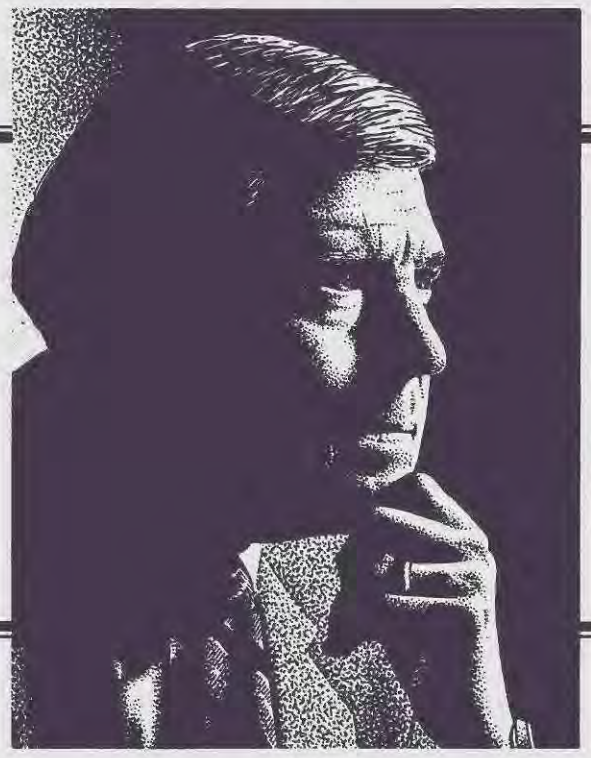
But, walk-in business comes into the service corporation because the office is there, Mr. Bakst said, "not because Company A is twice as big as Company B."

The issue of walk-in business is one reason why ownership of the service corporation—especially for member agencies housed in the same facility—usually is on an equal basis, even though expenses usually are shared based on the size of the member agencies.

To deal with the possibility that one agency's trouble collecting on accounts might affect the entire cluster's contracts with insurers, "the operating agreement should give the service corporation a lien on the (business) of each individual participant," Mr. Bakst explained.

Then, if one cluster agency develops a collection problem, Mr. Bakst said, "You have the legal string on that book of business, and the service corporation becomes a secured creditor.

"So, from a bankruptcy point of view, you're in a position where you get first lien on his book of business, and if you do have to jump on it, you should be protected, he said." ■



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Mergers, acquisitions require legal expertise

By LINDA J. COLLINS

CHICAGO—Merger and acquisition activity is increasing among insurance agencies, but agents should approach such deals cautiously, an attorney warns.

The facts surrounding the purchase, sale or merger of insurance agencies "are different in almost every case," and contracts must be designed to fit each agency, advises David A. Bakst, an attorney with the Boston firm of Morrison, Mahoney & Miller.

Mr. Bakst has been representing insurance agents and brokers in mergers, acquisitions and related legal matters for 20 years. He recently conducted a seminar, "A New Look at Buying, Selling and Merging Insurance Agencies," in 10 cities throughout the country.

The seminars were sponsored by Insurance Marketing Services, a marketing consulting firm based in Santa Monica, Calif. In Chicago, the seminar held July 10 was cosponsored by the Independent Insurance Agents of Illinois.

Mr. Bakst said competitive pressures are prompting increased acquisition activity among larger agencies. "Larger regional agencies have begun to buy out smaller agencies," he said.

And, smaller agencies also are increasing acquisition activity, he added. "Three-quarters of the deals I'm involved in involve smaller operations in the same geographic area," Mr. Bakst commented.

He said much of this activity has been prompted by recent changes in the relationships between insurers and their agents.

In the past few months, most major insurers have begun to cut back on the various support programs they had offered their agents in the soft market and are offering these programs to only a select few agents, Mr. Bakst said.



Mr. Bakst

And, rather than maintaining many agency contracts that produce only minimal business, insurers have begun canceling agreements with marginal agents and targeting "specific large agencies in each large metropolitan area," Mr. Bakst said.

Insurers feel it is inefficient to realize small amounts of money from many sources, and instead are now looking for larger volume from fewer sources as a way to reduce processing expenses. Mr. Bakst said.

Therefore, he continued, 'If agencies don't grow, they're going to find themselves in a position where it's far more difficult to make a profit. I see an increasing inability for the smaller agent to make a decent profit."

Mr. Bakst provided examples of a variety of contracts and forms for evaluating an agency. And, he gave agents tips for successfully negotiating mergers or acquisitions.

The potential buyer and seller both should examine their current operations closely, Mr. Bakst said

A potential buyer must determine if his or her agency has adequate markets to accommodate the new business obtained through an acquisition, he said. And it must determine if it has sufficient operating space and personnel to handle an influx of new business.

The agent also should determine if the other agency's business complements his or her own.

The seller, he said, should clean up all possible financial or management problems affecting the agency in order to get the best price for his or her business.

Selling agents also should determine whether they are ready to give up control of the operations completely, or whether they wish to remain with the operations in some capacity, Mr. Bakst said.

And, agents should consider alternatives to selling or buying an agency. These alternatives include:

- Developing and expanding the agency's existing resources, such as by using account selling to widen the agency's existing book of business, adding a life and group insurance department, more actively promoting the agency and educating existing personnel.
- Bringing new producers into the agency to develop new business and share management functions.
- A merger, in which the combined agencies could pool their resources to gain market clout.
- A cluster arrangement, where agencies could share automation support and clerical expenses through a service center and provide their insurers with increased business volume, while still maintaining their own books of business (see story, page 24A).

But, if an agent decides to buy or sell, he or she should make sure his or her agency has a projected business plan. A business plan analyzes "what the agency looks like today in comparison to some kind of standard. . . .A five-year projection makes sense," Mr. Bakst said.

He said this business plan, along with a consultant's evaluation of the agency, helps a banker recognize the value of an agency.

"An insurance company will sometimes lend money on the dollar value of an agency's (renewal business), but not a banker," he said. "You have to convince the banker that there are assets there worth more than the liabilities."

And, the attorney warned agents that if a potential buyer wants to examine their book of business or other confidential information, they should insist that the buyer sign a non-disclosure and restrictive covenant contract barring the potential buyer's agency from soliciting the selling agency's clients for a specified period.

This document is designed to protect the potential seller from revealing vital marketing information to another agency in case the proposed transaction falls through.

Finding a buyer is not usually a problem, Mr. Bakst said. "Almost everyone wants to buy."

He admitted, however, that it is more difficult to locate a buyer if the agency is large, because fewer agencies can afford the purchase price.

For agents interested in acquiring an agency, one of the best places to look is in their own community, Mr. Bakst pointed out. "Then create a relationship with the person so he comes to you when he's ready to sell."

If an agent wishes to purchase an agency that has only one owner, both agencies can sign an agreement that allows the potential buyer to purchase the competing agency when its owner dies or decides to retire. Mr. Bakst added that such an agreement "has to be cancellable by either party on some reasonable notice, but not on the event of the seller's disability."

Other ways to locate a potential seller include looking through general or trade press advertisements, contacting state agent trade association directors, checking with insurance company personnel, asking attorneys or bankers or enlisting the help of a business broker.

Mr. Bakst said that the use of business brokers seems to be flourishing in some areas of the country. He added that if an agency uses a business broker, it should insist on a written agreement that the broker gets paid only if the sale is completed. Otherwise, the broker may charge the agency for locating a prospect, even if the arrangement falls through.

"The seller usually pays the fee" for a business broker, Mr. Bakst said. But, he added that, considering all the buyers currently in the market, "I don't understand why a seller feels he has to pay a fee to find a buyer."

Finally, Mr. Bakst suggests that the seller should request that a potential buyer demonstrate the financial ability to complete the transaction "in advance."

"This weeds out unqualified buyers," he said. ■

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Top agent says automation can be a valuable selling tool

By LINDA J. COLLINS

CHICAGO—The future is brighter than ever for agencies that take advantage of the computer revolution, says a phenomenally successful direct writer.

"There's not been one sales tool available to agents that is any more important than the computer," says Cosmo Conte, principal of Cosmo C. Conte Insurance Agency in San Diego.

"If an agent can insulate his business by truly being multiple line—including automobile, homeowners, life and health—then there is no competition" for his business, Mr. Conte said, adding that computerization offers agents the means to diversify.



Mr. Conte

Mr. Conte, who has been State Farm Mutual Automobile Insurance Co.'s top agent for 14 of the last 16 years, addressed the Independent Insurance Agents of America's Automation Fair, held recently in Chicago.

Although Mr. Conte, an exclusive State Farm agent, was speaking to independent agents, he feels the automation concerns of independent and captive agents are the same. "To the insurance-buying public, an agent is an agent," he explained.

Mr. Conte began using computers four years ago to expand his sales efforts and hired an automation expert to help his staff formulate a computerized sales plan.

As its first computer solicitation effort, Mr. Conte's agency targeted existing clients as a market for hospital income policies, which provide cash payment to a policyholder while he or she is hospitalized. He said his agency began with the hospital income policy because "health insurance is the most untapped market in the country."

The agency's in-house computer coordinator began going through the client list alphabetically, processing 25 solicitation letters a day. These were followed up by phone calls.

Mr. Conte said that effort was a success: In the first year of the sales program, the agency wrote 347 hospital income policies. It had not sold the policies before the automated sales program took effect.

After the success of its initial computerized sales campaign, Mr. Conte's agency expanded its automated sales efforts into all other lines of coverage, he said.

About 1½ years ago, Mr. Conte relocated his office from the Midwest to California. Because of the high rental costs in California, Mr. Conte decided to computerize his clerical functions because he no longer could afford the space to accommodate a clerical staff.

The agency now has a paperless office with no clerical staff. All the current employees are producers.

The agency has designed form letters that can be customized on a wide range of topics. These can be quickly processed through the computer system.

To solicit new business, each producer is given two uninterrupted hours a day as prospecting time, using the computerized letters and telephone follow-ups, he said.

Mr. Conte purchases prospecting lists to help his producers locate potential new business.

The producers staff are paid on commission, not salary, giving them further incentive.

Mr. Conte pays his producers a flat $10 for each auto policy written, because auto insurance is the least-profitable line

Producers receive a commission of 7% on each homeowners policy, 25% on each life policy and 10% on each health policy they write. They are not paid renewal commissions on this business.

Mr. Conte said that when clients call to request coverage changes, discuss problems or file claims, his employees immediately call up information on all the client's limits, coverages, etc., on their computer.

Each time a client calls Mr. Conte's agency, his employees are instructed to scan this information for gaps in coverages and attempt to round out the clients' accounts, he said. ■

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Automated sales centers easy to form: Agent

By LINDA J. COLLINS

CHICAGO—An automated sales center can provide an agency with a systematic approach tc prospecting, expiration-dating and soliciting new business, one agent says.

"It's so simple" to set up an automated sales center that "it's sickening," says Al Meyers, president of A.H. Meyers & Co. agency in Marlton, N.J.

Mr. Meyers also designs insurance marketing software packages for independent agents and sells it through his company, Automated Insurance Marketing, also in Marlton.

Mr. Meyers told agents attending the Independent Insurance Agents of America's Automation Fair, held recently in Chicago, that his agency's personal lines sales center is completely separate from the rest of his agency operations.


Mr. Meyers

Mr. Meyers said that a sales center operates more smoothly when the agency represents only one or two insurance companies.

"Then you only need to learn one or two ways of doing business, rather than four or five," he explained, adding that simplifies claims and servicing functions.

Mr. Meyers' first step in establishing his personal lines sales center was to purchase a listing giving the average income level for each street in the agency's marketing area. The center's marketing efforts are directed only at prospects living on the highest-income streets.

A part-time employee then uses a city directory to enter the names, addresses and phone numbers of all prospects living on high-income streets.

"In this way we have, in effect, pre-underwritten the homeowners before marketing to them," he explained.

Once it has the names and addresses, the sales center sends prospects a solicitation letter with a return post card on which prospects can express interest in a specific coverage and note a convenient time for a producer to contact them.

Mr. Meyers said that response to this initial mailing is minimal. But, if the prospects do not return the post card, the sales center's telemarketers follow up on the letter seven to 10 days later with a telephone call.

The personal lines sales center employs five part-time telemarketers, Mr. Meyers said. However, only three of these telemarketers work on any given day, he explained.

The telemarketers receive $1.50 for the first expiration date they obtain from a household and 50 cents for any additional expiration dates they receive from the same household.

His telemarketers currently request only auto and homeowners expiration dates.

Mr. Meyers hires primarily women telemarketers because, he says, "People are nicer to women on the phone."

Most affluent households represent two-income families, so there usually is no one home during the day. Because of this, Mr. Meyers said his telemarketers phone prospects only between 6:30 p.m. and 8:30 p.m. Tuesday through Thursday and on Saturday between 11 a.m. and 2 p.m.

The telemarketers never contact prospects on Monday or Friday, because on those days people are most likely to be out or too busy to be bothered.

Mr. Meyers said that, for every 100 letters the sales center mails, the telemarketers obtain 45 expiration dates on existing policies. The sales center's producers can then call the prospects before the expiration dates of their current policies.

"If we don't get the business this year, we roll the expiration dates over in the computer for next year," Mr. Meyers said.

"Right now we have over 12,000 x-dates in our computer base," he said.

The sales center employs one part-time and two full-time producers to follow up on the response cards and the expiration dates obtained by the telemarketers. Sales center producers are paid 50% of the agency's first-year commission from the insurance company on personal lines accounts, according to Mr. Meyers.

The high first-year commission encourages sales, he said, adding that sales center producers receive no commission on renewal business.

Mr. Meyers said that, as an average, an agency should expect to get 35 expiration dates for every 100 letters its sales center sends out. For every 35 expiration dates, a producer should be able to quote 28 policies.

And, for every 28 quotes made, the agency typically will make about 7½ sales, according to Mr. Meyers.

"We keep a record of how much we missed by on the quotes we don't obtain business from, in case our carriers' rates get more competitive," Mr. Meyers said.

"You can talk about price, but if you're in the ball park and you're nice to them and can provide good service, you can take the business away from your competitors," he said.

Letters are printed out on Friday from the information input into the computer during the week, Mr. Meyers said. The part-time employee who inputs the prospect information comes in on a Saturday to sign and fold the letters and to stuff them into window envelopes, he added.

On Monday morning the letters are stamped and sent out in bulk mail.

Mr. Meyers gave agents an "action timetable" as a suggested schedule for implementing a sales center.

Within the first 30 days, he said, agents should be able to determine the market segments to target, find an insurer or insurers to write the coverage, select a sales center manager, order printed materials, hire a telemarketing staff and begin mailing to select market segments.

Telemarketing itself should begin within 45 days, and the first sales results should begin to show up within 50 days.

And within 90 days, he said, those sales results should start to multiply. ■

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Superfund bill

Continued from page 2

In addition to the provisions allowing the creation of risk retention groups for pollution insurance and allowing Superfund defendants to sue other responsible parties, this year's bill contains a number of other amendments that will impact risk managers and insurers. These provisions would:

- Provide a mechanism through which those responsible for an abandoned hazardous waste dump could enter into an agreement with the Environmental Protection Agency to clean up the dump. This essentially codifies current EPA policy on Superfund cleanups.

The Reagan administration clearly favors such settlements, but members of the business community fear that without specific mention of settlements in the Superfund law, a new administration could decide to use Superfund money to clean up a site and then litigate against polluters to recover the costs.

It is widely believed that it is cheaper for a polluter to agree to clean up a site than face a government cost-recovery action under the Superfund law.

The settlement provisions in the bill also specifically provide a mechanism by which EPA must notify those parties potentially involved in a site when the agency decides to pursue a settlement agreement to clean up that site.

- Require the EPA to establish an administrative record for Superfund cleanup orders that could be used by defendants as evidence in cases where defendants choose to challenge clean up orders.
- Exempt Superfund cleanup contractors from liability for damages caused by the release of hazardous substances or pollutants from sites they are hired to clean up, except in cases of willful misconduct.
- Specify that the EPA may use money from the Superfund in conjunction with money contributed by polluters to clean up a single dump site.

'On balance, we're pleased with the bill,' says Mr. Cheek at Crum & Forster.

Such a provision in the law is necessary, business lobbyists argue, so the EPA can use Superfund money to pay cleanup costs owed by polluters that cannot be identified or cannot pay, instead of forcing companies that can pay cleanup costs to foot the whole bill.

- Require the EPA to establish a study group to determine the insurability of various pollution risks.
- Limit liability for cleanup of releases of petroleum from underground storage tanks to $3 million for each cleanup action.
- Allow residents living near a toxic waste dump to petition the EPA to study potential adverse health effects caused by the site. Under the bill, those responsible for the dump site would be required to pay for such studies.

This provision is generally opposed by the business community, which is expected to lobby against it when the bill goes before the Public Works and Judiciary committees.

Concern over availability of environmental impairment liability insurance, particularly for companies that generate or dispose of hazardous waste, prompted the committee to adopt an amendment to the reauthorization bill that would allow the formation of risk retention groups for pollution insurance.

The amendment is based on the 1981 Risk Retention Act, which allows businesses to band together to form captive insurance companies specifically designed to cover product liability exposures. The 1981 law was designed as a solution to a lack of capacity for product liability risks (*BI*, Sept. 21, 1981).

Under the Risk Retention Act, risk retention groups that receive a charter from any state and meet at least one state's capitalization requirements can operate in all states without being licensed in those states. The groups do not have to use a fronting insurer to avoid runins with state regulators.

So far, few risk retention groups for product liability exposures have been formed (*BI*, Feb. 4).

The Superfund reauthorization passed by the committee would also order an EPA study group to determine the insurability of hazardous-waste generators, disposers and persons held liable for personal injury or property damage caused by hazardous substance releases.

The study group is to consist of EPA officials, insurer and reinsurer representatives, hazardous-waste generators and persons injured by pollution. The group would have 18 months to report its findings to Congress.

As part of the study, the group would be required to evaluate:

- Current economic conditions and the future of the insurance and reinsurance industry.
- Current trends in statutory and common law remedies in pollution cases and the impact of potential changes in standards of liability, proof and evidence in those cases.
- The impact of the Superfund liability scheme on the availability and pricing of environmental impairment liability insurance.
- Current trends in judicial interpretation and construction of liability insurance contracts.
- The frequency and severity of a sample of pollution claims closed during the calendar year prior to the study. ■

around the states

Pennsylvania considers Grode for insurance commissioner

HARRISBURG, Pa.—The Pennsylvania Senate will consider the nomination of George F. Grode for the post of Pennsylvania insurance commissioner when the Legislature reconvenes in September.

Mr. Grode, who now is acting commissioner, is the second person nominated this year for the post by Gov. Richard L. Thornburgh.

William R. Muir Jr., who was acting commissioner from April 1984 until July 19, was nominated three times during the past 13 months to the commissioner's post. However, Mr. Muir resigned as acting commissioner July 19, citing his desire to go back to private law practice and to be closer to his family, an Insurance Department spokeswoman said.

Mr. Muir first was nominated to the commissioner's post in June 1984, but that nomination was tabled indefinitely by a Senate committee in December, reportedly because of poor relations between the candidate and legislators.

The governor again nominated Mr. Muir to the commissioner's spot in February, but in April, just days before the deadline for Senate confirmation, the governor withdrew Mr. Muir's name. Later that day, he resubmitted the nomination.

On May 2, Mr. Muir, through a department spokeswoman, requested that Senate action on his nomination be delayed for an undetermined amount of time. The spokeswoman said Mr. Muir believed the insurance commissioner should be able to serve through the end of the governor's term in January 1987, adding that Mr. Muir said he could not make that commitment at the time because of personal reasons.

Mr. Grode, 40, was named acting insurance commissioner July 23. Mr. Grode has served in various capacities in Gov. Thornburgh's administration, including deputy secretary for policy and planning, acting secretary for the Department of Aging and acting secretary for the Department of Agriculture. As deputy secretary for policy and planning, he helped develop health care cost-containment measures.

He has a master's degree in public administration from the City University of New York and a bachelor's degree in psychology from the University of Windsor in Windsor, Canada.

Maine vacancy

AUGUSTA, Maine—Gov. Joseph E. Brennan is seeking a new chairman of the Maine Worker's Compensation Commission to replace Charles D. Devoe, who announced last month he plans to resign after 5½ years in the post.

Mr. Devoe, who was an assistant attorney general before his appointment to the Worker's Compensation Commission, cited the demands of the chairman's post as the reason for his resignation.

In Maine, as in several other states, the chairman handles the administrative responsibilities, works closely with the Legislature and hears disputed and appellate workers compensation cases.

Mr. Devoe will step down as soon as the governor finds a replacement, which is expected to be within the next three months. ■

Decision broadens options for cities under Superfund

By ROBERT A. FINLAYSON

NEWARK, N.J.—A recent decision by a federal judge significantly broadens the legal remedies available to cities to recover for pollution damages under the federal Superfund Act.

A federal judge ruled July 25 that municipalities can sue alleged polluters under the Superfund to recover for damage to natural resources caused by the polluters.

The Superfund law specifically allows the states and the federal government to file claims against polluters for damages they cause to natural resources through illegal disposal of hazardous waste, but the law makes no mention of local governments.

But, Judge Harold A. Ackerman of the U.S. District Court in Newark ruled that municipalities, although not specifically mentioned in the law, are included by implication.

If the decision is accepted widely by the federal judicial system, it could open the door for municipalities to pursue from polluters a wide range of recoveries for damages, including repair or replacement of parklands, water supplies and wildlife.

Judge Ackerman's ruling allows the township of Boonton, N.J., to proceed with its lawsuit against Drew Chemical Corp. in Boonton, a subsidiary of Ashland Oil Inc. of Ashland, Ky.

Boonton filed suit against Drew Chemical in 1983, charging that the chemical company illegally disposed of hazardous waste at a 3½-acre site in Boonton during the late 1940s or early 1950s.

The site was purchased by Boonton in the early 1970s and converted into a city park.

According to Boonton's attorney, Joseph Maraziti Jr., the township has already spent between $75,000 and $100,000 cleaning up the site, and that figure is expected to go much higher.

Currently, the New Jersey Department of Environmental Protection is conducting a study of the park to determine how it should be cleaned up and how much the cleanup will cost.

Mr. Maraziti says the suit seeks an undetermined amount to clean up the park and to repair damage to natural resources.

In deciding that Boonton may seek remuneration for damage to natural resources caused by pollution, Judge Ackerman denied a motion by Drew Chemical to dismiss the case.

Mr. Maraziti says action in the case probably will be delayed, pending the outcome of the New Jersey department's cleanup study.

Once that study is complete, the case probably will go to trial to decide if Drew Chemical was responsible for the pollution at the park and, if so, how much it should pay, Mr. Maraziti says.

Attorneys for Drew Chemical said they could not discuss the case because it is still in litigation.



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~~Jul 15~~	~~Jul 3~~
~~Jul 22~~	~~Jul 9~~
~~Jul 29~~	~~Jul 17~~
Aug 5	~~Jul 24~~
Aug 12	Jul 30
Aug 19	Aug 7
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Race track fire

Continued from page 1
ance learned.

Almost all the reinsurance for the risk was obtained through other Factory Mutual companies, according to an industry spokesman.

Shortly after the fire, track officials estimated the replacement cost of the damaged property at $100 million.

The track owners previously had reported to the Illinois Racing Board that the replacement value of the clubhouse and grandstand was $70 million.

The stables and backstretch area were not damaged by the fire, and no horses stabled at the track or bystanders were injured.

Only one firefighter of the 150 that reponded from about 25 fire departments was slightly injured.

At press time, track officials expressed their desire to rebuild the track but said they were still studying the feasibility.

If the track is not rebuilt, its owners may recover only the actual value of the lost property, which would be considerably lower than the replacement cost of the 58-year-old racing complex northwest of Chicago. Most replacement-value policies revert to actual cash value policies if the property is not rebuilt.

Both Protection Mutual and spokesmen for the track owners declined to comment on the insurance.

The fire occurred in the middle of the track's May 19-Sept. 30 racing season and less than one month before the "Budweiser-Arlington Million," which is one of the richest thoroughbred races in the world.

Track officials said last week they didn't know if "The Million" race would be run but that they planned to keep their 54 other remaining racing dates by running them at another Chicago area track, Hawthorne Race Course.

During the off-season, the track's facilities were used for exhibitions including antique and car shows.

As of last week, no one was estimating the ultimate business interruption loss.

Fire officials investigating the cause of the blaze said the cause had not been determined but that it was "probably accidental."

Meanwhile, the Village of Arlington Heights expects $400,000 in insurance to cover a portion of the revenue it will lose because of the destruction of its largest taxpayer.

A contingent business interruption provision in the village's property insurance program provides $400,000 in coverage annually for revenue losses related to the race track.

The coverage responds after revenue losses related to the race track due to specified causes exceed a $1,000 deductible and a $100,000 self-insured retention, said Jeff McNary, assistant finance director and comptroller for the village.

Village Mayor James T. Ryan estimates that the village normally receives between $500,000 and $1 million annually in revenue from the race track, including sales taxes, parking taxes, real estate taxes, liquor taxes and a portion of each admission price.

Exactly how much revenue the village will lose this year was still being determined, said Frank Charlton, assistant village manager.

The special contingent business interruption provision is underwritten by Lloyd's of London, according to Mr. McNary, who said the village's broker has assured him the loss will be covered.

Executives of the broker, Arthur J. Gallagher & Co. in Rolling Meadows, Ill., were attending a meeting last week and could not be reached for comment.

Mr. McNary said he could not quote the premium for the revenue loss coverage since it is part of a larger package.

The village assumed various self-insured retentions for its property and liability insurance policies beginning May 1 under a package brokered by Gallagher.

Mayor Ryan considers the move to insure the village against a revenue loss from the race track a "prudent decision."

Arlington Heights officials say they have purchased insurance to cover their tax revenues related to the race track for about the last seven years. They sought the insurance shortly after a 1977 fire destroyed the Washington Park race track in the Chicago suburb of Homewood.

The state of Illinois also will suffer betting and sales tax revenue losses as result of the race track fire.

However, unlike the village of Arlington Heights, "We do not have tax interruption or business interruption insurance," said William R. Miller, the state's risk manager.

The state has purchased this type of insurance in the past for certain events or for specific risks, but never for the Arlington Heights race track. And, the insurance had become to expensive to purchase for any risks, Mr. Miller said.

Betting at Arlington averaged $1.9 million daily, of which the state received 7% in taxes, according to Bill Bissett, director of the state racing board. ■

Plaintiff moves to put liens on city property, homes

TORRINGTON, Conn.—A federal judge will rule next week on a motion to put liens on Torrington city property and policemen's homes in an effort to assure payment by the city of a $2.6 million jury award in a lawsuit alleging negligence on the part of the city Police Department (*BI*, July 8).

"The city has one week to post a bond," said attorney Burton Weinstein, representing plaintiff Tracey Thurman.

"I would be very surprised if they did not post a bond," said Mr. Weinstein, with the firm of Weinstein, Weiner, and Shapiro in Bridgeport, Conn.

"But, if they don't post a bond by next week, then I'm going to move against them," he said in reference to both the city and the police officers.

Ms. Thurman sued Torrington and 29 police officers, half of the city's force, last February. She claimed the officers failed to protect her from a June 1983 attack by her estranged husband, despite repeated requests for protection (*BI*, July 8).

At the time the lawsuit was filed, Torrington had $6 million in liability coverage underwritten by Pacific Employers Insurance Co. and California Union Insurance Co., which both are subsidiaries of CIGNA Corp.

The two companies, however, filed reservation of rights notices with Torrington and later decided not to renew the policies when they expired June 30.

Pacific Employers had provided a $1 million per occurrence primary policy with a $10,000 deductible, and California Union provided umbrella coverage with limits of $5 million excess of $1 million.

The city has since purchased $1 million in liability coverage, written by Hartford Insurance Group and The Travelers Indemnity Co. ■

update

Hilton says loss is insured

Continued from page 2
tails. Hilton's property insurance broker is Marsh & McLennan Inc. in Los Angeles; its liability broker is Johnson & Higgins in Los Angeles.

Firefighters have determined that the electrical equipment did not contain any toxic polychlorinated biphenyls, or PCBs.

CU units ask hearings in Florida

TALLAHASSEE, Fla.—Four underwriting subsidiaries of Boston-based Commercial Union Corp., a subsidiary of London-based Commercial Union Assurance Co. P.L.C., have requested hearings before the Florida Departments of Insurance and Labor & Employment Security to answer charges that they failed to pay workers compensation benefits on time.

The insurers—Commercial Union Insurance Co., American Employers' Insurance Co., Northern Assurance Co. of America and Employers' Fire Insurance Co.—were notified in June by Insurance Commissioner Bill Gunter that their licenses to write workers compensation insurance would be revoked or suspended because of the delays.

Florida law says work comp benefits must begin within 14 days after employers know of an injury, said David Yon, an attorney with the Insurance Department. Florida's workers compensation program, which is administered by a division of the Department of Labor, requires insurers to comply with the law at least 85% of the time, he said.

However, the four insurers made late payments more than 15% of the time, according to information from the Department of Labor filed with the Insurance Department.

CU officials were unavailable for comment, but Mr. Yon said the insurers have said they either paid the benefits on time or made late payments because they were notified late by employers.

Old Dominion being purchased

TALLAHASSEE, Fla.—Old Dominion Insurance Co. in Jacksonville, Fla., which was seized earlier this month by Florida Insurance Commissioner Bill Gunter, is being purchased jointly by its president and another investor.

"This is a very well-run company," said Old Dominion President Larry Haynes, stressing Old Dominion is doing business as usual.

The 4-year-old insurer wrote more than $10 million in workers compensation, commercial liability and various other lines of insurance in Florida in 1984, the Insurance Department says.

Old Dominion, which is solvent, was seized to preserve its assets in light of a $47 million civil lawsuit in which the insurer is a defendant. Old Dominion's current owner, Larry D. Barnette, is the primary defendant in the suit brought by the U.S. Justice Department, which charges the insurer was "unjustly enriched" through funds stolen from the U.S. government (*BI*, July 29).

Mr. Haynes said details of the sale are being worked out, but the insurer will keep its name and remain in Jacksonville. The sale price will not be disclosed until later this month, he added.

A "firm deal" to sell the insurer to Mr. Haynes and J. Edward Houston, president and chief executive officer of both J.E. Houston Financial Corp. in Miami and subsidiary South Florida Savings Bank, was signed by the insurer's stockholders, Mr. Haynes said.

Although Mr. Haynes said the sale is firm, the Insurance Department says the sale is pending. The department is working with the Justice Department to have Old Dominion dropped from the civil suit or have its liability limited, a department spokeswoman said.

A spokesman for the Justice Department said it wants the insurer sold at a fair price and proceeds from the sale placed in escrow, pending the outcome of the suit.

Strike may threaten pensions

PITTSBURGH—Wheeling-Pittsburgh Steel Corp. says it has told striking United Steelworkers union members they are jeopardizing the company's pension plan by continuing their walkout.

Wheeling-Pittsburgh sent a letter dated July 25 to the 8,200 striking workers, advising them that unless they return to work, the company could terminate the pension plan covering active and retired workers, says Bruce McCullough, a company attorney.

USW members struck July 21, after the company voided its collective bargaining agreement with the union (*BI*, July 29).

The letter also said the company would not make a required $5.7 million payment to the plan on July 31 and may not make subsequent payments if the workers do not return to their jobs.

The company filed for Chapter 11 reorganization on April 16.

Bhopal leak sabotage: Carbide

NEW YORK—Union Carbide Corp. says it has ruled out everything but sabotage as a cause of the poisonous-gas leak at its plant in Bhopal, India, which killed about 2,000 people.

An attorney for Union Carbide, Bud Holman of Kelley, Drye & Warren in New York, submitted a newspaper article last week in pretrial proceedings that reported a group of Sikh extremists had claimed responsibility for the accident.

In a separate filing last week, Union Carbide says it will seek dismissal of all the disaster-related claims filed against it in U.S. courts. The company claims U.S. courts are not the proper forum for the suits, which seek billions of dollars in damages.

The company did not say when it would file for the dismissals.

The filing was in response to a suit by the Indian government and a consolidated suit by several U.S. attorneys seeking damages on behalf of the Bhopal victims. Union Carbide's filing before Judge John F. Keenan in U.S. District Court in Manhattan contends that India has no legal right to bring suit in the United States and that U.S. attorneys have no authority to represent Indian victims.

The case could be tried in India if the U.S. suits are dismissed.

Claims-made form

Continued from page 2

Although both occurrence and claims-made commercial general liability policy forms will be available, the regulators fear insurers will use the more restrictive claims-made form exclusively, leaving insurance buyers with potentially less coverage at greater cost.

So far, 27 states have approved the new ISO claims-made and occurrence forms for use effective Jan. 1, 1986.

Under a claims-made form, an insurer is responsible only for claims filed during the policy period, while the occurrence form affords coverage for any injury that occurred during the policy period, even if the claim is not filed for years after the policy expires.

The new ISO claims-made form will include a retroactive date, which will allow insurers to exclude coverage for bodily injury or third-party property damage that occurs before that retroactive date even if the first claim is filed during the claims-made policy period.

And, while it is intended that the retroactive date be the inception date of the first claims-made policy, insurers will be able to move the retroactive date forward with subsequent policies. To prevent coverage gaps under new policies, buyers will be allowed to purchase an extended reporting period endorsement for expiring policies at a cost of up to 200% of the policy premium.

The new ISO policy forms also would include defense costs within policy limits beginning July 1, 1986 and, effective Jan. 1, 1986, exclude all coverage for pollution liability and impose new separate aggregate limits for specific exposures.

Although Mr. Gillies believes the claims-made form may be appropriate for long-tail risks, like those associated with asbestos and hazardous wastes, "there's got to be a whole lot of other areas where occurrence policy forms from the standpoint of the consumer still make good sense."

Some insurers will use the claims-made form so that they can secure needed reinsurance and offer lower prices to insurance buyers and gain market share, admitted Fred R. Marcon, ISO senior executive vp and chief operating officer.

However, in general, he expected "an orderly implementation of the claims-made form."

"I do not expect a complete turnover in a tight time frame, nor do I expect a wait-and-see attitude for insurers because of the extraordinary pressures being placed on them from a reinsurance standpoint and to maintain their own fiscal integrity.

"It's a guess, but my judgment is that they would move cautiously in implementing the desirable features of the claims-made form," Mr. Marcon said.

Insurers will phase in the claims-made approach "fairly slowly" in 1986, predicted John Morrison, chief underwriting officer for CIGNA Corp.'s property/casualty group.

"My own feeling is that the market will pretty well decide whether certain classes go totally claims-made or whether they stay more on an occurrence basis," he said.

But Mr. Morrison said that he prefers that the claims-made form not be restricted to certain classes of business.

"We don't think the policyholder will suffer from the claims-made form, not the way we intend to use it nor the way the claims will be paid," Mr. Morrison concluded.

Regulators also questioned ISO's position that the new claims-made form will decrease litigation over coverage available under CGL policies.

"Aren't we just going to march lock-step into court?" asked Mr. Gillies.

The new form will make some very dramatic changes in many areas, said Mr. Gillies. "Isn't that inviting a whole lot of litigation? Where have we avoided the courts?"

ISO representatives admitted that initially the new forms could trigger new litigation, but they say litigation will decrease in the long run.

Because the new ISO contract is worded to carefully define the scope of coverage available, litigation should be reduced, said ISO Executive Vp Richard Savage.

"What we're trying to say today is that the current occurrence form is not working," added Mr. Marcon.

"Litigation may very well happen" with the new form, he said, but the alternative of not replacing the current forms is completely unacceptable.

Insurers say they are willing to pay the price of litigation when the forms are initially introduced if it means achieving a policy that clearly defines coverage.

"I don't think anyone can predict if we're going to have that kind of litigation. But certainly the status quo is unacceptable," Mr. Marcon said.

"I'm not saying litigation is going to go away," added Mr. Savage. "What I'm saying is we can get rid of an awful lot of litigation, just by using the claims-made form."

The regulators also fear the new claims-made form merely shifts more risk to the policyholder.

"It seems that you are gaining financial certainty by shifting financial uncertainty to your insureds through this contract," said Tom Bond, Texas commissioner of insurance.

"I do not agree there is less risk with the claims-made form," countered ISO's Mr. Marcon. "Perhaps there is more certain risk. I think that is a major difference you have to recognize between the occurrence and the claims-made forms."

Regulators had other questions for industry officials:

- New York Insurance Commissioner James Corcoran asked how insurance regulators could guarantee that policyholders, especially unsophisticated ones, fully understand the implications of the claims-made policy.

Mr. Morrison replied that the change to the claims-made CGL form will not affect small-businesses. which use a business owners policy that will continue to be written on an occurrence form.

Medium-sized businesses that buy reasonable limits of CGL coverage probably won't even notice that coverage is written on a claims-made basis except for a few cases, he said.

And, Mr. Morrison said, large businesses will understand the new form.

- Regulators also asked why ISO still believes it's necessary to exclude pollution coverage, even with a switch to a claims-made form with aggregate limits.

Mr. Savage replied that ISO could not draft policy language, no matter what coverage trigger is used, that would be interpreted to cover only "sudden and accidental" pollution.

Before the regulators' session with ISO officials, representatives of the Risk & Insurance Management Society and the National Assn. of Insurance Brokers criticized the new forms.

Speaking for RIMS, William Blick Jr. called the new forms a "massive attempt" by insurers and reinsurers to restrict needed insurance availability that will severely limit managers' ability to protect corporate assets.

The introduction of the new forms will create substantial consumer confusion, severely limit the choice of insurance policies in the marketplace and will not address the coverage questions that have created extensive litigation in recent years, said Mr. Blick. He is assistant treasurer and corporate risk manager of the Allen Group Inc. of Melville, N.Y.

According to Mr. Blick, the new claims-made form could:

- Force policyholders to purchase expensive extended reporting coverage if they change insurers and the new insurer does not make the retroactive date the date of inception of the first claims-made policy or uses "laser endorsements" to exclude coverage for specific risks.
- Cause gaps in coverage if retroactive dates or laser endorsements are not fully understood by the policyholder.
- Increase coverage litigation because the insurer will have to rely more heavily on past loss and claims experience from the buyer to decide if it will underwrite a risk.
- Make it more difficult for buyers to competitively market their insurance needs for fear of creating substantial gaps in their coverage if they switch insurers.

Mr. Blick said RIMS can accept an aggregate limit on coverages, although perhaps in a different form than proposed. But, it "rejects entirely" including defense costs within these aggregate limits and the absolute exclusion of all pollution liability under the new forms.

Raymond L. Hayes, first vp for the NAIB, also criticized the new forms.

He said the new forms will lead to increased litigation, discourage public support for civil justice reform and undermine the relationship between insurers and policyholders.

"Through the complex interaction and arbitrary application of retroactive dates, aggregate limits, incident reporting and claim triggering, subsequent underwriters can easily identify and eliminate coverage for prior acts," Mr. Hayes said.

"The applicable claims-made underwriter may avoid coverage due to exhausted limits or inapplicability of the 'tail' by use of the laser endorsements.

"While ISO's proposal allows an underwriter to provide continuity of coverage, there is little or no incentive for him to do so, particularly in a hard market," he explained.

Mr. Hayes said that the proposed charge for 'tail' coverage is anti-competitive because the underwriter of the expiring policy has no incentive to charge less than than 200% when the insured changes underwriters.

Because policyholders would still have to report to their insurer occurrences that could give rise to a claim even though a claim has not been filed yet, insurers, upon renewals, would be able to exclude coverage for the particular claim through a laser endorsement. Or, if the buyer changes insurers, he would almost certainly have to purchase tail coverage because the new insurer would likely exclude coverage for any claims arising from the incident in question.

"In the absence of restrictions—self-imposed or otherwise—on the use of the limiting provisions to be included in the contract, NAIB urges disapproval of the claims-made form," he added.

"NAIB is optimistic that underwriters' return to price discipline alone will be sufficient to stimulate both capacity and underwriting profit."

Mr. Blick's and Mr. Hayes' comments were countered by several insurer representatives.

Mr. Marcon of ISO said that successful implementation of the new forms is "absolutely essential" to re-establishing and maintaining healthy primary and reinsurance markets for general liability insurance.

"Not just useful, not just desirable, not just convenient, absolutely essential," Mr. Marcon said.

"The very survival of some insurers and reinsurers—and the ability of other insurers to meet society's increasing demand for insurance—hangs in the balance," he added.

Mr. Marcon said there has been a complete breakdown in the predictability of loss, in the efficacy of the underwriting process and the ability of insurers to control their own financial destinies.

He said it is more than likely that insurers and reinsurers will divert scarce capital away from ill-defined, erratic and potentially unlimited risk to areas providing a great degree of certainty of maximum potential loss.

"If state regulatory mechanisms tie such insurers' hands, limit their options, deny them the opportunity to gain control over their financial destinies, they will disappear," Mr. Marcon warned.

"Other insurers may have to curtail their operations in the general liability line of insurance. It is the insurance buyer, seeking to protect its assets, who will suffer if this happens."

Mr. Morrison of CIGNA added that the new forms will help policyholders by reducing the cost of general liability insurance, achieving greater reliability and fairness in the pricing of products and eliminating much of the delay in paying claims.

The anticipated reduction in legal expenses should also result in a much higher share of the premium being used to pay claims, he added.

Mr. Morrison discounted opposition from buyers that ISO's program would create gaps in coverage, lack of competition due to inappropriate use of the policy's retroactive date or laser beam endorsements or unfair pricing of the tail coverage.

He said these fears are based upon "hypothetical abuses" of the new program that won't occur in a competitive marketplace.

"We certainly will not advance the policy retroactive date as a device for avoiding legitimate claims or forcing the policyholder to buy tail coverage in order to collect additional premium," Mr. Morrison said.

It is in the insurers' own best interest to implement strategies and plans which do not allow gaps in coverage and to formulate reasonable and fair terms for the tail coverage, he added.

He also said that insurers will want to avoid circumstances that require policyholders to purchase tail coverage, since claims-made coverage becomes similar to occurrence coverage when tail coverage is purchased and may expose the insurer to the same enormous problems intrinsic to the occurrence form.

Also speaking at the forum were representatives of Liberty Mutual Insurance Co., Lloyd's of London broker C.T. Bowring & Co., Royal Insurance Co., the Reinsurance Assn. of America, the Alliance of American Insurers, the American Insurance Assn., CNA Insurance Cos., Crum & Forster Inc., the Independent Insurance Agents of America and the National Assn. of Professional Insurance Agents. ■

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You must have at least four years of benefits administration experience, including three years in personnel programs (benefits) analysis. A four-year related degree is also required, although additional qualifying experience may be substituted on a year-for-year basis. Resumes must be received in Personnel Services by August 16, 1985. Please reference FSR-3.

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Altamid acquires Grayston Management

Altamid Management Co. Ltd., a Bermuda-based subsidiary of M.A. Hanna Co., is acquiring fellow captive manager S.H. Grayston Management Ltd.

Stuart H. Grayston, president of S.H. Grayston, will become Altamid's president following the acquisition.

Before the purchase, Altamid was the ninth-largest captive manager in Bermuda, with 32 captives under management producing $150 million in annual gross premiums.

With the addition of Grayston's approximately 28 captive clients, Altamid will have about 60 captives under management, making it the island's fifth-largest manager.

Premium volume of managed captives of the combined operations is estimated at about $200 million.

Mr. Grayston's responsibilities will include marketing and product development, while Altamid's operations will be managed by Philip Stamp, Altamid's chief operating officer, according to a Hanna spokesman.

These duties had previously been handled by Richard S. Thompson, who recently resigned as Altamid vice chairman, the spokesman said, adding that no new vice chairman will be named.

Mr. Grayston and Mr. Stamp will report to Dan A. McCoy, who was named president of Hanna's Insurance Services Division in June, following the resignation of Richard Ausbrook.

Grayston Management's professional staff will join Altamid, according to Mr. Stamp, who added that "we look forward to offering Grayston Management's clients a variety of new services and products."

Along with handling individual captive clients, Altamid also manages Captive Insurance & Reinsurance Co. Ltd. and the Risk Exchange Assn., two risk-sharing pools whose members are Altamid clients.

However, the Hanna spokesman said that no Grayston clients have yet expressed an interest in joining CIRCL or the Risk Exchange Assn.

"We are just introducing Grayston to Hanna Insurance Services Group," according to the spokesman.

Hanna would not comment on the amount paid for Grayston Management.

Financial guarantees

A new insurance company, Financial Security Assurance Inc., has been formed specifically to insure corporate securities.

The New York-based insurer is capitalized at $155 million and expects additional contributions to bring its total capital base to $235 million.

The company says it is the first financial guarantee insurer established exclusively to insure structured corporate financings.

"Intitially, Financial Security will insure several types of transactions," said W. James Lopp, who is the insurer's chairman and president.

"They include financial institution-backed issues, secured asset financings, collateralized savings and loan financings, portfolio reofferings, certain types of investment trusts and corporate-related municipal securities."

Mr. Lopp, formerly executive vp and managing director for corporate finances at E.F. Hutton & Co. Inc., also was a principal founder of S&B Insurance Services Co., a brokerage firm based in White Plains, N.Y.

Major initial investors in the company are Canadian Imperial Bank of Commerce, The Equitable Life Assurance Society of the United States, Ford Motor Credit Co., John Hancock Mutual Life Insurance Co., New England Mutual Life Insurance Co., Transamerica Corp. and Westpac Banking Corp.

"Financial Security is going to do more than provide financial guarantee insurance," said Mr. Lopp. "We are going to be closely involved in structuring the corporate financings we guarantee. We see our role very much as a catalyst."

Mr. Lopp remarked, "We're looking at a large demand for structured corporate financings. Estimates of the domestic market exceed $500 billion."

Until Financial Security's formation, corporate borrowings were guaranteed by banks and large multiline insurance companies, the company says.

Joining Mr. Lopp at Financial Security are William I. Jacobs, executive vp, the former president of S&B; and Theodore V. Buerger, senior vp of underwriting, a former senior vp at S&B.

In addition, Robert P. Cochran is senior vp-program development at the new firm, and Peter E. Hoey is senior vp-market development.

Financial Security Assurance Inc is located at 350 Park Av., New York, N.Y.; 10022; 212-826-0100.

markets

Adjuster GAB bought

SGS North America Inc., a subsidiary of Geneva, Switzerland-based Societe Generale de Surveillance Holding S.A., has purchased claims adjuster GAB Business Services Inc. in Parsippany, N.J. from UAL Inc.

A UAL spokesman in the company's Mount Prospect, Ill., headquarters would not disclose the amount of the transaction.

Hoboken, N.J.-based SGS provides safety inspection and engineering testing services for manufacturers and insurance companies. Gordon Cantley, president of SGS, will succeed current GAB Chairman and Chief Executive Officer Irvin E. Williamson.

Fronting business sold

Old Republic Insurance Co. in Chicago has purchased the captive fronting business of Northwestern National Insurance Co. in Milwaukee.

A spokesman for Northwestern said the business was "fronting activity with large corporations and selected large associations, primarily major industrial corporations and trade associations."

The fronting business also included some risk management services, he added, like engineering consulting for large corporations.

Terms of the transaction were not disclosed.

Acquisitions

Hilb, Rogal & Hamilton Co. in Richmond, Va., the nation's 17th-largest insurance brokerage, has acquired **A.F. Holt Insurance Agency** in Pine Level, N.C. and **Princeton Insurance Agency** in Princeton, N.C. ■

WHO'S WHO: IRI

The Typical Industrial Risk Insurers Account Team consists of an engineer and an underwriter under the supervision of an account executive. These people are responsible for servicing an account, whether it is handled in one of our three regional offices or in one of our 30 district offices located around the world. IRI account teams are available at all times to help with a hundred and one essential details. They provide a variety of services, ranging from pre-construction engineering advice that saves time and money in the blueprint stage to emergency impairment service which is on call 24 hours a day, seven days a week, 365 days a year. Here are three basic ingredients that help make the account team relationship work.

1. **Thorough and Timely Reports.** IRI believes properties should be evaluated and recommendations made by an engineer whose business is strictly loss prevention. This objective review, based upon the facts at hand, enables the account underwriter in turn to make a well-informed, sound evaluation of the risk. The underwriter should know not only the physical characteristics of the property but also the processes involved and the consequences of an interruption of the insured's regular business operations. With a professional report to work from, the underwriter can prepare the policy terms and conditions quickly, logically, and accurately.

2. **IRI Engineers as Consultants.** Consulting begins when the insured first considers building a new plant. A great deal can be accomplished by working with the architect, construction engineers, and layout engineers to ensure that the right protection is installed for the type of structure and planned occupancy. The insured can then be confident that the plant will be well-protected and well-rated. This pre-construction planning also avoids a potentially embarrassing situation for the insured or loss prevention consultant, who goes to a plant after it is in operation and recognizes that additional or different protection is needed, usually at considerable expense. The same benefits of the consulting work apply to the installation of new processes or the construction of an addition to existing plants.

3. **A Well-informed, Professional Staff.** With a sufficiently experienced team, loss prevention and underwriting activity can be coordinated by an account executive who is familiar with many types of operations. In addition, the account team has the backup of well-informed and specialized IRI personnel who can help solve any unusual problem that occurs. IRI account teams offer years of underwriting, loss prevention and claim handling experience in the well protected property insurance business. These teams are found at district, division, regional, and national levels. For more information about the account team and other IRI services, ask for a complimentary copy of our PROFILES kit. Write to Mrs. P.A. Sasso, IRI, 85 Woodland Street, Hartford, Connecticut 06102 or call (203) 525-2601.

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Product liability

Continued from page 1

turers of component parts used in a finished product and any person who puts his name, trademark or other distinguishing feature on a product.

In addition, producers also will include distributors of products and importers of products.

The directive gives the member countries three years to introduce strict liability into their national laws. Most EC nations now impose a negligence standard.

Under the theory of strict liability, it is not necessary to prove that a manufacturer was negligent in order to recover damages for injuries. Instead, the consumer needs to prove only that he was injured by a defective product.

Because of this reduced burden of proof on the consumer, attorneys and insurers say the EC directive will most likely increase lawsuits and recoveries against businesses.

"It will ease litigation and make litigation less costly," says Ole Petersen, principal administrator of the Secretariat of the Council of the European Community.

"If the same pattern holds in Europe (as occurred in the United States), we could see an increase in litigation and the frequency of manufacturers being held liable," says Gary Crawford, an attorney with the New York-based law firm of Skadden, Arps, Slate, Meagher & Flom, who represents defendants in product liability litigation.

"Imposition of strict liability can only be bad news for manufacturers," he adds.

"There will be an increase in claims on a gradual basis as people become more aware of their rights," predicts Al Martz, chief underwriting officer for Chubb International.

Although the directive requires strict liability standards in each country, it allows each country to decide independently if it will hold manufacturers liable for "development risks."

Under the EC directive, producers are not held liable if they prove that scientific and technical knowledge did not enable them to know of a defect at the time a product was put in circulation. This is similar to the state-of-the-art defense in the United States.

However, the directive, through a "derogation," permits each member country to pass legislation that would allow producers to be held liable for development risks.

If development risks are excluded, it would be a big advantage for business, especially pharmaceutical and chemical companies, says Victor Schwartz, an expert on product liability law with the Washington law firm of Crowell & Moring.

But, James Searles, an attorney with the firm of J.M. Didier & Associates in Brussels, Belgium, predicts that France, Belgium and Luxembourg will take advantage of the derogation and hold manufacturers liable for development risks.

Another controversial aspect of the directive concerns financial limits on damage awards.

The directive in principle says that it is inappropriate to set a financial ceiling on awards.

But it does allows individual countries to set ceilings of no less than 70 million European Currency Units.

An ECU is an aggregate of European currencies. Seventy million ECUs would be slightly more than $50 million.

Because damage awards have traditionally been much lower than $50 million in Europe, effectively, there will be no ceiling, says Mr. Searles.

"In legal reality, awards are almost unlimited," he says.

The directive authorizes the European Community to review its provisions on development risks and the financial ceiling in 1995.

Some say allowing the individual member countries to set their own laws on development risks and financial ceilings strikes at the intent of the directive to provide harmonization of the laws.

Allowing different laws on development risks, for example, will give businesses in countries with less strict laws a competitive advantage over those in other countries, opponents say.

It also will encourage lawyers to bring lawsuits in jurisdictions where they can win most easily.

"This isn't a harmonizing directive," says Liliana Archibald, a director of Fenchurch International Reinsurance Brokers Ltd. in London.

Despite this shortcoming, lawyers and insurers point to several legal and social reasons why the directive will not create the product liability burden that businesses have faced in the United States.

For one thing, they point out, European countries do not permit plaintiffs' attorneys to collect contingent fees, which guarantees them a portion of the damages recovered by the victim and, therefore, can encourage litigation.

European countries also do not allow juries in civil trials. Often a jury's emotional response to a plaintiff's injuries can result in excessive verdicts.

Also, in some European countries, the losing party in a lawsuit must pay the winner's attorneys' fees.

In addition, European countries have sophisticated social welfare systems to address the medical needs of consumers, which makes them less liable to sue.

"There is much less of a consumer consciousness in Europe, much less of a litigation consciousness," says attorney Mr. Searles. It will take several years to determine what the impact of the directive will be on manufacturers in the EC countries, he says, adding that it is doubtful it will be as severe as the liability that companies face in the United States.

Certain provisions of the directive also restrict manufacturers' and distributors' exposures.

For example, the directive does not allow punitive damages and allows contributory negligence defenses, which absolve the manufacturer of all liability if the user of its product was at all negligent.

Producers will also not be held liable if:

- The manufacturer did not put the product into circulation.
- The defect causing the damage did not exist at the time the product was put into circulation.
- The product was not manufactured for sale or any other form of distribution for economic purpose.
- The defect is due to the manufacturer's compliance with mandatory regulations issued by public authorities.

The directive also imposes a three-year statute of limitation on lawsuits, running from the date the plaintiff becomes aware or should reasonably become aware of the damage, the defect and the identity of the producer.

In addition, it bars lawsuits on products that have been in circulation more than 10 years.

Despite these restrictions on the scope of a manufacturer's liability, various observers still say the imposition of strict liability in the EC countries will lead to higher insurance premiums for European businesses and U.S. multinationals.

"There probably will be modest increase in insurance premiums," says Chubb's Mr. Martz.

Because of the current tightening insurance market and the subjectivity of underwriting, "the tendency will be for underwriters to be cautious and thus to increase premiums by more than perhaps hindsight will prove to be justified," says Nicholas Forwood, an attorney with the Belmont Law Office in Brussels.

"The underlying tendency is for significant increases," he adds.

Edith Lichota, senior vp for Irving Trust Co. in New York, agrees that insurance costs for American multinational companies will most likely increase as a result of the directive.

"Very probably they will," she said. "The logic of it seems those insurance premiums will have to go up."

Although the reaction of plaintiffs' attorneys and consumer groups to the directive is generally favorable, they also take issue with some of the compromises in the directive.

"The directive signals approval of the American system and is certainly a step in the right direction," said Michael Colley, a plaintiffs' attorney with Michael Colley & Associates of Columbus, Ohio.

The directive should make it easier for plaintiffs to be compensated in Europe, agrees plaintiffs' attorney A. Kennon Goff III, with the Ruston, La., firm of Goff & Goff.

"Seen in a European perspective, this compromise may be regarded as the best deal which could have been achieved given the current climate, industry opposition and the unanimity rule among member states," said a spokesman for the European Consumers Union.

"It is, though, very far from satisfactory," he continued. "It introduces only a partial system of strict liability and must be seen as a lowest common denominator result and as a transitional step to a full regime of product liability.

"The exclusion of development risks constitutes the most serious defect in the compromise from the consumer viewpoint," the spokesman said, adding that the consumers union also believes there should be no financial ceiling on damage awards. ■

Greyhound Corp. promotes Korn to vp of insurance

Ralph A. Korn, 46, has been promoted to vp of insurance at Greyhound Corp. in Phoenix. He replaces **Dan Sielicki**, who left the company. In his new position, Mr. Korn is responsible for the company's property, liability and workers compensation insurance programs, both in the United States and abroad. He reports to James R. Grimm, vp and chief financial officer. Previously, Mr. Korn had been the director of insurance for E&J Gallo Winery in Modesto, Calif. Mr. Korn has received a bachelor of science degree in commerce in 1961 from Loyola University.



Mr. Korn

* * *

Ernie H. Bigsby, 51, has been promoted to general manager of insurance and claims for Greyhound Lines Inc. in Phoenix, a Greyhound Corp. subsidiary. In this newly created position, Mr. Bigsby is responsible for administering the company's risk management and insurance programs. He reports to William L. Anthony, vp and controller. Previously, Mr. Bigsby was the company's director of claims. He received a bachelor of arts degree in speech and business from Elmhurst College in Elmhurst, Ill., in 1964.

comings & goings: buyers

* * *

Lisa Smith, 42, has joined Outrigger Hotels Hawaii in Honolulu as director of risk management. She replaces **Linda Van Gilder Kelley**, who is becoming a part-time risk management consultant for the company. In her new position, Ms. Smith will oversee the company's risk management department and will be responsible for litigation management, claims management, risk financing and safety and loss-control programs. She reports to Richard R. Kelley, the company's president. Previously, Ms. Smith was risk management coordinator for the city of Albuquerque, N.M. She attended the University of Michigan and Southwestern University of Law in Los Angeles and holds the Associate in Risk Management designation.

* * *

Wilmer E. Hough, 54, is the new manager of the corporate risk management department of Mack Trucks Inc. in Allentown, Pa. He replaces **Dan Perna**, who left the company. In his new position, Mr. Hough is responsible for the all corporate insurance programs, including property, liability, and workers compensation risks. He will report to David J. Smith, vp and treasurer. Previously, Mr. Hough had been risk management administrator at GenCorp. Inc. in Akron, Ohio. Mr. Hough received a bachelor of arts degree in accounting from Lehigh University in 1958 and a master's degree in business administration from Lehigh in 1966.

* * *

John C. Ramos, 42, has been promoted to assistant vp of loss control for National Mortgage & Finance Co. in Honolulu. In this newly created position, Mr. Ramos is responsible for administering and coordinating all loss-control activities for the company. He reports to Wayne Arakaki, vp of underwriting. Previously, Mr. Ramos had been the company's loss-control manager. Mr. Ramos received a bachelor of science degree in physics from the University of Hawaii in 1971. In addition, he has a master of science degree in safety management from the University of Southern California in 1981. Also, he is a Certified Safety Professional and holds a Professional Engineer designation in safety. Mr. Ramos is studying for the Certified Property & Casualty Underwriter designation.

* * *

Steve Johnson, 32, has joined the risk management/insurance department of Federated Department Stores Inc. in Cincinnati as risk management and safety consultant. In this newly created position, Mr. Johnson will assist in risk analyses and the implementation of safety programs for the company. He reports to John Roberts, director of risk management engineering. Previously, Mr. Johnson was a safety consultant for Commercial Union Insurance Co. in Cincinnati. He received a bachelor of science degree in biology from the University of Washington in 1976. Mr. Johnson also has the Associate Safety Professional designation and is studying for the Certified Safety Professional designation.

* * *

Mary E. Wims, 33, has been promoted to assistant vp of personnel for the Providence Journal-Bulletin in Providence, R.I. In this newly created position, Ms. Wims' responsibilities include the management of all corporate benefit programs, including pension plans. Previously, she was corporate benefits administrator for the Journal-Bulletin. Ms. Wims received a bachelor of arts degree in history from the University of Rhode Island in 1974. She recieved a master's degree in business administration from the University of Rhode Island in 1980. She also attended law school at the College of William and Mary in Williamsburg, Va.

* * *

Frank T. Lennon, 42, has been elected vp of corporate administration for The Pittston Co. in Greenwich, Conn. In this newly created position, Mr. Lennon is responsible for all corporate administrative functions, including the designing of risk management and employee benefits programs and the purchase of all types of insurance. He reports to David L. Marshall, executive vp. Previously, Mr. Lennon was director of administration for Pittston. He received a bachelor of arts degree in economics in 1963 from St. Anselm's College in Manchester, N.H. Mr. Lennon also has the Certified Property & Casualty Underwriter and the Associate in Risk Management designations.

•

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Brokers post gains

Continued from page 1

erty/casualty market, this hardship has tended to work in the large brokers' favor, Mr. Wilson noted.

"The bigger brokers have clout. They have the technical expertise, so the new business is coming to them with greater velocity," Mr. Wilson explained. "That's the theory."

But, the tight market also can work against the brokers. For example, brokers are finding it hard—or impossible—to find types of coverage and limits that clients want, which limits revenue growth.

"Brokers continue to be hampered fairly substantially by the inability to place all of the coverage that their clients are seeking," Mr. Rosencrants observed.

"However, the operating results of brokers in the second quarter and six months are quite impressive considering the significant restriction of the market," he said, adding that the retarding effect has been "largely offset by the sharp increase at most brokers in new business."

Other factors could also slow brokers' revenue and earnings growth, analysts say, though these factors are not expected to have a major effect.

For example, a decline in short-term interest rates is cutting into the interest income brokers earn on client premium funds held in fiduciary accounts before payment to insurers, though this is also partially offset by the increase in invested fiduciary funds handled by the brokers.

In addition, several brokers made provisions in the second quarter for incentive bonuses paid to key executives for improved operating results. Mr. Rosencrants said.

However, while these bonuses increase the brokers' expenses, they also may have the simultaneous effect of encouraging even better performance.

"What you can't see is the positive effect it has had on the revenue side," Mr. Rosencrants observed.

Marsh & McLennan Cos. Inc., the largest publicly held broker, produced revenues of $332.8 million for the second quarter, up 21.7% from $273.5 million in the second quarter of 1984.

Revenues for the first half amounted to $655 million, up 18.1% from $554.8 million in the first half of 1984.

Net aftertax income at M&M was up 39.3% in the second quarter to $40.4 million from $29 million in the second quarter of 1984.

Net income for the first half amounted to $83.9 million, compared with only $700,000 in the first half of 1984, when M&M took a pretax charge of $110 million to cover losses from unauthorized government bond trading.

M&M's income before taxes and unusual charges was $169.1 million for the first half of 1985, up 30.2% from $129.9 million for the first half of 1984.

Alexander & Alexander Services Inc. reported revenues grew 22.9% in the second quarter to $160.9 million from $130.9 million in the same period in 1984. Revenues for the first six months totaled $309.6 million, up 16% from $266.8 million in the first half of 1984.

Net income for the second quarter amounted to $7.8 million, up 200% from $2.6 million in 1984's second quarter, while net income for the first half was $18.5 million, up 65.2% from $11.2 million in 1984's first half.

A&A's second-quarter and six-month 1985 results include a $2.9 million charge to cover "doubtful reinsurance" collectable by its discontinued underwriting subsidiaries from Delta America Re Insurance Co., which was recently placed in rehabilitation by the Kentucky Insurance Department.

Second-quarter and six-month results for 1984 also included charges of $4 million and $3.8 million, respectively, relating to discontinued underwriting operations.

Separately, A&A announced last week that it has completed its merger with Reed Stenhouse Cos. Ltd.

Revenues at Frank B. Hall increased 9.9% to $103.2 million in the second quarter from $93.9 million in the second quarter of 1984, while revenues for the half rose 9.2% to $205.8 million from $188.5 million for the first half of 1984.

Hall booked a net loss of $10.7 million for the second quarter, compared with a gain of $3.1 million in the second quarter of 1984. It reported a loss of $8.7 million for the half, compared with a gain of $6.9 million for the first six months of 1984.

The 1985 losses were due largely to a $12 million aftertax charge in the second quarter related to Hall's discontinued underwriting operations, about $6 million of which was produced by Union Indemnity Insurance Co., a Hall subsidiary that is now being liquidated by the New York Insurance Department (*BI*, July 22).

Hall also booked aftertax losses totaling $4.9 million in the first half on its Jartran Inc. truck rental unit, which recently emerged from Chapter 11 reorganization.

Before taxes and the extraordinary charges, Hall's income from continuing operations in the second quarter amounted to $6.3 million, up 41.4% from $4.5 million in 1984's second quarter. Income from continuing operations for the first half was $16.5 million, up 31.8% from $12.5 million in the first half of 1984.

Corroon & Black produced revenues of $59.4 million in the second quarter, up 28.4% from $46.3 million for the second quarter of 1984. Revenues in the first half totaled $116.1 million, up 25.2% from $92.7 million in the first half of 1984.

Net income amounted to $6 million for the second quarter, compared with $1.2 million for the second quarter of 1984, while net income for the half rose 120% to $10.3 million, compared with $4.7 million for 1984's first half.

Corroon & Black's six-month results for 1985 included a $1.98 million charge for losses on the disposal of the Lloyd's of London underwriting operations of Minet Holdings P.L.C., in which C&B is a 20% shareholder.

Six-month results for 1984 included charges of $1.3 million, also related to Minet, and $1.28 million related to losses on disposal of C&B's Underwriting Management Group.

Corroon & Black reported no extraordinary charges in the second quarter of 1985, while its second-quarter 1984 results included $1.3 million in extraordinary charges and a $929,000 loss from discontinued operations.

The Crump Cos. Inc. reported total revenues of $23.4 million for the second quarter, up 30.8% from $17.9 million in the second quarter of 1984.

Crump reported first-half revenues of $43.6 million, up 33.5% from $32.7 million in 1984's first half.

Crump's net income amounted to $2.3 million for the second quarter, up 77.2% from $1.3 million for the second quarter of 1984. For the first half, net income rose 59.5% to $4.3 million from $2.7 million in the first half of 1984.

Arthur J. Gallagher & Co. reported that second-quarter revenues increased 26.5% to $17.3 million from $13.6 million in 1984's second quarter, while the brokerage's first-half revenues jumped 24.6% to $36.6 million from $29.4 million in the first six months of 1984.

Net income, meanwhile, rose 157.6% to $989,000 in the second quarter from $384,000. For the first half, net income totaled $4.1 million, up 64.5% from $2.5 million in 1984's first half.

Revenues at Emett & Chandler Cos. Inc. rose 51.2% in the second quarter to $12.1 million from $8.0 million in 1984's second quarter, while six-month revenues increased 37.1% to $22.5 million from $16.4 million in the first half of 1984.

Net income for the second quarter amounted to $1.4 million, compared with a loss of $135,000 in the second quarter of 1984. Emett & Chandler's net income for the half was $2.2 million, compared with $41,000 in 1984's first half.

Tax-loss carryforwards produced an extraordinary gain of $860,000 for E&C in the first half of 1985. Operating income before taxes and the extraordinary credit amounted to $2.3 million for the first half, compared with a loss of $62,000 for the first six months of 1984.

Poe & Associates Inc. posted second-quarter revenues of $6.6 million, up 25.1% from $5.3 million in 1984's second quarter, and first-half revenues of $12.7 million, up 12.7% from $11.3 million in the first six months of 1984.

Poe's net income increased 50.7% in the second quarter to $535,000 from $355,000 in 1984's second quarter, while net income for the first half amounted to $1.1 million, up 31.3% from $803,000 in the first six months of 1984.

Poe's 1984 six-month results included a charge of $275,000 on losses from discontinued operations.

First-half 1985 broker results
(In thousands of dollars)

	Gross Revenues	% change	Net income	% change
Marsh & McLennan	$655,000	18.1%	$83,900	N/M
Alexander & Alexander	309,600	16.0	18,500	65.2%
Frank B. Hall	205,848	9.2	-8,697	N/M
Corroon & Black Corp.	116,110	25.2	10,319	120.0
Crump Cos. Inc.	43,639	33.5	4,259	59.5
Arthur J. Gallagher	36,585	24.6	4,114	64.5
Emett & Chandler	22,548	37.1	2,161	N/M
Poe & Associates	12,691	12.7	1,054	31.3

N/M -Not meaningful

Home stock offering

The Home Insurance Co. is offering 12.4 million shares of preferred stock at $20 per share.

A spokesman for the insurer confirmed that the proceeds would be added to the company's general corporate fund and would increase the Home's investment portfolio. This addition of statutory surplus will allow it to write more property/casualty business, he said.

The sale is being led by Merrill Lynch Capital Markets, which has an over-allotment option to sell up to 1.85 million additional shares. That would raise gross proceeds to $285 million.

The stock carries an annual dividend of $2.95, payable quarterly.

British Issues

30 July Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence	pence
Comml Union	211	N/M	16.9	8.0	211—205	
Genl Accident	620	34.4	28.6	4.6	620—607	
Gdn Royal Exch	722	21.2	37.1	5.1	722—715	
Royal	692	86.5	33.9	4.9	692—683	
Sun Alliance	465	25.8	21.1	4.8	465—453	
Brokers						
CE Heath	613	8.2	30.0	4.9	613—585	
Hogg Robinson	243	10.1	11.4	4.7	244—242	
JH Minet	196	10.9	8.9	4.5	197—192	
Sedg Grp	345	13.1	14.3	4.1	345—335	
Stew Wrightson	558	11.4	25.7	4.6	558—553	
Willis Faber	618	15.8	18.6	3.0	618—605	

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

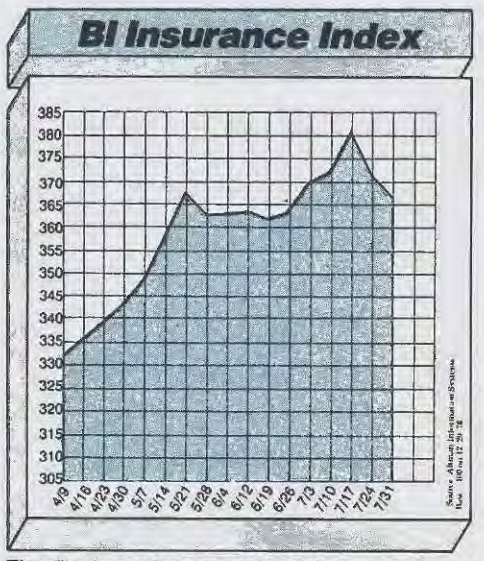
BI Industry Stock Report

July 31, 1985 7/25/85 thru 7/31/85

		Price	% Chg.	P/E	$ Div.	% Yld.	High	Low	Vol.(000)
Brokers									
Alexander & Alexander Svcs	NYSE	28.00	-2.6	0.0	1.00	3.6	28.88	27.75	323.1
Baldwin & Lyons Inc	OTC	64.00	-1.5	10.6	0.80	1.3	68.00	64.00	1.4
Corroon & Black Corp	NYSE	47.63	-2.1	0.0	1.00	2.1	48.13	47.63	180.7
Crump E H Cos Inc	OTC	33.25	-2.9	21.5	0.50	1.5	34.00	33.25	87.5
Emett & Chandler Cos Inc	OTC	14.25	3.6	36.5	0.00	0.0	14.25*	13.50	29.7
Gallagher Arthur J & Co	OTC	39.00	0.6	21.8	0.28	0.7	39.00	38.00	46.0
Hall Frank B & Co Inc	NYSE	29.63	-4.8	0.0	1.00	3.4	30.63	29.63	260.9
Marsh & Mclennan Cos Inc	NYSE	71.75	0.5	18.4	2.40	3.3	71.75	69.75	268.0
Poe & Assoc Inc	OTC	8.00	0.0	0.0	0.80	10.0	8.00	8.00	0.1
Reed Stenhouse Cos Ltd	OTC	20.63	-0.6	26.8	0.00	0.0	20.63	20.25	11.4
AGENTS/BROKERS	AVERAGE			36.0		2.2			
Conglomerates & Holding Cos.									
American Express(Fireman's Fd)	NYSE	44.25	-0.8	15.3	1.28	2.9	44.25	42.75	4,202.9
Anderson Clayton(Ranger/PanAm)	NYSE	42.00	-5.1	36.2	1.32	3.1	42.38	41.63	72.1
Amaco Inc	NYSE	10.75	8.9	0.0	0.00	0.0	10.88	10.38	762.2
Berkley W R Corp	OTC	17.88	-2.1	0.0	0.32	1.8	18.25	17.63	510.0
CIGNA Corp	NYSE	54.75	-4.6	732.1	2.60	4.7	56.63	53.50	1,264.6
City Investing Co. (Home Ins.)	NYSE	29.13	-1.3	4.5	0.00	0.0	29.63	29.00	1,095.7
CNA Finl Corp (CNA)	NYSE	55.25	-0.5	21.2	0.00	0.0	55.25	53.00	120.2
General Re Corp	NYSE	87.75	3.8	57.7	1.56	1.8	87.75	84.00	673.9
ITT (Hartford Group)	NYSE	32.88	0.8	10.3	1.00	3.0	33.25	32.50	3,555.0
Optimum Hldg Corp	OTC	0.50	0.0	1.6	0.00	0.0	0.00	0.00	0.0
Sears Roebuck & Co. (Allstate)	NYSE	35.75	-1.0	9.6	1.76	4.9	36.63	35.75	1,998.7
Teledyne Inc (Argonaut)	NYSE	254.88	-2.6	5.5	0.00	0.0	261.38	251.50	120.2
Transamerica Corp (Occidental & Fred S. James)	NYSE	29.25	0.0	15.1	1.64	5.6	29.63	29.00	683.5
CONGLOMERATES/HOLDING COS.	AVERAGE			10.9		1.7			
Insurers									
Aetna Life & Cas Co	NYSE	46.50	1.4	19.1	2.64	5.7	47.00	45.75	1,369.8
American General Corp	NYSE	32.50	-1.1	10.6	1.00	3.1	33.13	31.63	2,364.9
Amern Heritage Life Invt Co	NYSE	35.50	-1.7	10.5	1.20	3.4	35.88	35.38	6.5
American Indty Finl Corp	OTC	20.75	-2.4	0.0	1.12	5.4	21.00	20.50	11.6
American Intl Group Inc	NYSE	86.63	1.9	22.3	0.44	0.5	86.63	83.38	871.0
Amoco Reins Ltd	OTC	1.25	0.0	0.0	0.00	0.0	1.25	1.25	0.8
Avemco Corp	NYSE	30.38	2.1	13.3	0.60	2.0	30.38	29.75	15.8
Business Mens Assurn Co Amer	OTC	25.88	1.5	7.1	1.04	4.0	25.88	25.25	34.4
Chubb Corp	NYSE	70.38	2.9	17.2	2.20	3.1	70.38	66.75	596.7
Combined Intl Corp	NYSE	47.25	-2.6	9.2	2.16	4.6	47.75	46.88	305.5
Continental Corp	NYSE	41.75	-1.2	21.3	2.60	6.2	41.75	40.88	1,795.4
Crown Life Ins Co	OTC	167.00	0.0	10.1	0.00	0.0	167.00	167.00	0.0
Durham Corp	OTC	40.00	1.3	7.5	1.28	3.2	40.00	39.50	2.7
Farmers Group Inc	OTC	63.75	-1.0	11.1	1.76	2.8	63.75	61.38	678.4
Fremont Gen Corp	OTC	25.00	-4.3	0.0	0.48	1.9	26.13	24.50	121.0
Great West Life Assurn Co	OTC	425.00	0.0	10.9	1.60	0.4	425.00	425.00	0.1
Hanover Ins Co	OTC	43.25	-1.7	73.3	0.56	1.3	43.75	43.00	171.1
Hartford Steam Boiler Insptn	OTC	51.00	0.0	16.3	1.60	3.1	51.00	50.50	37.1
Kans City Life Ins	OTC	26.25	1.9	10.3	0.87	3.3	27.00	26.25	7.9
Kemper Corp	OTC	56.50	-1.3	24.4	1.80	3.2	56.50	55.63	295.6
Liberty Corp S C	NYSE	28.63	-4.6	13.4	0.72	2.5	29.75	28.63*	11.9
Lincoln Natl Corp Ind	NYSE	42.38	-1.5	11.1	1.84	4.3	43.00	42.00	177.2
Mission Ins Group Inc	NYSE	6.38	0.0	0.0	0.00	0.0	6.50	6.13	106.1
Monumental Corp	OTC	31.88	2.8	21.1	1.30	4.1	31.88	30.75	28.2
Nobel Ins Ltd	OTC	10.50	-2.3	13.8	0.25	2.4	11.00	10.50	38.6
Northwestern Natl Life Ins	OTC	27.13	-6.5	6.5	0.80	2.9	28.88	27.00	705.0
Ohio Cas Corp	OTC	61.75	-2.9	23.1	2.80	4.5	63.75	60.88	225.5
Old Rep Intl Corp	OTC	37.75	-3.5	9.1	0.74	2.0	39.00	37.63	199.5
Orion Cap Corp	NYSE	25.75	-5.1	0.0	0.76	3.0	27.00	25.75	20.1
Protective Corp	OTC	18.25	-18.0	6.4	0.66	3.6	21.75	18.25*	368.5
Provident Life & Acc Ins Co	OTC	24.00	-1.0	6.7	0.76	3.2	24.75	24.00	349.8
St Paul Cos Inc	OTC	71.63	1.6	0.0	3.00	4.2	71.63	69.13	275.9
SAFECO Corp	OTC	40.13	-0.3	13.0	1.60	4.0	40.38	39.00	537.0
Sri Corp	OTC	19.75	0.6	94.0	0.68	3.4	19.75	19.50	237.6
Seibels Bruce Group Inc	OTC	18.25	-11.0	0.0	0.80	4.4	20.50	18.13*	88.6
Statesman Group Inc	OTC	4.63	0.0	0.0	0.15	3.2	4.75	4.63	48.5
Tokio Marine & Fire Ins Co	OTC	185.00	-12.6	32.0	1.05	0.6	208.25	185.00	26.0
Torchmark Corp	NYSE	47.63	-2.8	9.9	1.20	2.5	48.38	46.75	218.9
Travelers Corp	NYSE	44.88	-0.8	10.9	2.04	4.5	45.38	44.25	2,183.8
United Fire & Cas Co	OTC	25.50	4.1	0.0	0.80	3.1	26.00*	24.50	4.8
United States Fid & Gty Co	NYSE	34.63	1.8	37.2	2.20	6.4	35.00	34.00	817.3
Uslife Corp	NYSE	38.50	2.7	8.7	1.04	2.7	38.50	36.88	392.6
Washington Natl Corp	NYSE	26.25	0.5	7.7	1.08	4.1	26.38	25.50	123.5
Zenith Natl Ins Corp	OTC	18.50	-5.1	0.0	0.68	3.7	19.25	18.50	73.7
INSURANCE COMPANIES	AVERAGE			18.3		2.3			

System design: Altman Information Systems

BI Insurance Index



The *Business Insurance* stock index continued its downward swing during the most recent trading period, dropping for the second consecutive week. The index closed at 367.3 points July 31, down 4.5 points from 371.8 points on July 24. A total of 18 stocks posted gains, 32 stocks declined and eight stocks remained unchanged. The biggest gains were posted by United Fire & Casualty Co., up 4.1%; General Re Corp., up 3.8%; Emett & Chandler Cos. Inc., up 3.6%; Monumental Corp., up 2.8%; and USLIFE Corp., up 2.7%. The biggest losses were posted by Protective Life Corp., down 18%; Tokio Marine & Fire Insurance Ltd., down 12.6%; Northwestern National Life Insurance Co., down 6.5%; Zenith National Insurance Corp., down 5.1%; and Orion Capital Corp., down 5%.

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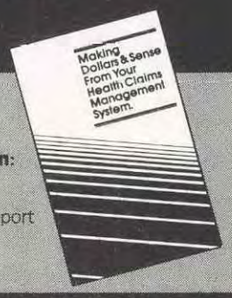
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