

DECEMBER 10, 1984

business insurance

update

Alexander Howden chief elected president of James

SAN FRANCISCO—Richard M. Page has been elected president and chief executive officer of Fred S. James & Co. Inc., the New York-based insurance brokerage subsidiary of Transamerica Corp.

Mr. Page, who will take over the post at Fred S. James on Jan. 1, is currently chairman and chief executive officer of Alexander Howden Group, the London-based subsidiary of Alex-

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New A&A beats M&M in retail broking

By DOUGLAS MCLEOD

NEW YORK—The proposed acquisition of Canada's largest broker, Reed Stenhouse Cos. Ltd., by Alexander & Alexander Services Inc. will bring A&A a giant step closer in size to its only larger rival in the United States, Marsh & McLennan Cos. Inc.

With the acquisition, A&A, the second-largest broker in the United States, surpasses M&M in revenues generated by retail property/casualty broking, based on 1983 business (see chart).

An estimated \$375 million of A&A's 1983 revenues of \$556.2 million were produced by retail broking activities, compared with about \$206 million of Reed Stenhouse's 1983 revenues of \$225 million.

Combined, the two companies produced retail broking revenues of \$581 million last year, compared with an estimated \$519 million for M&M.

But when revenue from other sources is added—including reinsurance broking, employee benefit services and investment management revenues—M&M still is the largest broker in the United States, and the world.

For the first nine months of 1984, A&A

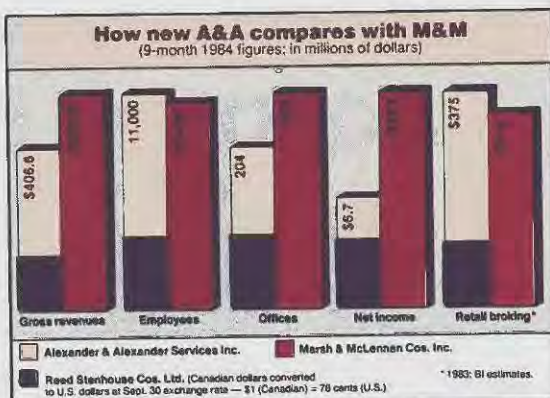
and Reed Stenhouse produced combined gross revenues of \$612.3 million, compared with M&M's \$820.3 million.

But A&A President and Chief Operating Officer Tinsley H. Irvin says the importance of the acquisition lies in its improvement of A&A's international capabilities, not in its boost to the company's size.

"Our great ambition is to put together the quality global broker. I don't think size is a criterion," Mr. Irvin said. "This certainly makes us a truly global retail broker."

A&A announced last week that it plans to acquire Reed Stenhouse for stock valued at about \$236 million.

While noting that A&A may be paying a relatively high price for the largest Canadian



broker, most analysts applauded the move as well-timed and concurred with A&A's judgment that the Reed Stenhouse operation will mesh well with its own.

Meanwhile, several A&A management changes accompanied the acquisition proposal.

However, John A. Bogardus will continue to serve as chairman and chief executive officer of A&A Services and Mr. Irvin will continue as president and chief operating officer of the parent company.

Under the terms of the acquisition plan, Reed Stenhouse shareholders will receive the equivalent of two A&A common shares for every three Reed Stenhouse shares owned.

Every three Reed Stenhouse class A common shares—held mainly by Canadian stock-

holders—will be convertible to two new Reed Stenhouse class A special shares, which will entitle holders to dividends equal to those paid on A&A common shares but will carry no voting rights.

At the same time, A&A will issue a new class of shares—A&A class A shares—which will be held in trust for holders of Reed Stenhouse special shares. These new A&A shares will carry voting rights equivalent to A&A common shares but will afford no dividend.

Reed Stenhouse special shares may be converted to A&A common shares at any time.

A similar share exchange arrangement will be offered to holders of Reed Stenhouse class C shares in the United Kingdom.

The share exchange was structured to allow Reed Stenhouse stockholders to avoid Canadian and U.K. taxes by continuing dividend payments through Canadian and U.K. subsidiaries.

A&A hopes to complete the transaction—which will be accounted for as a pooling of interests—by the end of May, 1985. At that time, Reed Stenhouse shareholders will own about 28.8% of A&A's common stock or the equivalent.

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Self-funding firms could be liable for taxes on health plan benefits

By JERRY GEISEL

WASHINGTON—Under the proposed tax simplification plan, a self-insurer that miscalculates the value of health care benefits provided employees could be penalized by the Internal Revenue Service.

Last week, the Treasury Department published a 408-page report, called "Tax Reform for Fairness, Simplicity and Economic Growth," which explains why the department wants to tax a portion of employees' health care benefits, eliminate 401(k) salary reduction plans and tax-free cafeteria benefit plans and change the tax status of a wide range of other employee benefits (BI, Dec. 3).

As part of this explanation, the Treasury Department explains how it expects employers to calculate the value of self-funded health care benefits to determine whether their employees should be taxed on a portion of those benefits.

Under the Treasury Department proposal, employers' contributions to employee health care plans that exceed \$70 a month for individual coverage and \$175 a month for family coverage will be taxable income to employees.

An employer that purchases health care coverage from a commercial insurer would divide its premium by its number of employees to determine its monthly costs on a per employee basis, the Treasury proposal says.

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Union Carbide coverage estimated at \$200 million

By STACY SHAPIRO

LONDON—Union Carbide Corp. has at least \$200 million and possibly more liability insurance coverage available to compensate the families of the 1,600 or more killed and as many as 200,000 injured in the poisonous gas leak in India last week.

Liability losses related to the sudden release of deadly gas from a Union Carbide pesticide-manufacturing plant in Bhopal, India, would be covered under standard comprehensive general liability insurance policies that cover sudden and accidental pollution accidents.

Details are not available about business interruption insurance to cover losses at the Indian plant or business interruption losses at Union Carbide's Institute, W. Va., plant that was closed down after the Indian disaster. That plant produces the same dangerous gas as leaked in India, but the voluntary closure of the plant probably would not trigger business interruption coverage.

Liability insurance for the Indian disaster begins with primary coverage of an unknown amount placed with an Indian-licensed insurance company, and reinsured in the world reinsurance markets.

Union Carbide also has a worldwide, layered liability insurance program that would come in above the primary layer, *Business Insurance* learned

from industry sources.

The Union Carbide plant in India is owned 49% by the Indian government, but how that will affect compensation of victims is unclear. Officials from the Indian state of Madhya Pradesh, where the plant is located, and Prime Minister Rajiv Gandhi have said they will seek compensation from Union Carbide for the victims.

According to one wire service report, the government said it would pay \$500 to the families of victims that were killed and \$100 to injured persons.

Depending upon how many damage suits are filed and where, some legal and insurance experts speculate that even \$300 million in coverage will not be enough to cover the world's worst industrial disaster.

"No limit will be enough," said one London casualty broker, who wished not to be named.

If Union Carbide were sued in the United States, the company's liability could be far higher than if it were sued in India.

The staggering difference in the per capita income between India and the United States, however, leads others to estimate the total loss of compensating the Indian victims at numbers far below Union Carbide's insurance limits.

The per capita income in India in 1980, the latest year for which figures are available, was only \$240, compared with \$9,503 in the United States.

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Benefits tax plan would net \$45.5 billion for Treasury
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update

Howden official to head James

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ander & Alexander Services Inc. He joined A&A in 1978.
At James, Mr. Page will succeed Charles A. O'Malley, who will continue as chairman of the brokerage and as a director of Transamerica Corp. until his retirement in April 1985.

In addition to his position at James, Mr. Page, 52, will be a member of Transamerica's Senior Management Council.

Mr. Page had accepted the James post before A&A announced its acquisition of Reed Stenhouse (see story, page one).

"We are extremely pleased to have attracted someone of Dick Page's ability and experience to lead the James organization at this exciting time in its history," said James R. Harvey, Transamerica's chairman, president and chief executive officer.

Florida raises work comp rates

TALLAHASSEE, Fla.—Workers compensation rates in Florida will increase next year, but only by a little more than half of the 34.3% average rate increase initially requested by the National Council on Compensation Insurance.

An average rate increase of 18.7% was approved Dec. 5 by Insurance Commissioner Bill Gunter, who said the increase was needed in light of insurers' incurred losses and higher mandated benefits. The loss ratio for Florida insurers was 102% in 1983.

The average 18.7% rate increase will raise an estimated \$178 million in premiums next year.

Mr. Gunter said the increase is not a condemnation of 1979 work comp reforms, which included a wage-loss provision. The new rates still put Florida's average rates 11% below their 1979 level, he noted. Nationwide average rates have increased 7.9% since then.

ISO, NCCI merger is unlikely

NEW YORK—A merger is not likely between the Insurance Services Office and the National Council on Compensation Insurance—two national ratemaking organizations. Officials of both groups are expected to meet soon to act on the recommendation not to merge, which recently was made by a special committee of both groups.

The groups agreed to study a possible merger in August, primarily as a cost-saving move (BI, Sept. 3). But, the panel said the savings would not outweigh the problems of trying to integrate the groups, said a spokesman from the Insurance Information Institute.

That special committee also recommended the creation of another panel to study cost-saving alternatives to consolidation.

More hospitals join PPO suit

INDIANAPOLIS—The number of Indiana hospitals seeking an injunction against the formation of a preferred provider organization by Blue Cross Assn. of Indiana is growing. Nineteen more hospitals recently joined 61 others that filed an antitrust suit against Blue Cross (BI, Nov. 26).

The 80 hospitals claim that Blue Cross, the state's largest health insurer, is attempting to pressure hospitals into giving discounts to Blue Cross patients and that this would result in higher prices for other patients, said a spokesman for the Indiana Hospital Assn.

Blue Cross announced in August its plans to form a PPO under the state's new PPO law, which takes effect Dec. 31. Blue Cross has not yet filed a formal answer to the antitrust charges, a company spokesman said. A hearing date has not yet been set.

N.J. surplus fund law amended

TRENTON, N.J.—Amendments to New Jersey's surplus lines guaranty fund were signed last week by Gov. Thomas Kean.

The amendments are designed to share with policyholders the burden placed on surplus lines insurers to establish the nation's first guaranty fund (BI, Aug. 6, Nov. 26). Surplus insurers are required to pay a one-time \$25,000 assessment to the fund. Under the amendments, policyholders can be assessed up to 4% of premiums, retroactive to July 27, when the original law was passed.

The fund will pay up to \$300,000 for any one claim unpaid by an insolvent surplus lines insurer. Insurance Commissioner Kenneth Merin must still determine the percentage of premium that policyholders will be assessed.

Other amendments signed by Gov. Kean:

- Create a committee made up of representatives of surplus lines insurers and agents to advise the board of the admitted insurers' guaranty fund, which also directs the surplus lines fund.
• Give the surplus lines guaranty fund the authority to borrow money from sources besides the admitted insurers' guaranty fund with the approval of the state insurance commissioner.
• Specify that borrowed money can only be used to pay claims.

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Table with 2 columns: Index items and page numbers. Includes 'Around the states', 'Washington', 'Ask a risk manager', 'Books & ideas', 'Classifieds', 'Comings & goings: buyers', 'Comings & goings: industry', 'Info', 'Insurance services guide', 'Letters', 'Markets', 'Opinions', 'Perspectives', 'Spotlight report', 'Ticker'.

Group must raise \$1.5 million in bid to save bankrupt insurer

By CAROL CAIN

PORTLAND, Ore.—Louisiana employers who are trying to save Portland-based North-West Insurance Co. have until Jan. 10 to raise the necessary funds.

The Louisiana employers that purchased insurance from North-West must raise about \$1.5 million to start a new insurance company in Louisiana that would assume about 80% of the \$32 million in net claims unpaid by North-West.

The employers' plan, and their deadline, for rescuing the insurer were approved as part of an Oregon Circuit Court order Dec. 4 placing North-West in liquidation.

Meanwhile, guaranty funds in 13 states where North-West was an admitted insurer are preparing to pay the 20% balance of unpaid liabilities of the company—about \$6.4 million in net claims, which is the amount of claims after reinsurance recovered.

The unusual method of covering claims filed with the insolvent insurer by forming a new insurer was developed by Louisiana employers, agents and brokers that are working together as a group called the Committee of Insureds and Agents (CIA). Many Louisiana employers fear bankruptcy themselves if their claims are not paid (BI, Oct. 29).

The bulk of the unpaid claims involving CIA members—about \$25.6 million—are against policies underwritten for North-West by Mid-Continent Underwriters Inc., North-West's New Orleans-based man-

aging general agent subsidiary. A majority of that business—state and federal workers compensation, marine and general liability—was written on a surplus lines basis in Louisiana and several other states.

Guaranty funds will not cover the claims against policies written on a surplus lines basis, and reinsurance recovered for the claims against surplus lines policies would become assets available to all creditors. Therefore, without this rescue plan, Louisiana policyholders could expect only portions of their claims to be paid.

According to North-West's records, which were presented in court, Mid-Continent's business accounted for a net operating loss of about \$8.4 million out of a total loss of \$12.6 million in 1983—or two-thirds of its losses.

Premiums written by North-West in 1983 totaled \$33.9 million, according to A.M. Best Co. Inc., with Mid-Continent writing about 40% of the business.

By keeping intact Mid-Continent's book of business in a new insurance company, the CIA hopes to "... maintain the operating protection of reinsurance rather than have the reinsurance become an asset for all creditors," said Robert W. Fenet, chairman of the CIA, who also is treasurer and corporate counsel of R.E. Heidt Construction Co. Inc. in Westlake, La., a North-West policyholder.

The CIA hopes to find a buyer or buyers for 80% of North-West's business. In addition, the policyholders are agreeing to pay not only their deductibles or self-

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Separate agency for ERISA proposed by pension panel

By JERRY GEISEL

WASHINGTON—A blue-ribbon panel is proposing that a new federal agency be established to administer the Employee Retirement Income Security Act.

The National Pension Forum, a task force set up earlier this year by the Labor Department and comprised of congressmen and regulators from several federal agencies, proposed last week that ERISA jurisdiction be funneled into a new agency, called the Employee Benefit Administration. Currently, ERISA is administered by the Labor Department, the Internal Revenue Service and the Pension Benefit Guaranty Corp.

"A single agency for ERISA administration would avoid duplication and inconsistencies frequently experienced under the current system," the forum said.

The forum also recommended:

- The creation of a new Office of Pension Statistics to compile and analyze data about employee benefits.
• Approval by the Cabinet Council and the Office of Management and Budget of a project to computerize pension reports employers file with the government.
• Hiring more attorneys to enforce ERISA.
• That Congress formulate a national retirement income policy.
• Replacing the summary annual report employers distribute to employees with an individual benefits statement. Many experts have said that the average participant cannot understand the summary reports.
• The creation of a presidential task force to study the relationship between expanding pension eligibility and pension costs.

"The study should contain specific recommendations about how to make the retirement system equitable without incurring costs that jeopardize the balance of the system," the forum said.

But, the forum's most controversial recommendation is the establishment of a separate agency to administer ERISA. Such an agency was considered when ERISA was passed in 1974, but Congress was reluctant to concentrate all pension responsibilities within one agency.

Instead, they were divided among the three agencies. This division of responsibilities often delayed the publication of rules that would help employers comply with the law during its early years, experts said.

But now that ERISA is 10 years old, benefit experts question whether it is still makes sense to shift ERISA responsibilities to one agency.

"I have mixed feelings," observed John Wiskowski, a partner with Kwasha Lipton, a benefit consulting firm in Fort Lee, N.J. "We in the pension and benefit community are used to dealing with three agencies. Things seem to go reasonably well."

Pension rules could be delayed while the new agency was gearing up, Mr. Wiskowski said.

There are also mixed feelings on some of the forum's other proposals. For example, benefit researchers say they need more information before they endorse a new office of pension statistics.

"I'd be all for a new statistics office if that means that the Labor Department will begin making Form 5500s (a pension plan's financial report filed annually with the federal government) available on a more timely basis," said Dallas Salisbury, president of the

Employee Benefit Research Institute, a Washington-based benefits think-tank.

"If on the other hand, the statistics office only conducts research but does not make Form 5500s available, it would represent the wrong emphasis for expenditures," he added.

Benefit researchers are "tremendously frustrated" because current pension reports filed by employers are not available until many years after filing, he said. Researchers now must work with reports filed in 1978.

The forum noted that if current information handling does not improve, it will be impossible for the government to use all the ERISA reports filed.

"Indeed, this is an area where digital techniques and computers can be of enormous significance," it added.

The Labor Department is now reviewing the forum's recommendations and is expected to endorse or reject those recommendations later this month.

Nabisco covered for settlement

PARSIPPANY, N.J.—Nabisco Brands Inc. is "totally covered" for a \$3.5 million settlement with a laborer who was injured in a work-related accident almost three years ago, according to Joseph Mania, director of risk management.

Lawrence Farmer, a contract laborer who once worked at Nabisco's Clinton Corn Processing unit, will receive a lump sum of \$2.1 million. In addition, Nabisco will purchase an annuity that will pay Mr. Farmer \$10,000 monthly for life, with a 30-year guarantee, reports Nabisco's attorney, Max Hudson of London, Yancey, Clark & Allen in Birmingham, Ala.

The annuity also will pay Mr. Farmer's wife, Mary Louise Farmer, \$4,000 monthly, also guaranteed for 30 years. The settlement also will settle legal fees and establish a trust fund for Mr. Farmer's guardian.

Mr. Farmer, now a resident of Austin, Texas, was injured in March 1982 while working as a pipe fitter at the plant in Clinton, Iowa. A pressurized tank exploded in his face when he attempted to change a valve, causing severe brain damage, Mr. Hudson says.

Mr. Farmer, 41, has already received more than \$300,000 in medical and workers compensation benefits, and will not be required to repay them when he receives this settlement.

He sued both Nabisco and its Clinton Corn unit for negligence in U.S. District Court in Birmingham, and a trial was slated for Oct. 15 of this year. The settlement was approved by the court last month, and the case never went to trial.

Mr. Mania declined to comment further about the structured settlement, since a lawsuit brought by Nabisco against the construction company that employed Mr. Farmer is still pending.

Spotlight on small business

Right programs can help control health care costs

By MEG FLETCHER

Small businesses are locked in a classic Catch-22 when it comes to controlling costs for employee health care benefits.

They are especially hard-hit by higher health care costs, but they often lack access to programs that have the best chance of providing relief or the ability to manage these programs.

Some cost-containment measures that work for large businesses also work for smaller ones.

But, some don't.

Experts say employers with between 100 and 500 employees can help contain their rising health care costs by making employees pay higher deductibles and coinsurance levels, increasing their use of self-funding alternatives and joining coalitions to broaden their knowledge and let their voices be heard.

But, other measures for cutting costs used by big businesses can create more problems and expenses for small businesses. These include utilization and concurrent reviews, some claims auditing approaches and health maintenance organizations. However, some insurers and providers are trying to cope with the special problems of small businesses.

Determining effective means of controlling the cost of health care benefits is becoming increasingly important as small businesses realize that they need to strive for greater control or they will lose what control they have now.

Containing health care costs "is a tremendous problem for large companies and an even greater problem for small companies," said Eric Oxfeld, who is responsible for developing health care policy for the U.S. Chamber of Commerce in Washington.

A paper from the Small Business Administration's "Ideas in Action" conference last week in San Diego cites reasons why small business is particularly hard-hit by rising health care costs:

- Smaller firms often have less flexibility in selecting and designing health care plans.
- Small firms have fewer resources to develop sophisticated cost-containment programs, like utilization review or wellness programs.
- Small businesses may be less able to take advantage of alternative funding methods like self-funding or alternative delivery systems like preferred provider organizations.
- Small firms hire a disproportionate share of older workers. This increases their health care costs because premiums for these workers are generally higher than those for younger workers and because recent federal statutes require employers to offer workers between the ages of 65 and 69 a choice of enrolling in corporate group health insurance plans or sticking with Medicare as their primary health insurer.

In addition, small businesses complain about their treatment by the health insurance industry, according to a survey by The New York Business Group on Health Inc. Managers polled complained about a cavalier attitude on the part of brokers and agents, difficulty in getting adequate information and "tie-in" sales whereby the employer has to agree to purchase more lucrative coverages, like life insurance, from an insurer in order to get health care coverage.

But still, small business is making strides in controlling health care costs.

The most effective way for small business to control costs, according to benefits experts, is to increase employees' deductibles and coinsurance levels.

"Making employees pay a larger share of costs is clearly the most effective way for small business to limit its health benefit outlays," said Ted von Glahn, a consultant with consultant William M. Mercer-Meidinger Inc. in Chicago.

And, more employers are moving toward this type of plan design.

Blue Cross/Blue Shield, which has 80 million subscribers in 95 independent plans nationwide, has traditionally offered first-dollar coverage. But in the past five years, there have generally been increases nationwide in the number of plans with deductibles and coinsurance provisions, said Mike Seibold, director of business strategy consulting for the BC/BS Business Strategy Services.

"People are switching. . . Three years ago, they weren't," he said.

In general, a \$250 deductible is no longer considered unusually high, said Janice Spillane, manager of the cost-containment group department for New York Life



Because a business is small, it does not mean it is immune to pollution liability risks (page 40) or safe from lawsuits against its directors and officers (page 30). But, on the other hand, size

does not have to bar an employer from options open to big business, like loss-prevention engineering expertise (page 43), flexible benefits plans (page 16) or employee assistance programs (page 20).

Planning can ease the pain of property/casualty hikes

By JUDY GREENWALD

Sitting in a contractor's office recently, an account executive for E.H. Crump Cos. Inc. presented his client with a premium quote that included a big rate hike.

The contractor calmly reached into the back of one of his desk drawers, pulled out a gun, pointed it out the open back door and fired into an embankment.

He then replaced the gun in the drawer, turned to the broker, and drawled, "Son, can't you do better than that?"

While the reaction of that small-businessman to his increased insurance costs is extreme, brokers and other experts agree it is the small-businessman who is going to bear the brunt of the rate hikes for property/casualty insurance.

But they also believe small-businessmen will be less disgruntled by this underwriting cycle if they:

- Prepare for higher prices.
- Pick a good, competent broker or consultant for guidance.
- Introduce more loss-control measures.
- Cut insurance to the bone by eliminating unnecessary coverages and introducing higher deductibles and retention levels.
- Consider alternatives, including association insurance programs, association captives and broker affinity groups.
- Carefully investigate the financial stability of the insurer selected.

The tight insurance market is harder on small businesses, brokers say, because firms with 500 or fewer employees often do not have the financial resources of their Fortune 500 counterparts to soften the blows of rising rates by establishing captive insurance companies or exploring other means of self-funding.

"That group of commercial buyers probably will feel more of the brunt of price increases than the large accounts," says Charles L. Ruoff, senior vp of property/casualty insurance for New York-based Fred S. James & Co. Inc. "What it breaks down to is, what options does a smaller account have?"

And, the problem is not price increases alone. Underwriting standards are also getting stricter, so insurers may not be interested in a small business's risks, no matter what the price.

"We're getting to the point again where losses will be an important factor in underwriting," says Merton J. Segal, chairman of the Meadowbrook Insurance Group in Southfield, Mich.

Particularly hard-hit, according to brokers, are small, mom-and-pop operators and firms with high exposures, like truck fleet operators. Very small businesses are beginning to find it hard to secure insurance coverage at all as insurers introduce minimum premium requirements.

Some of the small businesses have turned to the excess/surplus lines market, but they are finding that, to a large extent, capacity for their business just "dried up and blew away," says Carol Filippi, vp and department manager in the property/casualty area in Alexander & Alexander's St. Louis office. She predicts the market for small business will reappear, but not for another several months.

Fortunately, brokers point out, most small businesses do not have to search out \$20 million to \$30 million in capacity, so they do not face the same crunch as large companies. "Many small companies, by their nature, don't have a tremendous exposure," says Joseph J. Fay, chairman of MacIntyre, Fay & Thayer Insurance Agency Inc. in Newton, Mass.

However, they still must learn to deal with a commercial property/casualty market that has changed drastically in the last nine months. And, the first step they must take, brokers say, is to realize that their rates probably will be increased and to plan for it.

Many clients are unprepared for the rate hikes, and they come to renewals "as if nothing's changed," says William C. Cohen Jr., chief executive officer of Wichita, Kan.-based Insurance Management Associates Inc. "Then," he says, "it's too late to react."

Clients must realign their thinking as to what their premiums should be, says Robert L. Dubofsky, president of American Coverage Corp. in Great Neck, N.Y. Regard the previous low rates as "history," he suggests, and be thankful for the period that they were around.

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Health care costs

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Insurance Co. Per-confinement deductibles of \$50 to \$150 are also being seen, she said.

Metropolitan Life Insurance Co. is introducing a new plan with a per-confinement deductible next year that small businesses could use, said Malcolm Cheung, assistant actuary at Metropolitan.

It is also considering instituting a good health deductible credit. If, for example, an employee files no claims in 1984, the employer would apply \$50 toward his out-of-pocket deductible in 1985, Mr. Cheung explained.

However, employers with fewer than 200 employees could have problems administering this program, he said.

"Making employees pay a larger share of costs is essential," said John W. Weekly, senior executive vp for Mutual of Omaha Insurance

Co. "If you don't involve the people, you'll never get cost containment or loss control."

Small business also is turning away from traditional group health insurance to try alternate funding methods to hold down costs. Now, 30% to 40% of businesses with 200 to 500 employees are self-insuring health benefits to some extent (see related story, page 12)

And, others are joining business health care coalitions to have a louder voice in community health care decisions and to share cost-containment information.

Most observers agree that the 135 business and health coalitions around the country are sources of information and assistance in making small employers' voices heard.

The Midwest Business Group on Health, for example, sponsors a library and newsletter exchange.

"In short, coalitions are helping employers to become wiser buyers of health care by showing them

how to use their clout and expertise in 'purchasing'—not just 'paying' for medical services," said Jan Peter Ozga, executive director of the Clearinghouse on Business Coalitions for Health Action, a 3-year-old project of the U.S. Chamber of Commerce in Washington.

A coalition in West Virginia successfully lobbied for small business representation on the board of directors of non-profit hospitals and those owned by a political entity.

But, not all cost-containment measures are as effective for small businesses as they are for large businesses. Some can be more trouble than they are worth to a small business.

Implementing an across-the-board benefit for a mandatory second surgical opinion program can create too much work for a small business, some experts say.

But, a small business could limit the number of procedures quali-

fying for second opinions and make the program cost-effective, says Ronald Moreland, executive vp of Transamerica Occidental Life Insurance Co.

In general, second surgical opinion programs are only minimally popular among small employers, even those with as many as 250 to 500 employees, said Mr. von Glahn. It causes employers headaches because of the need to educate employees, and it can create a backlash of resentment, he said.

"That's a lot of smoke and a little light for a small employer," Mr. von Glahn added.

Pre-admission certification is generally considered an important cost-containment procedure for most employers, according to Thomas Ferguson, vp and actuary at Equitable. His company recently added the review procedures for psychiatric admissions, too.

"But, some will say pre-admission certification for this size (busi-

ness) is too much hassle," said Mr. John Langenus of Connecticut General.

Pre-admission certification and concurrent utilization review could be too expensive for small business, agrees Tom Billet at consultant Johnson & Higgins in New York.

Concurrent utilization review is only effective for groups of more than 500 employees that are centrally located. Otherwise, the business has to contract with two or three utilization groups, so it is harder to administer, said Ms. Spillane of New York Life Insurance Co.

To solve this problem, some insurers are using toll-free telephone numbers that either the patient or the physician must call for both pre-admission certification and utilization review.

Auditing claims is the least-attractive cost-containment measure for small businesses because they cannot afford to hire outside auditing expertise to check bills and utilization, said Mr. Oxfeld of the U.S. Chamber of Commerce.

Generally, insurance companies or third-party administrators audit claims for small businesses, and experts agree this is effective.

However, employers with between 100 and 500 employees are too small to follow in the steps of larger employers that are increasingly hiring outside accountants to audit the insurance companies' handling of claims, said Larry Tucker, a group benefits consultant at Hewitt Associates in New York.

Not even alternative health care delivery systems are trouble-free for small businesses.

The larger HMOs are beginning to sell themselves to small business to broaden their markets and can force small businesses to offer them to employees under federal legislation that requires most employers with as few as 25 employees receiving a minimum wage to offer an HMO plan if the employer is approached by a federally qualified HMO.

But, some employers have said that offering both a traditional group insurance plan and an HMO costs them more than merely offering the traditional group plan, while others complain that the HMO dries off the younger, healthier employees from the conventional plan. This leaves the less healthy in the traditional plan, which then has a poor loss experience that can translate into higher premiums.

The dual choice option is "certainly burdensome" for small businesses, said Mr. Oxfeld.

It is generally considered too soon to assess the impact of preferred provider organizations on small businesses, despite increased interest in them as alternative delivery systems for health care that are not hospital-intensive.

But, insurance companies are trying to help small businesses.

For example, State Mutual Life Assurance Co. of America this month expanded its aggressive cost-containment package from employers with 10 to 99 employees to those cover those with 100 or more employees. It includes 100% coverage for home health or hospice care, outpatient surgery, pre-admission testing, mandatory second opinions and birthing centers.

And, Aetna Life & Casualty Co. last spring created a new unit to serve the needs of the small group market with between two and 200 employees, according to Ted Kelly, vp for the small business unit.

But, insurers also generally complain that the smaller businesses, which are not experience-rated, are so cost sensitive that they frequently switch insurers. Before an insurer will take on a new client, it often asks for claims history.

But providing that claims history can be a problem if the previous insurer will not provide it. ■

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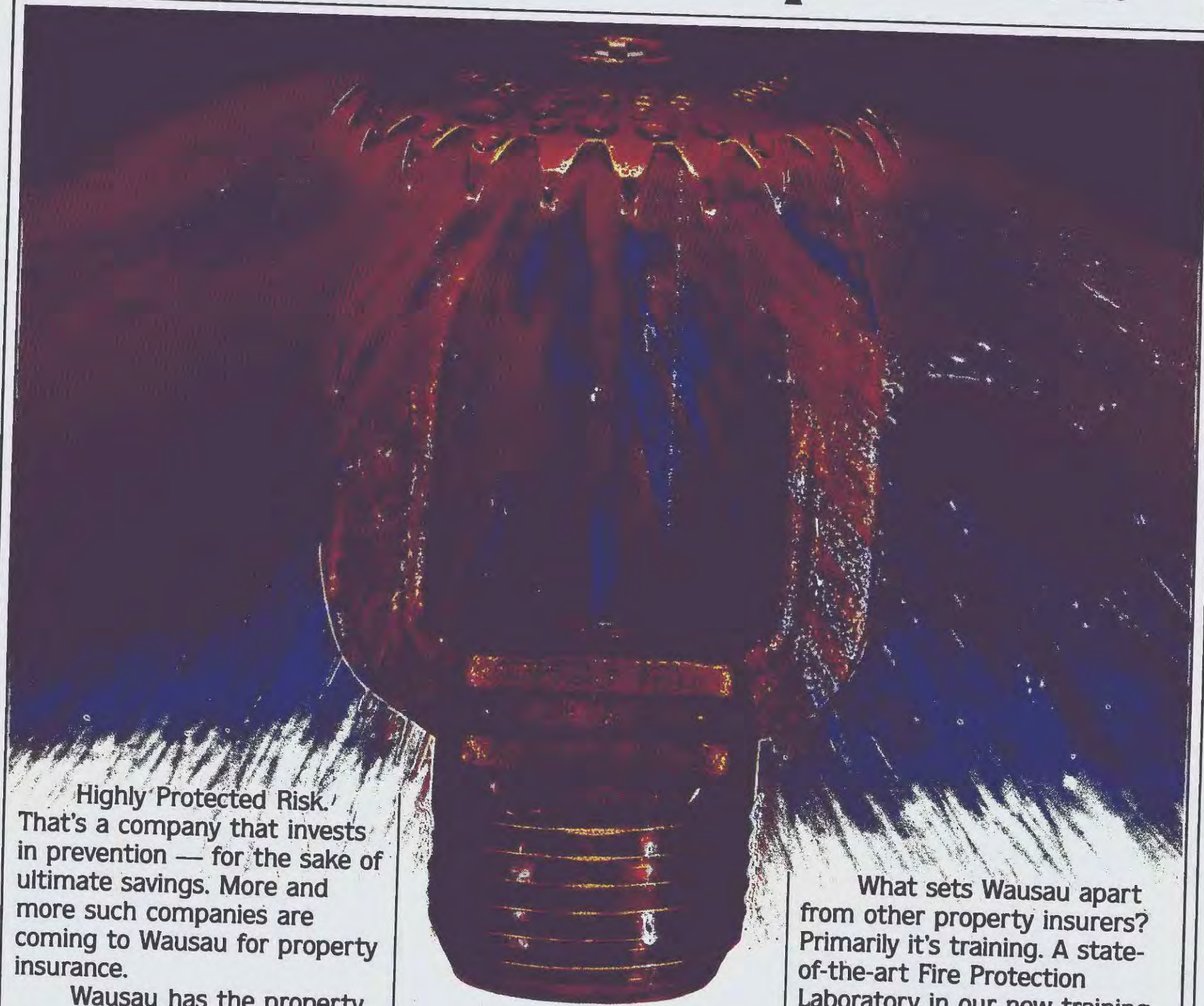
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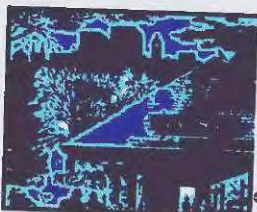
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Small employers should think big

SSMALL BUSINESSES should not have small expectations about their risk management and employee benefit programs.

Small expectations will produce inadequately designed, overpriced and underserviced programs.

Small businesses can and should demand risk management and employee benefit programs from brokers and insurers that meet their needs. These programs will be very similar to the programs implemented by the largest corporations, just on a smaller scale.

That's what the experts say in our special report this week on the risk management and employee benefit programs for small businesses, which we have defined as those of you among our readers with 100 to 500 employees.

Unfortunately, many small businesses appear at times to be either overwhelmed or intimidated by the perceived complexity of insurance products and services. The insurance jargon alone makes some harried small-business owners relinquish their insurance programs to an insurance agent, whose performance is then hardly questioned.

There are many insurance agents who provide highly professional services for their small-business clients, some with little prodding from their clients and others because their clients demand the service. But, there are insurance agents who take their small-business clients for granted and slap programs together without the required thought or effort, and their clients aren't forcing them to improve.

Small-business owners should scrutinize their risk and employee benefit programs, comparing them with the types of programs used by large corporations. When the small-business manager thinks the company is paying too much or not getting the right product or service, the manager should speak up.

Property and casualty insurance programs, in particular, should be analyzed because insurers are clearly aiming their rate hikes at smaller businesses, believing that smaller businesses will pay higher prices more readily than larger companies.

Small businesses should surprise their agents and brokers and insurers—but not with a gun, as one business owner did recently to intimidate a broker delivering a premium increase.



Illustration: Roger Schillerstrom

Small-business owners should surprise their agents and insurers by asking the right questions about their insurance products and by demanding quality service for the premiums they pay.

The ultimate leverage of any buyer is the threat of taking one's business elsewhere—presuming it's good business. While it's no longer a buyer's market for all insurance products, insurers don't want to lose clients whose programs have been profitable.

Granted, the clout of the most insurance-savvy owner of a small business is only as big as the profit on the account.

That's why experts advise small businesses to choose smaller agents, for whom the small business's premium is important, or to consider banding their insurance needs with those of other small businesses.

Small businesses have the options to improve their risk management and employee benefit programs. These options should be exercised.

letters

War risk rating is not collapsing

To the editor: In the article "Hull war risk rates disputed" (*BI*, Nov. 19), you attribute to me the statement that "war risk rating is collapsing." At no time have I ever made such a statement, and neither do I subscribe to your assertion of "fierce" rate-cutting.

While I accept that there is competition within the London market in war risks, it is certain that the majority of underwriters are determined to do their best to maintain as stable a war market as possible and to retain the trading areas and the rate of 0.10% p.a. as a basis for hull

war risk insurance.

A further point in your article is also inaccurate in that it states that the 0.10% rate applies to all areas except certain "hot spots."

However, this is not so, because there are lower rates for restricted areas such as the United States, Canada, Australia and Europe.

D.A. Pollock
Chairman

Lloyd's Underwriters' Assn.
London
England

Airborne skier is risk to avoid, not manage

To the editor: I am appalled at the picture shown in Arthur J. Gallagher & Co.'s advertisement (*BI*, Nov. 12). It shows a skier airborne off a cornice with a text, "Managing Risk."

Our office does a lot of work for ski areas in California and elsewhere. Furthermore, in conjunction with the Sierra Ski Areas Assn., we have been privileged to run risk management seminars for ski area operators for several years. An airborne skier, be it a member of the public or an employee, is the kind of risk ski areas have an obligation to prevent, not manage!

Years ago, and not many years at that, ski areas used to use the phrase, "Hell,

principle line of defense in lawsuits. Too well we have learned that injuries do not buy that line of rationale. Ski areas have the same responsibilities for their premises as do supermarkets or high-rise buildings.

Most ski areas are fully aware of their responsibility to provide as safe an environment as they can, consistent with the excitement and personal exhilaration inherent in the sport. To allow the kind of skiing portrayed in the Gallagher advertisement is the very antithesis of "Managing Risk." It is more nearly an invitation to financial oblivion.

Frank Bulkley
Jardine Insurance Brokers Inc.

Losses didn't prompt firm to drop coverages

To the editor: I read with interest the article on capacity in the London market (*BI*, Nov. 12).

The article contained a reference to General Reinsurance Ltd. that reads as though two classes of business, namely aviation liability and legal expense coverage, have caused us problems and we have withdrawn from writing these classes.

When authorization from the Department of Trade in Britain is obtained to commence business, it states that authorization to write classes of business may be withdrawn in the event that no business is written in those classes within two years.

This is precisely what happened to the two classes named here, and so does not reflect a withdrawal on account of poor experience.

John B. Hollis
General Manager
General Reinsurance Ltd.
London

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More small firms self-funding health plans

By MEG FLETCHER

Small businesses are increasingly turning away from traditional group health insurance and trying alternate funding methods to hold down costs.

Now, 30% to 40% of businesses with 200 to 500 employees have become self-insured to some extent, according to the Self Insurance Institute of America in Santa Ana, Calif.

Small businesses—with between 100 and 500 employees—are the fastest-growing segment of the self-funding market, said James Kinder, executive vp of the institute.

There has been “an Oklahoma land rush” among large employers from traditional group insurance to

alternate funding programs, and now that is filtering down to small businesses, explained William E. Hembree, director of the Health Research Institute in Walnut Creek, Calif. He



added that HRI's latest survey among the 1,500 largest U.S. employers showed that only 17% had fully funded health insurance programs, compared with 45% in 1979. He predicted that, next year, only 7% or 8% will not use some form of self-insurance.

That shift has been fueled by runaway health care costs that eased for the first time this year (BI, July 23).

'More small businesses are going to third-party administrators or consultants. . . and those two are providing services that have typically been provided by insurance companies,' says Mr. Brawley of Lawton-Byrne-Bruner.

But, the increased use of alternative funding for health benefits has prompted some observers to warn small businesses that they must become sophisticated consumers if they are to adequately protect themselves and their employees. They stress that self-insurance is still not for everybody.

And, in fact, it is not very prevalent among very small employers,

pointed out George G. Gale III, president of the Self Insurance Institute. He is also chairman of the board of Total Group Services Inc., a third-party administrator in Grand Rapids, Mich.

The number of companies with between 75 and 150 employees that self-insure health care benefits is marginal, he said.

However, for a growing number

of smaller businesses, the opportunity to have tighter control over their health care dollars is appealing. (An article in the Perspective section on page 35 details how small firms can benefit by self-funding their health plans.)

Small businesses that self-fund can improve their cash flow because their health plan operates more on a pay-as-you-go basis, rather than paying premium up front and allowing the insurer to reap investment income, he said.

Small businesses that self-fund also can reap the benefits of good claims experience if they have aggressively pushed cost containment. Conversely, when they purchase commercial insurance their experience is often pooled with that of other employers their size.

Cost savings are also realized because self-funded benefit plans are exempt from state premium taxes due on insurance policies and are not required—as insurers are under the Employee Retirement Income Security Act—to offer conversion coverage and coverage for mental health and alcoholism problems.

The approaches small-businessmen are taking to alternative funding are numerous, but the result is that small businesses are sharing more in the risk exposure, often with stop-loss insurance as a backup, and they are retaining for a longer period the use of money needed to pay health care claims that previously had been paid up front to an insurer as premiums.

Alternative funding methods available to small businesses from insurers include:

- Minimum premium contracts, in which the insurer charges a monthly retention fee to cover basic administration costs and risk charges and the previous month's claims. There is usually a cap on the employer's liability.

This gives the employer the use of its money for a longer period of time while the insurer retains some risk and guarantees payment.

“Minimum premium contracts are becoming very, very popular,” said Ron Brawley, vp of Lawton-Byrne-Bruner in St. Louis. It is a good alternative, especially for companies with fewer than 250 employees, he suggested.

Most insurers offer a minimum premium program, but they differ on the minimum number of employees required to participate, he said. The majority of insurers require at least 200 lives, although some will go as low as 100, he said.

- Administrative-service-only contracts, in which the insurer processes claims but retains none of the risk. The employer generally purchases stop-loss insurance to cap its liability.

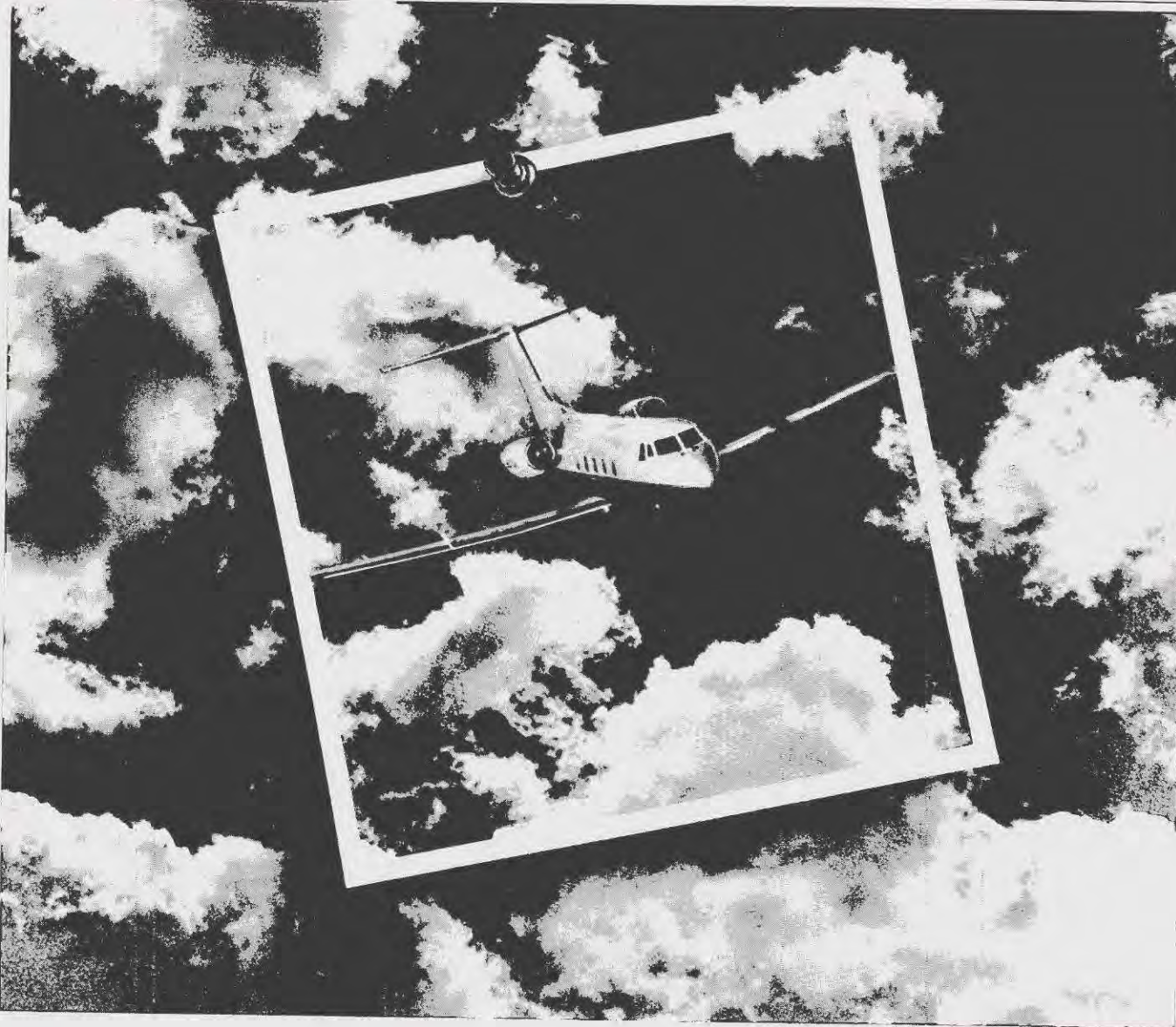
- Deferring premiums until claims come in or reducing them based upon experience.

For example, Blue Cross/Blue Shield has available a contingent premium plan, in which the premium is reduced through the year, based upon experience, with final settlement at the end of the year.

It also offers a deferred premium program, in which the employer does not pay a premium in the first month or two because of the lag in claims reporting, said Mike Seibold, director of business strategy consulting for Blue Cross/Blue Shield's Business Strategy Services, which acts as a consultant to those plans.

A small business that wants to implement an alternative funding program can use a consultant to design the program and then hire a third-party administrator to handle claims; have an insurer design the program and administer claims; or, have a consultant design the program but handle claims processing

Continued on page 14



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Health care rate increases down

Small business is beginning to see some relief from ever-increasing health insurance costs.

The average rate increase for small businesses this year has been 10% to 30%, down from 1983, when increases averaged 25% to 35%.

Big business also has seen rate increases decline as the cost of medical care increases less rapidly (*BI*, July 23).

The lowest average rate increase for small business in 1984 was about 10%, reported by consultants for Blue Cross/Blue Shield plans, Equitable Life Assurance Co. of New York and Mutual of Omaha Insurance Co. Among insurers surveyed by *Business Insurance*, the highest average rate increase for small business this year—25% to 30%—was reported by Metropolitan Life Insurance Co.

In addition, Transamerica Occidental Life Insurance Co. reported its rates for small business were up 12% to 18% and Aetna Life & Casualty Co. said it had raised rates about 15% to 19%.

Rates for small firms renewing coverage were higher earlier in the year, insurers said. Rates during the first half of 1984 were up 22% to 25% for renewals, but fell to 15% to 18% in the last half, said John Langenus, assistant vp of Connecticut General Insurance Co.

Rates rose an average of 17% during second-quarter renewals at the Travelers Insurance Co. but dropped to 13% during the third quarter, said Jay Fromer, secretary of the group new business division.

More firms self-funding health plans

Continued from page 12

itself. The last alternative is the least popular.

"More small businesses are going to third-party administrators or consultants... and those two are providing services that have typically been provided by insurance companies," Mr. Brawley said.

However, there can be problems with self-insurance for small businesses that traditionally lack the staffing resources of larger companies.

"Self-insurance is not the be-all and end-all. It is not for everyone," Mr. Gale said.

"It may be too sophisticated for them," Mr. Brawley said.

Unless adequate stop-loss insurance is obtained, a claim for a catastrophic illness could consume a lot of the firm's assets.

And, if a small business closed its doors or lost its stop-loss insurance, employees would be unprotected.

"There are some small businesses at jeopardy," acknowledged Mr. Gale, who points out a lot can depend on the caliber of the third-party administrator chosen.

The problem, according to Mr. Brawley, is that "many times, a prospective client looks at self-insurance for the wrong reason." Specifically, self-funding does not work when the client is in financial trouble and is grasping at self-funding only as a means of improving its cash flow, he said.

"Generally speaking, for those with under 250 employees, to take on self-insurance is quite a risk," Mr. Brawley said.

But, Mr. Gale said companies with as few as 100 employees could

successfully self-fund their health benefits if the company has:

- A health insurance premium of \$100,000 per year.

- A manager more concerned with long-range savings than with merely boosting cash flow. With three months' worth of premium is the typical one-time savings that occurs when a business moves from a traditional to a self-insurance program.

- A suitable cash-flow situation that would allow the company to borrow money to cover aggregate claims throughout a year, with the knowledge that stop-loss insurance would reimburse much of this cost at the end of the year.

The move to self-funding is sparking an aggressive response from insurers. Some are offering new self-funding programs to small businessmen rather than lose their business altogether and other are increasing premiums for stop-loss coverage.

Travelers Insurance Co. has reduced from 500 to 150 the minimum number of employees needed to be eligible for alternative funding, said Jay Fromer, secretary of the group new business division at Travelers.

And, beginning Jan. 1, Aetna Life & Casualty Co. will offer an administrative-services-only contract for businesses with as few as 100 employees, said Ted Kelly, vp for the small business market group in Hartford, Conn.

Stop-loss coverage for small businesses is becoming expensive and harder to find, said Ronald Moreland, executive vp of Transamerica Occidental Life Insurance Co. in Los Angeles.

Mr. Gale said insurance companies have increased rates for specific stop-loss coverages about 40% to 100% this year to make up for losses in the previous two years. However, rates for aggregate stop-loss insurance have not gone up, he said.

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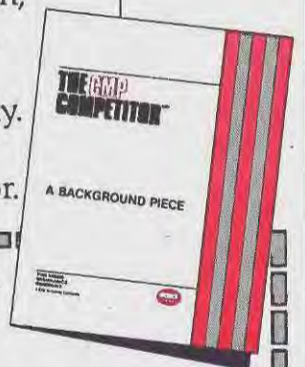
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Flexible plans can be benefit for small firms

By DIANE LYNN KASTIEL

Flexible benefits can be a viable option for small employers, benefit experts agree, as long as they heed one caveat: Keep it simple.

"The key is simplicity," said Robert Townes, director of communications operations at the Prudential Insurance Co. of America in Newark, N.J. "You have to design a plan that has some choice but is still relatively simple for flex to work for the small employer."

"Small businesses are very cost-conscious, and they don't want to take a chance that they'll get into something that will cost more than it will benefit the company or its employees," added William W. Chip, counsel to the Employers Council on Flexible Compensation.

"Small companies can keep their costs down by being less ambitious and offering fewer options," said Mr. Chip of the Washington law firm of Ivans, Phillips & Barker.

And, despite some hesitation and skepticism, more small firms are adding flexibility to "expand" benefits while holding down costs.

"A flexible plan lets the employer improve his benefits program without spending a lot of money," Mr. Chip said. "It makes workers happier without costing a lot because they can get more coverage in one area in exchange for giving up coverage in another area."

Sales Force Cos. Inc., a food brokerage in Schiller Park, Ill., hopes to save money by introducing a flexible program to its 500 employees Jan. 1.

"The constant escalation of medical costs and our utilization of (health care) was causing continual increases in our premiums," explained Treasurer Daniel Barnhart. "We raised our the deductibles and stop-loss level on our traditional plan in September 1983, and at that time we decided, 'Hey, we have to come up with a better approach to a program that can be meaningful to employees and yet achieve cost containment.'"

In September 1983, the plan's deductibles, which were \$200 for individual coverage and \$400 for family coverage, were doubled, he explained. And, the stop-loss level, which previously had capped employees' out-of-pocket expenses at \$400 for individual coverage and \$600 for family coverage, was raised; maximum out-of-pocket expenses shot up to \$1,300 for individual and \$1,800 for family coverage.

With the help of CIGNA Corp., Mr. Barnhart put together a simple flexible package. Its basic benefits, which are fully funded by the company, include life insurance for employees and dependents, long-term disability insurance and business travel accident insurance.

Options include two medical plans (one a low-cost, low-coverage plan and the other high cost, high coverage), a dental plan, and additional life and long-term disability insurance. And, contributions to the medical and dental premiums can be made on a pre-tax basis.

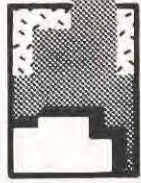
"Our flexible plan is somewhat limited," Mr. Barnhart said. "We're going into it very cautiously, to keep expenses down."

But, some employers are still holding back, afraid of the administrative and communication expenses of flexible plans.

And, most insurers are less than eager to insure these plans for small groups, primarily because of concern over the potential for adverse selection.

"From an insurance company's point of view, there's a credibility factor," said Prudential's Mr. Townes.

to predict what experience will be because you don't have the numbers working for you. The chance of adverse selection is much greater."



While healthier workers are more likely to choose less coverage.

"But insurers' reluctance is not the main roadblock," Mr. Townes added. "What we see are the cost factors that are scaring small employers away. Communications, on a per-head basis, can get very, very

With adverse selection, employees that know they or their dependents are likely to need medical care choose plans that provide the most coverage at the best cost

'A flexible plan lets the employer improve his benefits program without spending a lot of money. It makes workers happier without costing a lot,' says William W. Chip, counsel to the Employers Council on Flexible Compensation.

expensive." Start-up costs can also be prohibitive.

"It doesn't cost that much more to set up a flexible plan for a large employer than it does for a small employer," agreed Susan Velleman, principal at William M. Mercer-Meindinger Inc. "So, on a per-person basis, that can get very, very expensive."

But many argue that simplicity

of design can hold down expenses.

"Simple plans will work because simplicity limits the impact of adverse selection," said Paul Mack, assistant director of flexible benefits for CIGNA in Bloomfield, Conn. "And, they're easier to understand and not as costly to administer."

Others think being small can be an advantage in a flexible plan.

"One of the advantages to being a small company is you don't have the administrative nightmare (that large employers do)," said Michael F. Carter, senior vp at Hay/Huggins Co. Inc. in Philadelphia. "If you have a couple hundred employees, designing and administering a flexible system is something you can do on a personal computer or even manually."

William D. Boden, vp and director of personnel and administrative services for The Rouse Co., a real estate developer in Columbia, Md., agrees. His company, with 450 employees, started a flexible plan Jan. 1, 1983 (see story, page 18).

"Don't think you can't do it without a computer backup," he advises. "We manually review all 450

Continued on facing page

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Continued from facing page selections. I think small employers are assuming that it's so complex that if you don't have the right hardware or software you can't do it.

"It's no worse than how they're handling their payroll, frankly. Whatever they're doing for payroll should be able to handle a flexible program. That's what we did."

And, companies don't have to spend a fortune to communicate the program, some say.

"The small companies can't afford and don't need videotapes and all that," said Robert Kelly, benefits consultant with the Wyatt Co. "So we develop storyboards and scripts for managers to use. It tends to follow what they normally do for communication, which isn't that elaborate, anyway."

Sometimes, insurers will "donate" the communication effort, as was the case with Sales Force.

"Communication is one problem

'With a smaller company, you may get a better sense of what your employees' needs are. And, with a small company, it's also easier to get everyone together to explain the plan to them,' says Michael F. Carter of Hay/Huggins.

we had in general—our ineffective communication," Mr. Barnhart said. "And this is one thing that we knew was important. We said, 'We just have got to come up with good communications for this (flexible program).'"

He said CIGNA put together a communications program including a videotape and a brochure, at no cost to the company.

"I got them to put together the videotape in lieu of sending people out to our various branches to explain the program, which they normally do," Mr. Barnhart said.

And, smaller groups can lead to more-effective communication.

"With a smaller company, you may get a better sense of what your employees' needs are," said Hay/Huggins' Mr. Carter. "And, with a small company, it's also easier to get everyone together to explain the plan to them."

He added employees of small companies may be more likely to understand the flexible plan than larger firms' employees because they are more likely to ask questions.

"People feel more comfortable

walking to a personnel office of a 200-employee place than they do at a large conglomerate," he said.

Others say flexible packages may be easier to "sell" in smaller groups.

"If the boss says, 'I like this plan' and tells the employees that, it's going to have a bigger impact than that same message coming from the chairman of the board in New York City," said Mr. Kelly of Wyatt.

But, if the administrative hassles and expensive communications packages can be circumvented, why aren't more small groups switching to flexible plans?

Small employers say they can't find coverage; insurers say small firms haven't been asking for it.

"Companies of that size (between 100 and 500 employees) have more of a problem right now with flexible plans because of resistance from the insurers," said Ms. Velleman of Mercer-Meidinger. "The insurers

generally don't have standard products, so they're going to have to design individual plans for the employers, and they're not interested in doing that."

"One of the biggest disadvantages was lack of support from insurance companies," noted Rouse's Mr. Boden. "Frankly, they didn't have experience with flexible plans for small employers, and they were concerned about adverse selection."

Mr. Boden finally convinced his insurers—CIGNA and John Hancock Mutual Life Insurance Co.—to insure a flexible program. So far, he said, the plan is working well.

"The adverse selection issue is not as big of an issue as insurance companies make it out to be," he said. "At least, that's been our experience."

"There aren't a lot of companies heavily involved in flexible benefits for the small employer," said Patricia Balzer, associate director of new business product development at the Travelers Insurance Co. in Hartford, Conn. "(Insurers) are getting into it but, quite frankly, we have concentrated on the larger companies because they have yelled the loudest."

And, the larger the group, the bigger the budget, added Hay/Huggins' Mr. Carter.

"With a big company, you can get insurance companies to do almost anything you want because they want the megabucks you're going to pay them. You've got a lot less clout when you have 200 employees. The insurance companies are less willing to be flexible with you."

Still, some insurers will put together flexible plans for small groups. Most of what is available is off-the-shelf plans that provide "pre-packaged" options.

"They have a small universe of four or five different plans that the employer can choose from," Ms. Velleman said. "That way, they don't wind up writing different plans for each employer."

At least one insurer, Union Mutual Insurance Co., has gone even further in developing flexible programs for small employers, arguing that modular plans don't fit individual employer's needs.

"We decided that modular plans are not truly flexible," said Carl J. Sardegna, executive vp of insurance operations for Union Mutual. "You have to be able to mix and match like an a la carte menu rather than having to choose complete dinners."

"Just picking a plan off the shelf is like wearing someone else's shoes and expecting them to fit," agreed Frank Chmely, senior vp of group underwriting at Prudential. "To make a flex plan work, it takes a good deal of up-front design and a great deal of specificity to the employer and his work force."

Union Mutual has a portfolio of options that small employers can use to tailor their flexible plan. Included are four health care plans, two dental plans, two flexible spending accounts, two long-term disability plans, and a 401(k) plan.

"You can make up a product that looks like any Fortune 500 company's flexible plan, even though it's done for a small group," said Ned Vadakin, vp of flexible benefits for Union Mutual. "We have achieved the economies of scale by designing generic packages that can be used by any employer, yet look like they were tailor-made for the individual employer."

Regardless of the package, most agree flexible benefits are worth the small employer's consideration.

"Although the flexible benefit issue is very complicated from the insurer's point of view, it doesn't have to be that complex from the buyer's point of view," said Mr. Vadakin. "The small employer should at least take the time to look at flex."

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Real estate developer says flexible program works well

By **DIANE LYNN KASTIEL**

COLUMBIA, Md.—The Rouse Co. in Columbia is one small business that is singing the praises of flexible benefits.

The real estate developer, which employs 450 people, introduced a flexible benefits plan on Jan. 1, 1983, after considering the move for more than a year. The catalyst for the change came when Rouse had a chance to examine the flexible benefits plan of Morgan Stanley & Co. Inc., a large investment banking firm in New York.

"We came back from that trip more convinced than ever that we could do it," said William D. Boden, vp and director of personnel and administrative services for Rouse. "Their plan was a lot like the one we were thinking about, and sitting down and talking with them helped."

Rouse wanted to expand its benefits program without raising its costs, and a flexible plan seemed like the answer, he explained.

Specifically, the company wanted to add a dental plan but also shift more of the cost of its expensive medical plan onto employees. It also wanted to tailor its benefits program to meet individual employee needs and build an image as an innovative company, he added.

"We were offering a plan that a majority of people were not getting use out of—effective use, anyway," Mr. Boden said. "Employees are definitely getting use out of the flexible plan. When you look at the choices employees are making—they are really tailoring the pro-

gram to make it fit their individual profile. We're very pleased with the program."

With help from benefits consultants Towers, Perrin, Forster & Crosby, the company designed a flexible program with three "layers" of benefits.

The first layer comprises what the company calls its "basic benefits," which are provided to all employees at no cost. They include pension benefits, vacation and other approved time off, business travel accident insurance, employee assistance programs, an educational aid program and scholarship program for employees' children, and a 401(k) savings plan.

All employees also can use vacation cottages along the East Coast free one week a year. If they don't use a cottage, additional income is added to their paycheck.

The second and third levels are the flexible levels, and employees have options in each. Some options require employee contributions, and others generate benefits "credits," which can be used to buy other benefits. Still others result in a "draw"—employees are neither credited nor billed.

The second level includes the "primary" flexible benefits: medical, life and long-term disability insurance.

Employees choose from among three medical plans: the "Rouse Co. Plan," the medical plan that existed

Continued on page 20

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Rouse Co. plan

Continued from page 18
before the flexible program; a new, comprehensive plan; and a health maintenance organization.

The Rouse plan, for which employees are not credited or billed—pays 100% of reasonable and customary hospital charges.

After a \$150 individual and \$300 family deductible, the major medical portion of the plan pays 80% of other medical expenses, like office visits, up to \$2,500 per person. Rouse pays 100% of expenses exceeding \$2,500, up to a lifetime maximum of \$250,000 per person.

Under the comprehensive plan, employees pay more of their expenses but get a credit of \$111 for individuals and \$396 for families.

Under the plan, employees pay a \$300 individual and \$500 family deductible, which applies to any medical expense, including hospital expenses. The plan pays 80% of the first \$4,000 per person, and then pays 100% of expenses up to a \$250,000 lifetime per-person limit.

The third choice is an HMO. The Columbia Medical Plan pays all inpatient hospital and surgical expenses and provides outpatient benefits for a small service fee. A contribution is required only if the employee wants coverage for himself and more than one dependent.

The life insurance plan offers employees between one and five times their salary in life insurance. The option that pays two times salary results in a "draw." Less coverage yields a credit; more coverage requires a contribution.

The LTD plan provides the same benefits to all employees—60% of basic monthly earnings, paid after six months of disability, up to retirement or age 70, whichever comes first. The flexibility lies in the financing. If the employee pays the premium, he gets a credit equal to the premium, and any benefits are not taxed. If the firm pays, benefits are taxed like regular pay and there is no credit.

The third level offers "supplemental" benefits, including a dental plan, a prescription plan and accidental death and dismemberment insurance. These all require employee contributions and do not yield credits for non-participation. But, starting in 1985, contributions can be on a pretax basis.

The dental plan pays 100% of reasonable and customary charges, with no deductible, for most preventive and diagnostic care. All other expenses have a \$50 individual and a \$150 family deductible, after which the company pays 80% of minor restorative care, 50% of major restorative care and 50% of orthodontia care for dependents under age 19. The plan pays up to \$1,000 per person annually for expenses other than orthodontia, with a lifetime cap of \$750 per person.

Individual coverage costs employees \$78 a year, and family coverage costs \$243.

Employees in the prescription plan pay \$2 per prescription; the firm pays the rest. Individuals pay \$78 a year; family coverage is \$212.

The third supplemental plan is for AD&D insurance, which pays benefits in multiples of \$10,000, starting at \$20,000 and going up to 10 times an employee's salary, up to a maximum of \$350,000.

Employees with individual coverage contribute \$5.04 a year; those who also want benefits paid to dependents contribute \$7.68 a year.

Beginning Jan. 1, Rouse will offer a flexible spending account program to cover dependent care expenses with pretax dollars. At the beginning of each year, employees decide how much to contribute to the account, up to \$5,000 or one half of their salary, whichever is less. Also beginning Jan. 1, employees may deposit an amount equal to their unused benefits credits into the plan. ■

Small firms can benefit from EAPs

By MARGARET LeROUX

Small employers say an Employee Assistance Program is an employee benefit that is economical, humanitarian and can benefit both employer and employee.

Although it's impractical for small businesses to form their own EAPs to help employees suffering from alcohol, drug or other problems, small firms throughout the nation are establishing consortiums to purchase EAP services from providers at reasonable rates.

By joining a consortium to contract for EAP services, small employers are receiving qualified assistance at a price they can afford, says Bill Perkins, president of Old Dominion Printing in Alexandria, Va., and chairman of EAP in Alexandria Inc., an employer



coalition.

"Companies that join together have access to a lot of technical ser-

vices and they can exercise their collective clout in negotiating a contract," Mr. Perkins said.

Employers and counselors associated with EAPs say the programs are worth the cost and can actually save an employer money because employee assistance can reduce workers compensation claims and time lost due to absenteeism.

Such savings are especially important to a small business, says John Burke, a partner in Burke Wall Associates in Research Park Triangle, N.C., which provides

EAP services to employers.

"If a troubled employee in a small company messes up on the job, the financial impact is much greater than in a company with 10,000 employees," Mr. Burke said. "And if you lose an employee because of alcohol, drug or other personal problems, the cost of replacing that person is likely to be a lot higher than the cost of counseling," Mr. Burke added.

"You don't have to be a big company to benefit from an EAP," said
Continued on facing page

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Continued from facing page
Sue Blomgren, personnel director for the Ben Simons Department Store in Lincoln, Neb. With nearly 100 employees, Ben Simons is one of the smallest members of a consortium of Lincoln employers formed to provide EAP services to employees.

"Even though our use of the EAP has been minimal, we have used it for work problems related to alcoholism," Ms. Blomgren said. "We feel it's a good tool."

Bonnie Voe, assistant vp at Dakota Bank & Trust Shares Inc. in Fargo, N.D., agrees: "The EAP has been really successful; we've had employees come in and thank us

for it."

Since 1981, Dakota Bank has been part of a consortium of Fargo employers, called simply the Employee Assistance Plan, that contracts for EAP services. During the first two years in the consortium, 30 of the bank's 135 employees have used the services of the EAP, according to Ms. Voe.

"As a human resources person, it's an asset for me to be able to say to an employee who comes to me with a problem, 'I'm not a counselor, but I can refer you to someone who can help,'" Ms. Voe said.

At Outboard Marine Corp., a Lincoln, Neb., equipment company, Employee Relations Manager Ed

Davis estimates the company saved more than \$40,000 in workers compensation costs last year through the combination of an EAP and a safety program.

"I feel the EAP had a lot to do with the savings," Mr. Davis says. "Our success ratio with employees who have gotten their act together through the EAP is probably 98%."

OMC is one of the 45 members of LEAP Inc., the Lincoln EAP consortium. LEAP started with a federal grant 11 years ago and has been completely self-sufficient since 1982.

Employers contract with LEAP, a non-profit organization, for the services of its five counselors and

pay its expenses on a fee-for-service basis.

"A lot of other EAPs charge a fixed rate based on the number of employees," explained Kristine Brennan, executive director of LEAP. "We found that to be inequitable for smaller employers."

LEAP estimates how many hours of counseling a company's employees will use for the coming year and charges accordingly. "If we underestimate, employers are billed on a monthly basis; if we overestimate, they get credit for the following year," Ms. Brennan said.

Besides tapping the EAP for employee counseling, members of the

Lincoln coalition also receive statistical reports on how many employees use the EAP, what type of counseling or referral they use and what is the outcome of the counseling. However, no employee names are given out to employers to protect the workers' privacy.

Supervisors at the coalition members are also trained by counselors on how to intervene when employees have problems that affect their job performance.

"We don't want them to try and assess what the problems are, just to refer the employees to the EAP," Ms. Brennan said.

"If an employee's problem can be resolved with short-term counseling, it's usually handled by one of our counselors. Otherwise, we refer them to one of the 55 different resources in the community," she said.

EAPs prevent supervisors "from getting bogged down in employees' problems," noted Chuch Moe, vp of human resources at Dakota Hospital in Fargo, a member of the Fargo consortium.

Since the hospital joined the EAP, "Supervisors don't have to act like a counselor or parent," he added. "They can say to an employee, 'I don't know what to tell you, but we have a service to help you.'"

The EAPs also help employer members of consortiums communicate the benefit to employees through work-place presentations, letters sent to employees' families, posters displayed at work and wallet cards with the phone number of the EAP. Counselors also give seminars and workshops at the work site on topics like stress management.

Each employer member of LEAP, the Lincoln EAP, is assigned a counselor who comes to the work place to meet with employees, give workshops and supervisor training.

At OMC, for example, an EAP counselor spends two Tuesday afternoons each month at the work site to counsel employees.

"Employees are free to come for counseling during working hours," Mr. Davis said. "If they're willing to go the extra step, so are we."

Employees can also go to LEAP's offices for counseling on their own time. "We're seeing statistics showing that more and more employees are going for counseling on their own, rather than being referred by a supervisor," said Mr. Davis.

OMC is dedicated to the concept of EAPs, Mr. Davis stressed. "If something's affecting a person's job performance, a supervisor will suggest the EAP," said Mr. Davis. If the supervisor suggests the EAP to an employee a second time, the employee is required to seek help or faces possible dismissal, he commented.

An EAP in Lynchburg, Va., has helped save the jobs of more than one employee of Buffalo Forge, a metal fabrications plant with 100 employees.

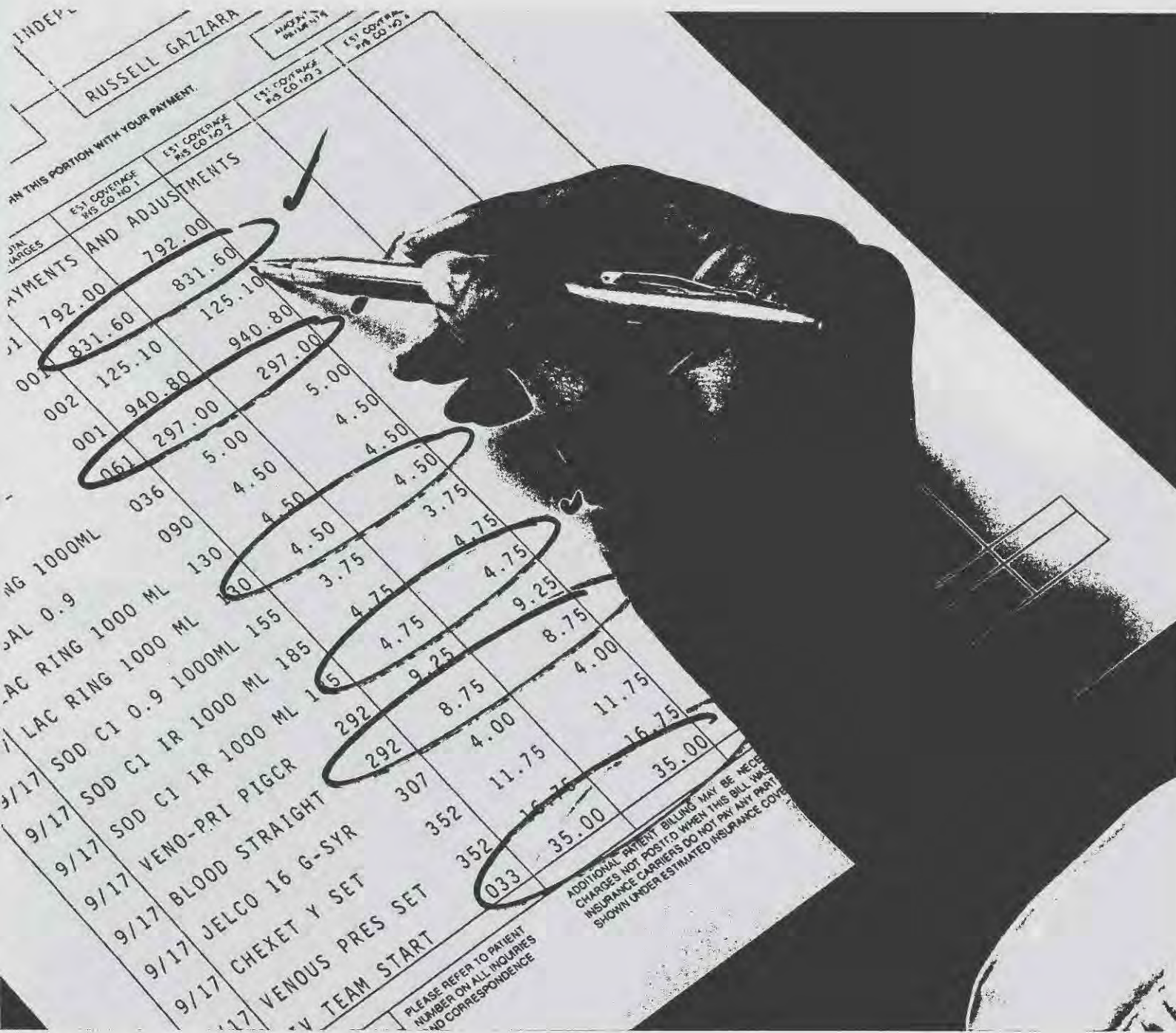
"We've sent employees with attendance and performance problems for counseling and it's helped enormously," according to J.D. Mitchell, Buffalo Forge's personnel manager.

"We've had a couple of success stories of employees who were close to being discharged for alcohol problems, but since counseling they've become ideal employees," he added.

Buffalo Forge pays \$14 per employee annually for the services of Employee Assistance of Greater Virginia Inc., an independent, non-profit EAP in Lynchburg that serves a consortium of 11 employers in Lynchburg and Roanoke.

"Because this is a small community (population 60,000), most of the employers who joined the consortium came by word-of-mouth recommendation," said Susan Mock,

Continued on next page



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Small business band together to form EAPs

Continued from previous page
the coalition's executive director.

She said the program began as an outgrowth of an arrangement between a community services organization and Babcock & Wilcox Co., the largest employer in the area.

"We worked exclusively with them for two years, then opened up the EAP to all employers in the area," Ms. Mock said.

"Although one of our counselors will go to the work site, about 70% of the employees we see come in on their own," she said. The coalition employs three full-time counselors and one part-timer.

Bill Kiplay, executive director of the Fargo EAP, also noted that most employees come to the EAP's offices for counseling. The for-profit EAP started six years ago and currently charges employers

\$16.50 per employee annually. The Fargo EAP works with employers whose work forces range in size from 10 to 900 employees.

Mr. Perkins, chairman of the Alexandria, Va., coalition, notes that the number of EAP providers has grown in the past several years. "We throw our contract out for bid every two years and have received over a dozen bids on it."

Members of the Alexandria consortium's board meet quarterly to monitor the EAP. "We have a physician and psychologist on the board to keep the EAP honest," he said.

The consortium of 12 employers, including the city of Alexandria, currently contracts with COPE, a Washington-based EAP provider that also services 40 employers in the District of Columbia area.

An advantage of using an outside

EAP provider cited by Mr. Perkins is confidentiality. With an in-house EAP, there is always suspicion by employees that management has access to EAP records, he said.

"In our EAP contract, the employee's privacy is respected," Mr. Perkins said. "I get reports on how many employees used the EAP, but there is no way I can find out who of my employees used it."

Although some small employers have substantiated the savings generated by an EAP, the more successful an EAP is, the harder it is to prove it, says Art Sharp, employee relations supervisor for Lincoln Telephone Co. in Lincoln, Neb., and a member of the LEAP consortium.

"The first few years we were in the program we had excellent statistics linking the EAP to decreases in sick days, accidents and time lost to disability accidents," he said, "because employees whose job performance was being affected were being referred by supervisors. Now more than 60% of our employees who use the EAP are self-referrals and they're seeking help before their job performance is affected."

"This of course, is better for both employers and employees in the long run, but it does make it harder to justify the cost of an EAP program if you're in an organization that is looking for the EAP to justify its existence on the bottom line. A scary possibility is that management is going to be looking for ways to cut the program," he said.

**How to locate
the right EAP**

Employer consortiums and individual small businesses interested in Employee Assistance Programs will find plenty of providers offering these services.

The membership of the Assn. for Labor Management Administrators & Consultation on Alcoholism in Washington, the national organization of EAP professionals, has more than doubled to 3,700 this year from 1,500 in 1976, says Executive Director Tom Delaney.

Mr. Delaney notes EAPs are not accredited or certified as yet, though ALMACA will begin a pilot project to develop such a program.

He advised employers interested in beginning an EAP "to ask an EAP consultant for references and follow up on them. Talk to people who have dealt with the consultants," Mr. Delaney said.

"Get proposals from at least three consultants," he continued, "and beware of bargains. If you get five bids and four are in the same ballpark and one is a lot cheaper, it sounds like that consultant is being subsidized by a treatment center."

Don Phillips, head of COPE, a Washington-based EAP provider, agreed. "Some EAP services are thinly disguised funnels for inpatient treatment programs," he said.

Unless an employer is careful, Mr. Phillips continued, "he'll find all his employees who seek help with an alcohol or drug problem are being hospitalized when they could very well be treated on an outpatient basis."

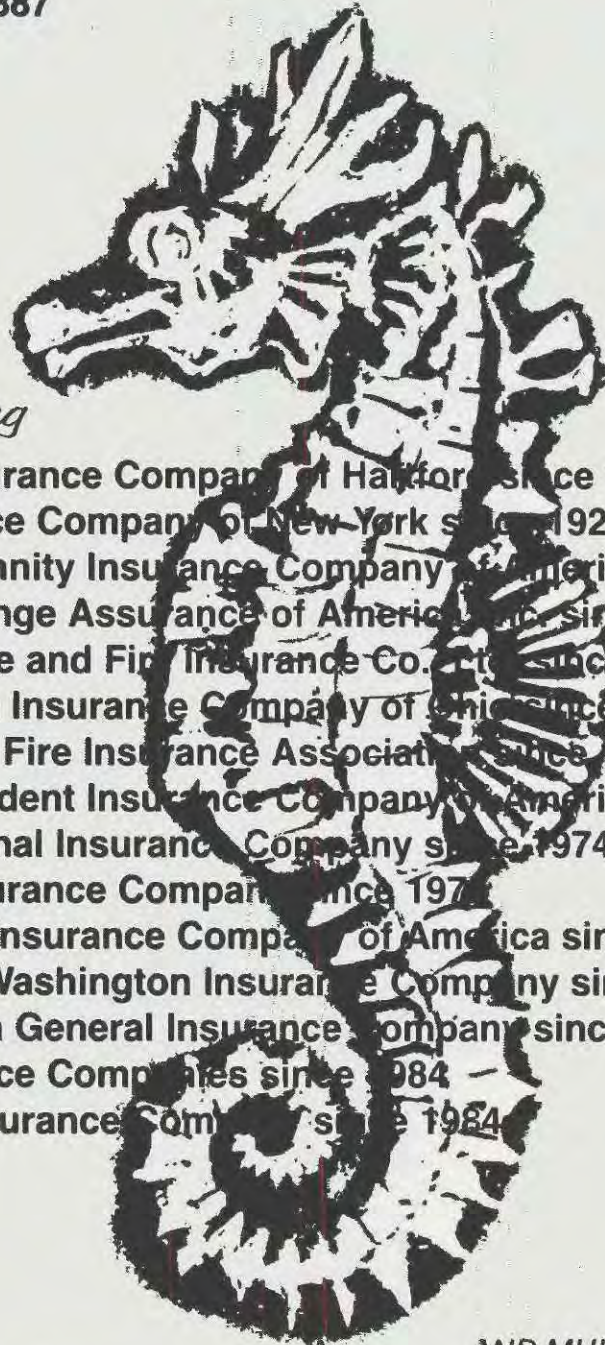
An employer should also investigate whose interests an EAP service represents. "Check to see if they bill to third-party insurers," he said. "Don't let the EAP become a blank check to raid the health benefits plan."

John Burke, of Burke Wall Associates, N.C. advises an employer to question the provider about alcoholism and drug abuse programs.

"These are problems that are often missed or misdiagnosed," he said, "and they're one of the most costly problems for employers."

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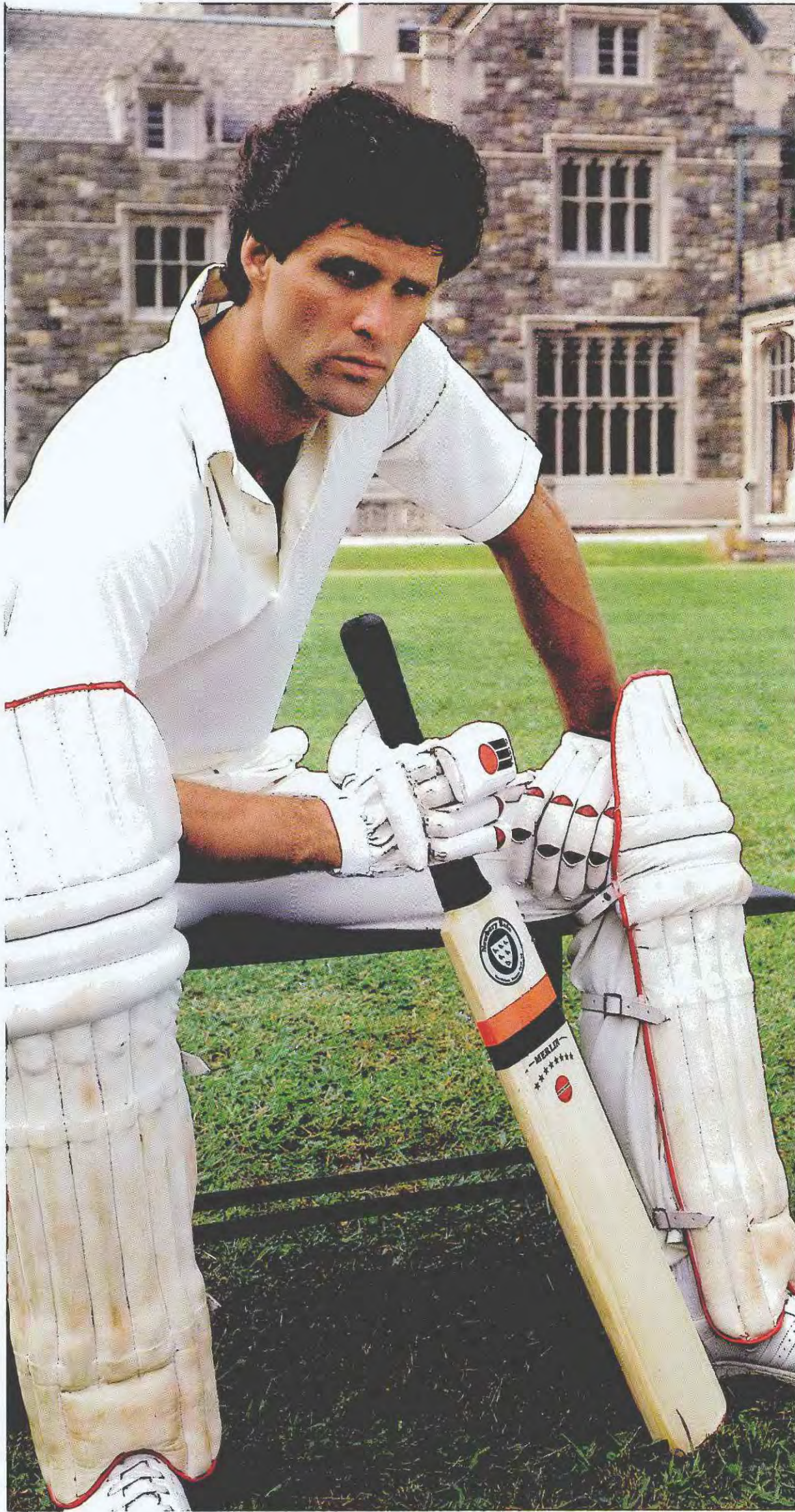
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• A **Back Injury Prevention Kit**, including a prevention management plan, is now available free from Darrell Heppner & Associates. The plan describes warm-up exercises to aid in lifting and lists the six commandments of safe lifting. To order, write Heppner & Associates, Risk Management Services, 154 Sunnyside Drive, San

Leandro, Calif. 94577; 415-632-2200.

• A new book with speeches on **health care in the food industry** has been published by the International Foundation of Employee Benefit Plans. The 41-page paperback book includes five of the speeches given at a conference in June. Topics include health care cost-containment issues, group health insurance and pension withdrawal liability. The cost is \$5 for members and \$9 for non-members. Copies are available from Publications Department, International Foundation of Employee Benefit Plans, P.O. Box 69, Brookfield, Wis. 53005-0069.

• The revised 1985 edition of "Your New Social Security and Medicare Fact Sheet," is now available from the Bureau of National Affairs. The fact sheet reflects the **latest changes in Social Security and Medicare law**. Included in the sheet is an easy-to-understand explanation of Medicare hospital insurance and a worksheet and accompanying tables for computing average monthly earnings and/or averaged indexed monthly earnings, benefits for workers and their dependents and cost-of-living adjustments. To order copies of the fact sheet, write to BNA Books, BNA Distribution and Customer Service Center, 9435 Key West Avenue, Rockville, Md. 20850-3397. A minimum of 20 copies must be ordered at a cost of 75 cents apiece; however, discounts for larger quantities are available.

• A revised and expanded version of the Health Insurance Assn. of America's Digest of Health Insurance Laws and Regulations is now available free of charge. The digest lists 46 topics, including filing requirements, advertising, mandated benefits, individual and group requirements, related **health insurance laws** and miscellaneous provisions. Topics are arranged alphabetically according to state and will be periodically amended. For a copy, write to Health Insurance Assn. of America, 1850 K St. N.W., Washington, D.C. 20006.

• "Start Taking Charge," a new guide outlining **employee wellness programs**, details how employees can become more productive and feel healthier through a combination of physical fitness, proper diet and stress management. The brochure, which was developed by the Bob Hope International Heart Research Institute for Aetna Life & Casualty Co., is available to employers for \$6.95. To order, write to Start Taking Charge/BI, Aetna Life & Casualty, P.O. Box 104, Hartford, Conn. 06101.

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STATE COMPENSATION INSURANCE FUND

Planning can help ease pain of price hikes for small firms

Continued from page 3

Sit down with your broker and plan ahead, advises John T. Lockton III, president of the Lockton Insurance Agency Inc. in Prairie Village, Kan.

"A fellow needs to know today what his insurance costs are going to be in June," he says. Plan for a rate increase.

"Start early, and get a lot of necessary information together early," advises Robert L. Adler, president and chief executive officer of Chicago-based Associated Agencies Inc. "It just takes longer in the market to find alternatives. You've got to leave plenty of time so you don't do it at the last minute."

"Renewals are going to be planned much earlier than in the past," says John Gussenhoven, manager of Johnson & Higgins' commercial accounts department in New York. He says that he now begins preparing clients' renewals 120-150 days in advance; before, he may have left about 90 days.

Picking a good broker not only to prepare for the rate increases, but also to negotiate professionally, is critical in this volatile market, brokers say. "All the yo-yos who climbed out of the woodwork" during the soft market will disappear, says Conard Foa, president and chief executive officer of New York-based Foa & Son Corp.

What's needed now, he says, are brokers who understand insurance companies' rating structures and can use "technical leverage" against insurers. The broker who is "dumbfounded and flaps his arms" will be ineffective.

"Small-businessmen should be sure they select a broker big enough, and in business long enough, that has (contact with) the right number of insurance companies and an in-house staff to use creative imagination," says C. Peyton Daniel, president and chief executive officer of the St. Louis-based Daniel & Henry Co.

Mr. Daniel believes small-businessmen should stick to just one broker, because otherwise, "you'll just muddy the marketplace."

Ronald B. Livingston, chairman and chief executive officer of Pittsburgh-based Babb Inc. says, though, that small-businessmen should check out what other brokers are offering, to see whether their markets offer lower rates.

Often, he says, the small-businessman finds himself in a controlled situation, where he only knows one broker.

But, going to too many brokers is not a good idea either, warns J&H's Mr. Gussenhoven. "It would be a disservice to shop around for the sake of shopping around," he says. If there is a need to shop around, he says, it should be "done in a controlled, deliberate fashion."

"Do not overreact by starting to change brokers for a couple of dollars," says Sander A. Kessler, president of Los Angeles-based Sander A. Kessler & Associates Inc. "Keep your loyalties." If the cost of insurance becomes too high, he suggests, small-businessmen should investigate whether they can pay on an installment basis.

Brokers also note that they may be able use their leverage

to help place business for very small businesses with premiums under \$750-\$1,000.

Douglas B. Owen, president of Dallas-based Arthur L. Owen Co. Inc., for instance, says his firm groups all its small commercial accounts with one or two insurers. "We could use our leverage with the carrier," he says.

But a good broker can only do so much to alleviate rising rates, the brokers say. Small-businessmen also have to take matters into their own hands, by introducing professional loss-control programs, with the help of their broker, a consultant or their insurer.

"In a loose market, they were spoiled," says Thomas J. Kline-

Continued on next page

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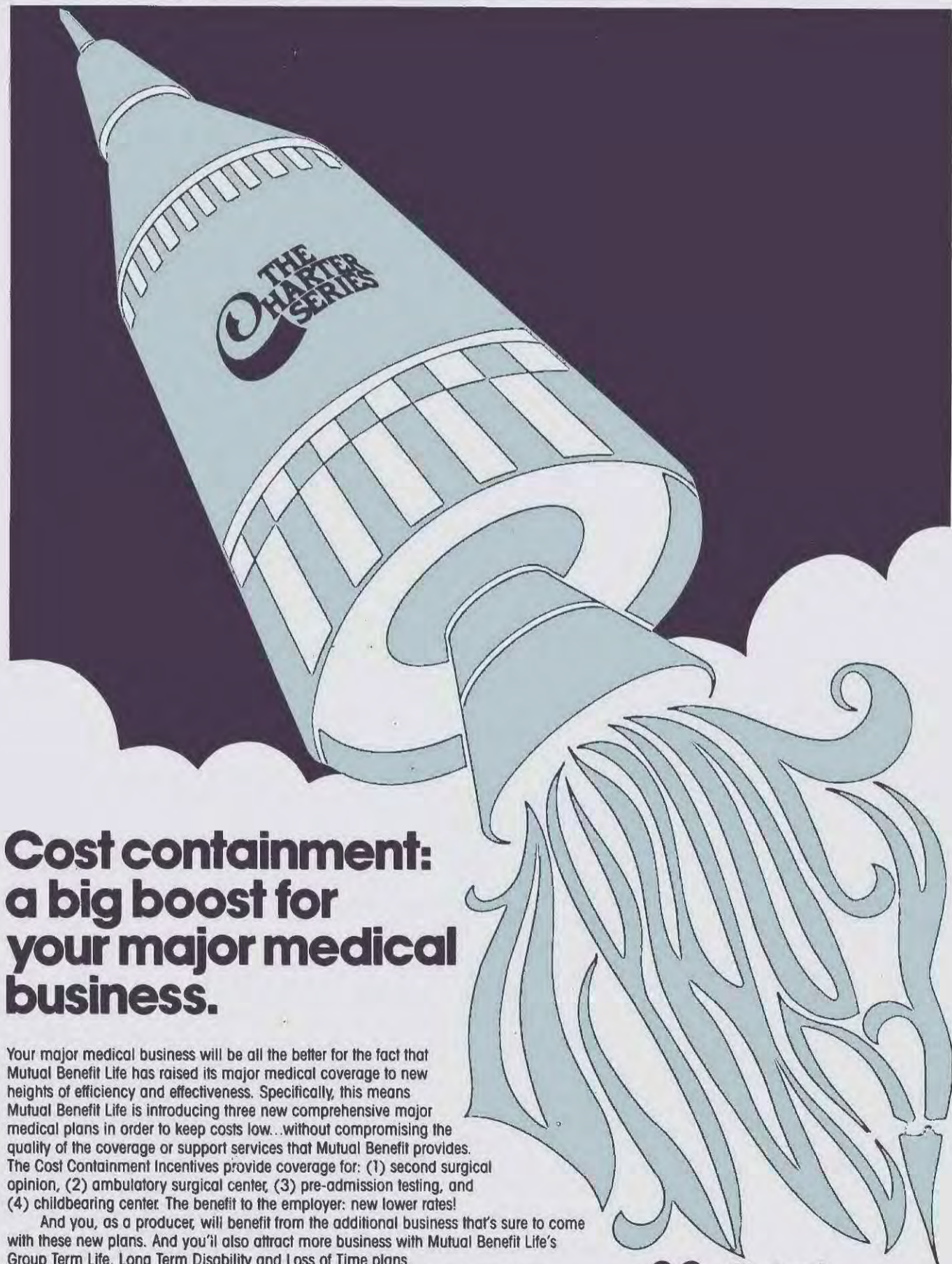
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Planning can help ease pain of rate hikes

Continued from preceding page
 dinst, president of Cincinnati-based Thomas E. Wood Inc. Now, he says, small business must pay attention to the issue of loss control.

Small-businessmen who show an interest in safety and engineering will be able to get better prices because their business is more desirable, American Coverage's Mr. Dubofsky says. Those in the "outer circle" with poor loss records will be the ones to "go first" in the tightening market.

The days of the "dog and pony show" for small-businessmen—when loss-control programs consisted of putting up a poster—are over, Mr. Foa says.

"It has to be a loss-control program that shows results and bears fruit," he says.

If the small-businessman cannot afford to hire an outside safety consulting or engineering firm to help him plan loss-control programs, he may consider tapping the free services available through OSHA (see story, page 43).

Small-businessmen also may be able to cut their insurance costs by more economical use of their insurance, including higher deductibles and more risk retention, say brokers. There should be no more first-dollar coverage for maintenance claims, according to Frank R. Rinaudo, vp of Poughkeepsie, N.Y.-based Marshall & Sterling Inc.

Small businesses also can eliminate exposures by, for instance, leasing rather than owning certain vehicles and reducing the quantity

The small-businessman should 'take a careful look at the structure of the insurance package, and determine whether it really is in conformity with his requirements,' says Irving Pozmantier, president of the Wisenberg Insurance Agency.

of inflammables they have on hand, says Paul L. Gross, president of NIA Ltd./National Insurance Associates, based in Paramus, N.J.

The small-businessman should "take a careful look at the structure of the insurance package, and determine whether it really is in conformity with his requirements," recommends Irving Pozmantier, president of the Houston-

based Wisenberg Insurance Agency.

During the soft market, he says, businessmen may have added unnecessary coverages because the price was so low.

Now is the time to ask, "Is it really needed, or is it something I can reasonably do without? Does it fit the scope of my risk management objectives?" Mr. Pozmantier

says.

But, don't get carried away and cut out too much, he warns. "The critical coverages are not the ones to be deleted from the program." If small-businessmen "stick to a risk management game plan," he says, avoiding the temptation to "flesh out" their insurance programs even when prices are low, "they will be served very well."

Another route to cutting costs is joining with others to purchase insurance or to self-fund risks. Brokers say they are seeing growing interest among small businesses in association insurance programs, association captives and broker affinity groups, which provide insurance programs for employers in similar industries that are not otherwise affiliated.

Meadowbrook is "bringing together more than ever groups of small and medium-sized owners into joint insurance programs," says Mr. Segal, whose firm specializes in association insurance programs.

And, the employers are not necessarily from the same industry, he says. In some cases, employers with 250-500 employees from different industries are forming heterogeneous groups, Mr. Segal says.

Small-businessmen should investigate what programs may already be in place. There is "almost always a savings," and some group members can save as much as 75%-80% of their premium, he says.

For a small business with premiums under the \$750-\$1,000 range, banding with other small businesses may increase the possibilities of finding available markets.

Richard Fuhrman, president of New York-based John M. Riehle & Co. Inc., believes that the primary benefit of association groups is "not so much in price reductions but in better coverages." An association, he says, is able to pick up additional coverages that might not otherwise be available to individual businesses.

However, brokers say there are drawbacks to association programs. For one thing, it takes a long time to organize a group insurance program. Putting any sort of group program together may take more than a year to accomplish, says Fred S. James' Mr. Ruoff, so it is of little use in the short run.

And, if a decision to create one is made, the likelihood of its success will depend on the character of the industry, says Mr. Owen of Arthur L. Owen Co. Inc.

For instance, attempts to form groups in the oil and gas industry have always failed because independent operators don't like to be grouped together, points out one broker. There also is a tendency for associations to attract "less than the best" in terms of loss records, says another broker.

The best way to find out about group insurance programs is by contacting a trade association or checking with insurers, brokers point out.

Whether a small-businessman goes through an association or a broker for his insurance or purchases it on his own, investigating his insurer's financial stability is critical, brokers warn.

Small-businessmen tend to look less closely at this than do larger companies, Mr. Ruoff says. He says this scrutiny of the insurer is especially critical in the liability area, "where the insurer needs to be around four to five years from now."

"I think now is the time, in buying insurance, to examine not only the price of the product but the financial stability of the company it's coming from," agrees Tom Nash,

Continued on page 28

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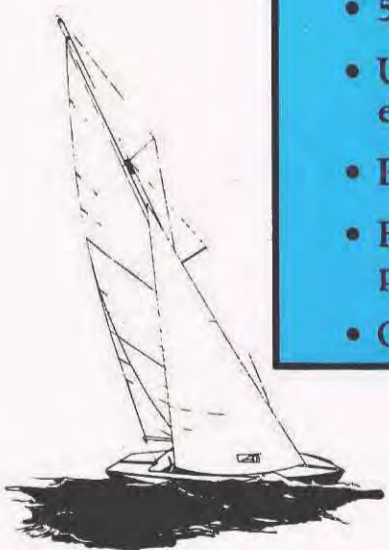


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Planning helps ease the pain of rate hikes

Continued from page 26
 agency manager at the Carswell Insurance Group Inc. in Savannah, Ga.

"The problem within the industry right now is not just the lack of profit, but also the tremendous outflow of cash from companies," says Thomas E. Wood's Mr. Klinedinst.

Insurers' efforts to conserve cash could lead them to hold back payments, he says.

"I really think that's going to be a problem, and it's a problem the small-to-medium buyer has no leverage to combat on his own," he

says. Another danger, Mr. Klinedinst says, is that of reinsurer insolvencies.

Small-businessmen should make sure their insurance company "can

'I would not jump from carrier to carrier at this time unless it was also essential, or unless the premium differentials are substantial,' says Mike Metzger, president of Olliver/Pilcher Insurance Inc. in Phoenix, Ariz.

deliver when called to in the future," says Harry Crawford, chairman of Insurance & Risk Management in Fort Wayne, Ind.

Look for good rates, says Herbert N. Zack, president/treasurer of Alliance Brokerage Corp., based in Westbury, N.Y., "but be much more careful about bargains" than in the past.

A starting point for assessing an insurer's stability is to ask the insurer what rating it received from A.M. Best Co. in Oldwick, N.J., which annually rates insurers based on various factors and publishes those results. Some brokers point out that they will not place business with an insurer that has a rating of "B" or below.

If the insurer won't reveal its rating, the broker placing the business should know it or the buyer can go directly to Best.

Another good source of information about an insurer's financial stability is the state insurance departments.

Assuming that a small-businessman's current insurers are in good financial shape, brokers disagree about the merit of buyers remaining loyal to their insurer.

"This is not a time to go around and shop" because the market is not there, advises Charles H. Harper, president of Rebsamen Insurance in Little Rock, Ark. It is hard to get quotations from anybody, he explains.

"I would not jump from carrier to carrier at this time unless it was also essential, or unless the premium differentials are substantial," says Mike Metzger, president of Olliver/Pilcher Insurance Inc. in Phoenix, Ariz. If a businessman stays with an insurer two or three years "that will be remembered by the underwriters," and the show of loyalty will be appreciated.

"Look for a long-term relationship," agrees American Coverage Corp.'s Mr. Dubofsky. "Don't look to change carriers every year or two." A businessman should no more consider jumping around among insurers than he would consider switching his bank because it is charging another quarter of a percent interest on a loan.

"It's more important you get the loan." If a small businessman has a good relationship with his insurer, the insurer will deliver "in good times and bad," Mr. Dubofsky says. It's a "two-way street."

There are others, however, who say that small-businessmen should seek the best rates and who question just how much loyalty is really appreciated.

Getting competitive quotes is still important, says Robert P. Cowie, president of the Phoenix-based Lasher-Cowie Agency Inc.

Never mind loyalty, says Marshall & Sterling's Mr. Rinuado. Insurance companies look at each of their branch offices as a profit center, and they are judged accordingly.

"It comes down to what have you done for me lately," he says. "We're living in a new society."

"It depends on whom you're dealing with," says A&A's Ms. Filippi. While some insurers follow rigid standards in determining which risks they will accept, others have experienced underwriters who are more likely to consider the individual firm, and take into account a small-businessman's loyalty, she says.

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*Employee Benefit Plan Review, April 1984

Teamwork is real benefit of defining objectives

Q: Do you conduct your department activities using the management by objectives approach? If you take this approach, how do you tie in the various department functions to this approach?

A: As part of our annual budgeting process, we list two, or generally no more than three, objectives that we expect the risk management department to accomplish.

These department objectives must be meaningful, they must require an out-of-the-ordinary effort to accomplish, and they must result in a measurable benefit to the company.

It also is preferable to develop these objectives in conjunction with the objectives of your superior, for direction, support and value to the company (and to you).

In an effort to make this a meaningful exercise, the

Would you like advice from an experienced colleague on a risk management or benefit management problem? Two features in the Perspective section of *Business Insurance* can give you some answers.

Ask A Benefit Manager and Ask A Risk Manager answer written questions from readers on risk and benefit management issues. Each has already answered several questions from our readers.

Ralph F. Perry Jr. answers risk management questions; Joseph Duva, director of employee benefits and compensation at SCM Corp. in New York, answers benefit management questions.

Mr. Duva's and Mr. Perry's columns appear alternately on the second Monday of each month.

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

ask a risk manager

objectives should require the collective efforts of your staff to reach the goals. The better risk management departments work as a unit. Everyone works together to accomplish the task.

We ask individual staff members to list their objectives for the year. Without much direction, this request will produce a list of projects.

Project lists are important, even though many of the items that are listed would be expected to be accomplished in the ordinary course of business and would be considered part of the job. The project list always turns out to be a valuable measure of what your staff people believe is important to accomplish, and it also provides a good management tool.

What we like to do is tie in the direction of items on the project list to the overall objectives of the department. These daily efforts help accomplish the principal objectives of the department.

The painful part of the process is to review the project list and department objectives one year later. Rarely do we accomplish all the things that we originally set out to do.

However, the major benefit in this process comes from the team effort that is produced by the risk management department working as a unit to achieve meaningful goals.

Use care with medical-only claim

Q: Is it advantageous for a company to file a medical-only claim for an injured employee

or pay the medical bill itself? Would this reduce workers compensation insurance costs substantially? Will the protection offered by the insurance company still be there if an employee should decide to sue?

A: Medical-only claims must be managed carefully to avoid litigation and, as importantly, to control costs.

While frequency of claims may be the rule for medical-only claims, we have found other factors have led to raising workers compensation expense.

Our four-year medical-only claims average 2,800 per year out of 3,800 total claims reported—which is 75% of the total. Twenty-six percent of the total claims expense is for medical costs only. (Here the total includes medical, indemnity and expense costs.)

While the protection of the insurance company is still available if the employee sues, the initial management of medical-only claims can control all expenses over time and keep premium costs low.

Premium expense under a retrospectively rated program or self-insured "funded" program is directly related to claims expense. Your control of all expenses relating to any claim is the best cost-reducing factor we know.



Ralph F. Perry Jr. is vp, director of risk management at Amfac Inc. in San Francisco. Mr. Perry's next Ask A Risk Manager column will appear in February.

Self-funding risk at smaller firms

Continued from page 38

capabilities to study trends and conditions for a good pro-active loss control program, the dollar is better protected.

The purchase of these services from one organization enhances the level of consistency and minimizes the chances of duplication of effort and lack of communication. The self-funding company's dollar is best protected.

Now that you are all excited and ready for the next self-insurance call, let it be said that self-insurance is not a product for everyone. State laws, premium size in certain lines of coverage, the exposures of your company and your willingness to become involved can dictate the feasibility.

But, even if self-insurance is not feasible, it still might be smart to spend a couple of extra dollars on some supplemental services of a third-party administrator. The conventional industry is going to push insurance buyers into higher premiums that will have to be offset by higher retentions. Perhaps it might be smart to purchase an independent loss control administration program to assist in developing a solid loss-prevention program for problem areas that would fall under a higher retention. Many companies that are buying conventional insurance are doing this at the current time.

The romance with the conventional market may be over, but if history repeats itself, you know that once you have paid the price for a few years, your love affair will be back again. Things will be hot for several years and then cold for several years, hot for several years and then cold for several years.

Maybe it's time to look at settling down with a less-flashy but more consistent partner in the long run—integrated

Book introduces businesses to insurance

Getting the Most from Your Business Insurance

By Gary Robinson

Oasis Press

1287 Lawrence Station Road,
 Sunnyvale, Calif. 94089

\$34.95

By Alison Kittrell

GARY ROBINSON'S book, "Getting the Most from Your Business Insurance," is a guide for the small-businessman who is trying to evaluate his or her need for insurance coverage.

The author, who is a partner in the insurance brokerage firm of Bone, Robertson & McBride in Pleasant Hill, Calif., says in his introduction, "This is a practical book which will help you explore, in a systematic way, how to determine your business risks and how to cope with them in the most efficient manner."

Although he says that "this is not an insurance primer," it includes a great deal of information on insurance concepts as well as on specifics about policies. And, the insurance information is geared to a person who really doesn't know very much about the field.

In fact, that is the first point that should be made about this book: It is for people who want to look at their insurance programs from the bottom up. In the section on insurance, for example, the author defines terms, including "insured," "insurance company," "agents," "brokers" and "underwriters."

But, for people who are not familiar with insurance, the book could be very useful. It provides detailed explanations of types of coverage that might be needed by a small business, including property, ocean

books & ideas

compensation, liability, automobile, boiler and machinery, credit insurance, crime coverage and life insurance.

After explaining the reasons for purchasing each type of coverage and explaining the usual limits of the coverage and how a particular coverage can be adapted to the needs of a particular business, the book includes detailed worksheets for a business owner to use in figuring out what kind of coverage and how much coverage the company needs.

The worksheets are perhaps the most valuable part of the book, because they let the small-businessman take pencil in hand and work out his or her specific coverage needs.

The worksheet on business interruption, for example, asks the businessman to determine whether the loss of services—electricity, gas, water, steam—would shut down a plant, and it asks the businessman to estimate the possibility that such a loss of service would occur.

Then, it asks whether there are any events, like sales or promotions, that depend on good weather, and it asks the businessman to estimate the dollar loss if the event were canceled due to bad weather.

The business interruption worksheet asks some obvious questions, like whether operations could be relocated to temporary quarters. But, it also asks some questions that a businessman might not think of, like whether operations, manufacture or sales are dependent on bridges, tunnels or data processing facilities. And, it asks whether the company has any contractual obligation to supply customers at a guaranteed price, regardless of the

Also, the format of the book—a looseleaf binder—makes it easy for a businessman to remove the worksheets that he or she is interested in and refer to the book while filling them out. And, the businessman then could easily take the completed worksheets along when meeting with an agent.

The book also has a chapter on choosing an agent, including tips on how to avoid falling prey to the tricks of some less-than-ethical agents.

And, the book has chapters on insurance rates, requests for proposals and what to do if you have a claim.

The book also includes a section on risk management. However, it merely describes what risk management is and details various risk management techniques for analyzing a company's loss exposure.

It does not give the reader much help in the area of loss prevention, and this is perhaps the book's greatest weakness.

For a small-businessman, a loss prevention program can be a valuable tool in minimizing exposure and, as so many in the risk management field are proving, good loss prevention can help keep insurance costs down.

It is unfortunate that the author missed the opportunity to cover loss prevention in the same type of detail with which he covered other aspects of business insurance.

In summary, the book could be a good tool for someone who knows very little about insurance and would like to learn, especially for someone who has felt lost and mystified by the often-complicated issues involved.

And, it could help small-businessmen take more control of their companies' insurance programs by helping them to identify specific exposures and ways to



world designed to prevent hell and high water.

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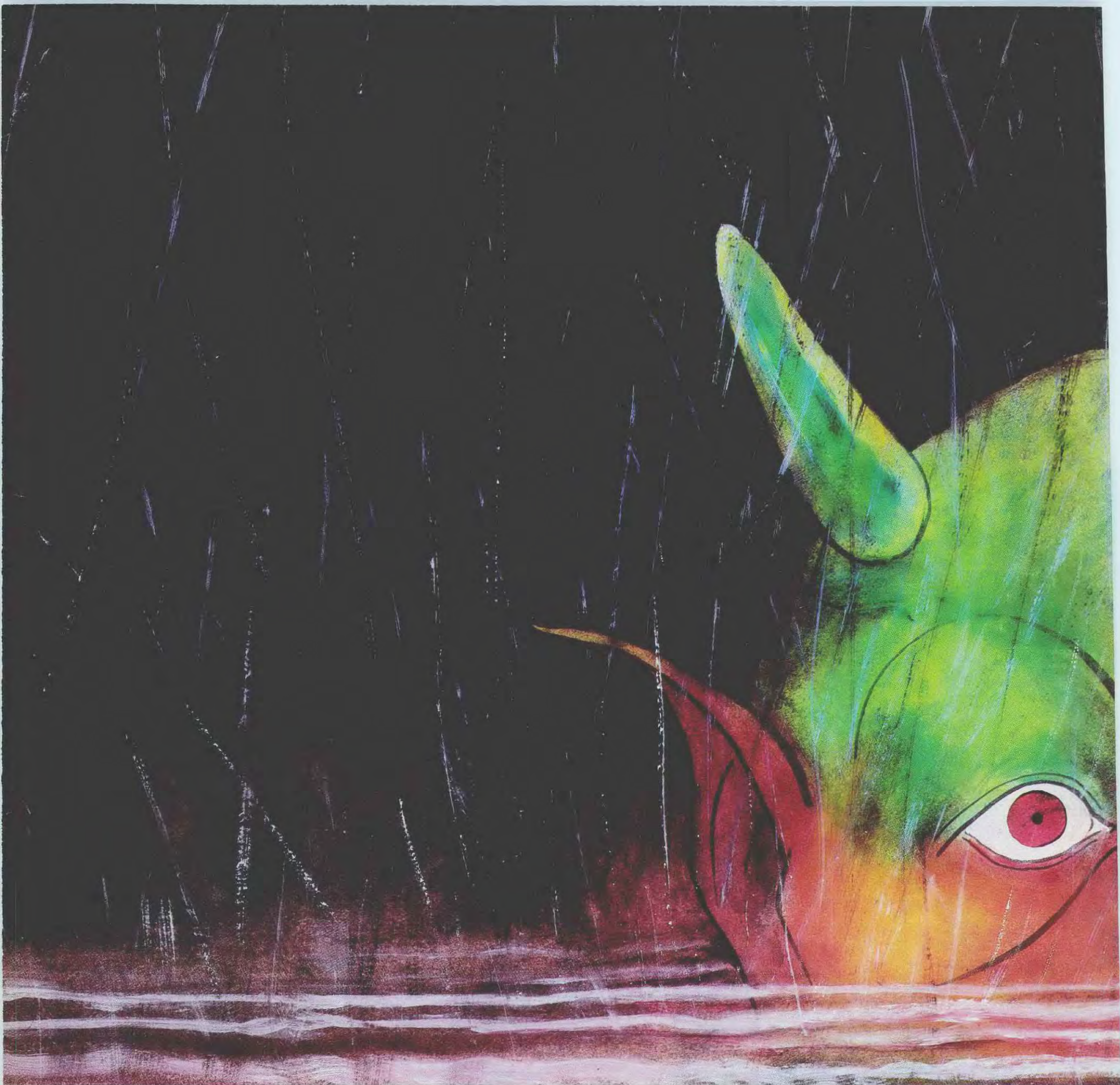
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ESFR's performance is designed to be twofold:

Continued from facing page

The average D&O policy limit for businesses whose assets fall between \$15 million to \$25 million, according to the Wyatt report, is \$5.5 million.

Chubb Corp., which also writes D&O coverage for small business, says between 25% to 30% of Chubb's D&O claims strike policyholders in the 100- to 1,000-employee bracket, estimates Terry Van Gilden, national executive protection manager in Warren Township, N.J. Chubb considers as a small business those accounts with assets of \$10 million or less.

"You just never know when you're going to be the guy sitting on the other end of the lawsuit," he tells these companies.

Jardine's Mr. Talbot suggests small businesses know their directors and officers could be sued, "but they don't feel the exposure is sufficiently acute to merit the cost that's being asked for it."

The market for D&O coverage is 'certainly not going to get any better six months or a year from now, so for those companies that are going to (shop), this is the time to do it,' advises ARM Tech's Mr. Haywood.

Indeed, D&O insurance prices are now going up, as much as 50% and 75% in some cases. The soft market D&O insurance buyers have enjoyed for the past three or four years is gone (31, Sept. 3). Premium for this coverage now starts at about \$1,000 per \$1 million in coverage per year, according to Andrew Curgino, assistant vp for corporate D&O at L.W. Biegler Profit Center in Chicago, a unit of Crum & Forster.

But underwriters don't expect small businesses that became first-time D&O insurance buyers in the

soft market to drop their coverage as premiums rise.

"Once they have obtained the product and understand what they're getting, I don't think they'll let the policy lapse," predicts Ms. DiMarco.

Chubb's Mr. Van Gilden agrees. "The value of the coverage has pretty well been proven and most people are believers," he comments.

But if a business now decides to purchase D&O insurance for the first time, the cover may not be too easy to obtain. In addition to raising

rates, some underwriters are substantially cutting back the limits of insurance they will write.

First State Insurance Co., for example, recently reduced the limits of D&O coverage it will write to \$3 million, down from \$20 million, according to David J. Kalainoff, assistant vp in the Los Angeles office of Cameron & Colby Co. Inc., First State's underwriting manager. Both companies are units of Hartford Insurance Group.

Mr. Kalainoff says the reduction, which took effect Oct. 1, is a temporary one and was spurred by a lack of treaty reinsurance capacity.

Treaty capacity difficulties also triggered reduced limits at Biegler, which now can write \$20 million, down from \$25 million in June, says Mr. Curgino, but that's still more than enough coverage for a small business.

And, according to consultant John D. Haywood, with Advanced Risk Management Techniques in

Seattle, underwriters are becoming much more selective and may require the potential policyholder to produce evidence of profitability and a three-year record of strong business performance.

Several underwriters point out that small businesses with hopes of going public have a tough row to hoe before they'll find D&O coverage. Both Chubb and Royal say they routinely exclude coverage for claims stemming from actions that occurred during an initial public offering.

"If you're going for a public offering (be it stock or debenture), you're going to have to make an awful lot of revelations and representations publicly, in many cases for the first time," explains Mr. Van Gilden.

He says initial offerings are "very risky" because the directors and officers of the company can later be held accountable for that information.

Another exposure particular to small businesses, which might hinder the purchase of coverage, is their tendency to be closely held enterprises, often controlled by family members. D&O suits at such companies can be "long, drawn-out, nasty affairs," says one underwriter.

Chubb's Mr. Van Gilden agrees, and says the company shies away from writing D&O insurance for close, family-owned businesses.

Underwriters are also sensitive to the exposure small businesses have to D&O claims that stem from contract disputes.

"As a smaller company, you might have to go the extra mile and commit a little more to get the job because your ability is unproven," explains Mr. Van Gilden. In their eagerness to win the contract, some companies oversell their skills; D&O claims frequently result.

Small businesses also are more likely targets of takeover attempts, notes Mr. Foley of CNA.

"Any time an underwriter learns that one of his insureds is considering a merger or acquisition, he begins to lose sleep," he says.

Mr. Van Gilden also has seen D&O claims result from takeover attempts. Smaller companies that haven't hit their stride operate with feelings of independence and may take steps to defend themselves—actions for which the companies might later be sued, he explains.

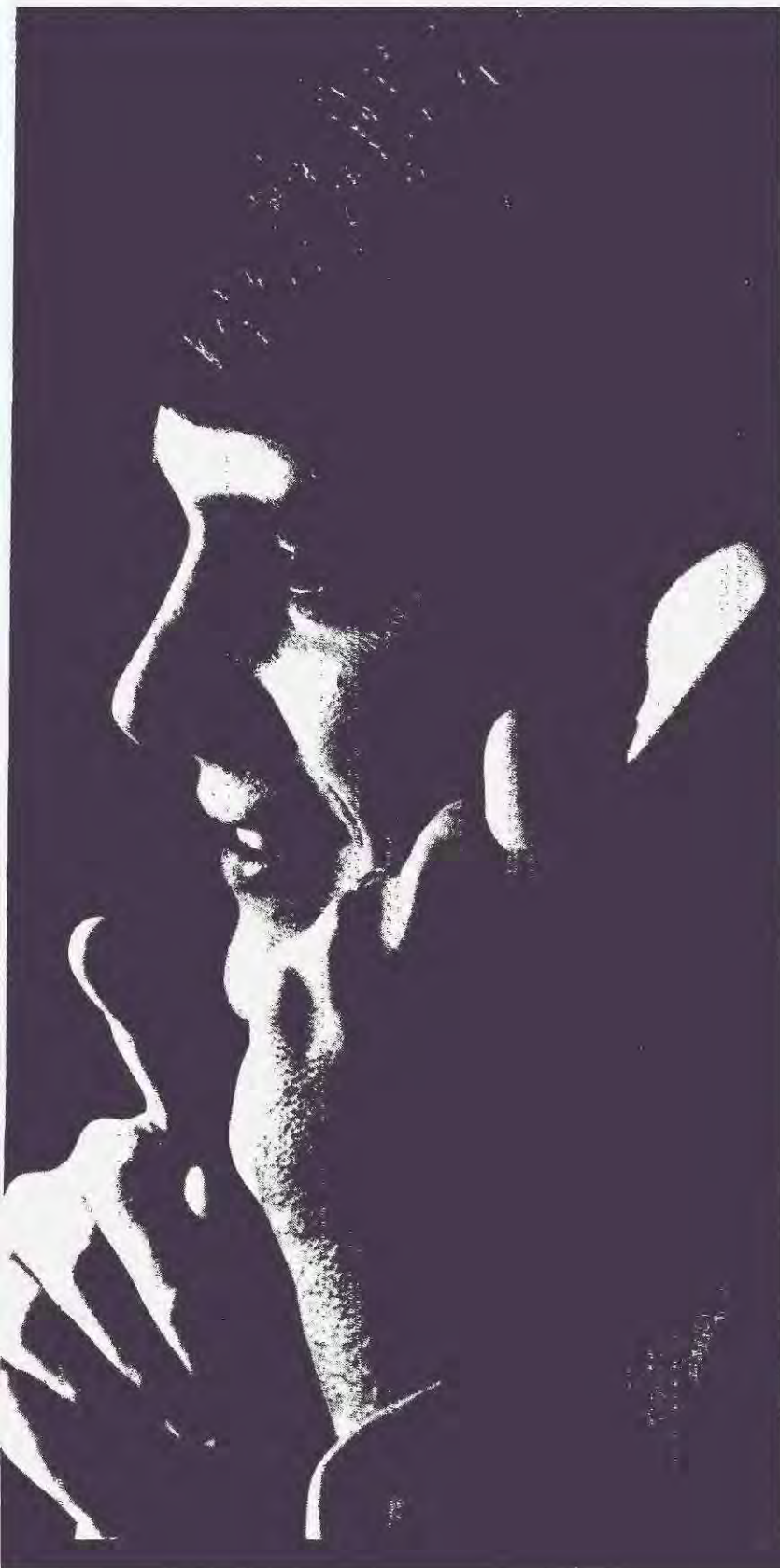
Small businesses may also be unattractive risks to insurers because they are often new companies: It's difficult to assess the company's management ability during underwriting when there's no track record to evaluate.

Of course, the particular type of business also affects its ability to obtain D&O coverage. For example, the high rate of failure among start-up, high-tech companies, like those in California's Santa Clara Valley, has made it difficult for them to purchase D&O insurance, some say.

Finally, small businesses may be unwilling to provide the financial information underwriters demand to provide D&O insurance, says John Dore, president of the year-old Chicago Underwriting Group Inc.

Some small companies will give the appropriate financial data only directly to the underwriter, bypassing the agent or broker, and require the insurer to keep the information confidential, Mr. Dore says. About 20% of CHUG's total book of business is D&O risks, about 10% of which are small businesses, he estimates.

Despite coverage restrictions and rising rates in today's market, ARM Tech's Mr. Haywood advises, "It's certainly not going to get any better six months or a year from now, so for those companies that are going to (shop for D&O), this is the time



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SMALL BUSINESS OPTIONS

Risk managers should consider self-insurance as a new suitor

By James S. Gault

WHAT HAPPENED TO the romance? As a risk manager, you had some great years being courted by our industry. Everyone was calling you for a date. You did go out or could have gone out with numerous suitors, and the romances got better and better.

But, for the last year, everyone has been telling you that your insurance pricing and broad coverages just can't go on this way. Something's going to change, and when it does, life will be nothing like it has been for the last several years.

And then it happens. A "Dear John" letter in the form of a direct notice of cancellation comes from your insurance company. You are angry. You're despondent. You feel you've been unfairly dumped. After all, you were only playing the field as the field wanted. You didn't make any promises.

You start to call old agents. They are reluctant to go out with you. You find out that your choices will be limited and that the costs will be high. You will be getting a lot less for what you are putting into a relationship. You are frustrated because you feel you have lost control of your own destiny.

It's time to take control.

Risk managers should look into integrated self-insurance, even if they have not yet lost the romance with their current plan. A self-insurance plan is a long-term solution to the volatility of the conventional insurance industry, because it relies less on the industry.

By our way of thinking, self-insurance

is a different system of risk transfer that is made up of the same component parts that any buyer would receive from a conventional insurer: claims management, loss control, loss control reports and excess insurance. The major distinction involves the management and structure of these parts.

We believe a self-insurance plan properly placed and administered has the true incentive to teach the insured to manage his or her own risk exposure better and return significant cost savings directly to the bottom line.

Historically, self-insurance has had an image as a product for the "big boys." A common profile of a self-insured risk would be one with high retentions in the hundreds of thousands of dollars, no aggregate excess insurance protection and the insured administering its own claims. Expensive outside studies undertaken to determine the feasibility, marketing and design were also part of the traditional image. It did not seem reasonable for the risk with a premium of \$50,000 to \$1 million to look at the possibility of self-insurance, since the retentions would be high and the ultimate exposure greater than they would be with what could be purchased conventionally.

But, a lot has changed in recent years to make this image outdated. The self-insurance industry was affected just as greatly during the soft market as was the conventional insurance industry. In fact, it may have been more affected.

Accounts spending \$1 million in self-insurance fixed and variable costs were under attack from the conventional



Illustration: Roger Schillerstrom

industry at guaranteed cost premiums as low as \$500,000. The self-insurance industry had to react to protect its book of business. Lower retentions, lower premiums and new products had to be created to stave off the conventional competition, but in a manner that would still make sense on a long-term basis.

Now that the conventional industry is cleaning house and raising prices to get back to acceptable premium levels for the exposure, many of these newly created self-insurance products are coming to the forefront as far more competitive than the astronomical increases of the conventional industry. Self-insured packages, monoline and combined aggregate programs are available for the \$50,000 to \$1 million premium risk.

A lot of these products have been created and controlled by the brokerage community, so the cost of an involved study is unnecessary. If self-insurance fits the needs of a particular client, the broker can arrange the proper levels of excess

insurance protection and is remunerated by the commissions on the excess insurance.

The broker and the market also arrange for the proper support services—claims management, loss control and loss data systems.

The key to the success of any self-insurance plan is the integration. One-stop shopping is the best way to purchase services. If one claims administrator can manage all claims nationwide based on the same standards, the dollar is better protected. If the claim management people are reporting loss data to one system that codes, describes and compiles information in a single report for all locations, the dollar is managed better. If one loss control service is able to generate consistent data from the system and, in addition, have ad hoc reporting

Continued on page 38

James S. Gault is area vp for the Chicago branch of Arthur J. Gallagher & Co.

Don't overlook self-funding group health plans

By Edward F. Zutler

IN RECENT YEARS, there has been a significant increase in the number of partially-insured and self-funded group health plans. These plans are marketed by both insurers and third-party administrators.

Because of new provisions and, perhaps, because of unfamiliar terminology, confusion surrounds the applicability of such plans to smaller employers. The definition of "small employer" can range from 3 to 1,000 employees. For the purpose of this article, however, we will define the small employer as one with 25 to 500 employees.

This review of group health self-funding does not argue that partially-insured plans are better than fully-insured plans. But, employers and brokers should have a clear view of the unique characteristics of partially-insured plans so that the true range of funding options at group health insurance renewal time can be objectively reviewed.

The lack of interest in self-funding among small employers can be traced to some widely-held myths. These are:

• **Myth:** If you don't have 1,000 or more employees, self-funding will not work.

• **Reality:** It has been traditional to believe that if an employer does not have 1,000 employees or more, self-funding of any type will not work. This view probably dates back to the days when group insurance premiums were very low—for example, \$20 per employee per month—and products such as stop-loss insurance had

not yet been developed.

Today however, a properly designed insurance package can make some form of self-funding both practical and profitable for employer groups with as few as 25 employees.

The size of the employer for which it is practical will vary with premium levels throughout the country. In high-cost areas like Los Angeles and New York, a minimum of 25 employees can be viable. In lower-cost areas, it may require as many as 50 or more employees to make self-funding practical.

A major medical plan with employee deductibles of \$1,000 to \$5,000 is readily available in most markets and can be used to bring the concept of self-funding to smaller groups. For example, a \$1,000-per-employee high-deductible major medical policy could be purchased, with the employer self-funding benefits up to \$1,000 per covered person. Under such a plan, the employee would receive his or her normal benefits—\$100 per-individual deductible and 80/20 coinsurance—but the source of the benefits would vary depending on the size of the employee's claim.

The risks to the employer can further be reduced or eliminated by the purchase of an aggregate stop-loss policy, so that the exposure on the self-funded portion of the plan is capped at a level acceptable to the employer. Thus, we can see that with proper knowledge of exposure beforehand, some form of partial self-funding can be made available to groups with far fewer than 1,000 employees.

Another advantage of this approach is that a high-deductible major medical plan combined with a

self-funded plan is technically partially insured and is governed under regulations of state insurance departments. Thus, extension of benefits for total disableds for claims above the deductibles would be the same as for a fully-insured plan.

The advent of specific individual and aggregate stop-loss coverage has allowed the concept of full self-funding to become viable for groups of 100 lives or more. A specific coverage of \$10,000 combined with aggregate stop-loss insurance can bring the risk to the employer to very acceptable levels. Specific coverage states that any claim for one individual in excess of a pre-determined amount (usually \$10,000 to \$50,000) will be paid by the insurer.

Typically, the amount of the claim in excess of the specific amount is reimbursed to the employer after the employer pays the claim. For larger companies, this represents a nominal risk, since the normal cash flow of the business would allow the advancing of monies necessary to pay the claim before reimbursement by the insurer. The aggregate stop-loss coverage limits the employer's exposure, in the aggregate, to all claims below the specific coverage elected.

• **Myth:** Self-funding only works when you have good claims experience.

• **Reality:** Claims experience should be examined over a period of years rather than one year at a time. If an

Continued on page 36

Edward F. Zutler is vp of ADP Benefit Services in Pleasant Hill, Calif.

Small employers can self-fund group health

Continued from page 35

employer has had continually unfavorable claims experience, there will be no advantage to a self-funded plan. In fact, the cost to the employer would tend to equal the cost for a fully insured plan.

However, most companies do not have "bad" claims experience year in and year out. There may be a number of good claims years, a number of average claims years and a few number of bad claims years. If such experience is averaged out, in many cases, the self-funded or partially-insured plan offers benefits to the employer. This is true because in good claims years, a portion of the "profits" that would go to the insurer accrue to the employer.

As the number of employees increases, the more-fully insured plans begin to resemble self-funded plans, since most insurers will offer some type of minimum premium, retrospective rating, premium delay or other device so that in years with good claims experience, the employer reaps some rewards.

This is one aspect of the trend toward unbundling the services the insurer provides. Employers can now look at risk assumption as a separate factor from the administrative services provided by an insurer.

Third-party administrators now may be able to provide the same quality of administrative services traditionally provided by insurers, but on a more cost-effective basis.

● **Myth:** It is unfair to compare self-funded program to fully insured programs because of the claims run-off factor.

Reality: Unless claims run-off liability is included, it is unfair to compare a self-funded or partially-insured plan to a fully-insured plan because fully insured plans are priced on an incurred basis and self-funded plans in the first year are priced on a paid and incurred basis.

● **Myth:** Partially-insured and self-funded plans do not provide for claims run-off.

Reality: Remember, the claims run-off "problem" only becomes a problem if the plan is terminated. If the plan is continued, there is no claims run-off problem in the self-funded or partially-insured plan, since claims incurred in the first year but not paid until the end of that plan year are covered by the plan during the next year.

Coverage is now available for claims run-off protection for self-funded plans if the plan is terminated. If this coverage is properly designed, the claims run-off problem can be eliminated. The cost for this protection can be estimated before a self-funded or partially-insured plan is adopted by estimating the number of and amount of claims expected to remain unpaid at the end of the plan year. In addition, there are plans that offer extension of benefits coverage for disabled employees for both the insured and the self-funded portions of the program to provide further protection to the employer if the plan is terminated.

● **Myth:** Self-funding is only good in the first year, because it is based on nine months experience. Therefore, the only true savings is the interest on the reserve held by the insurer.

Reality: If this were the only advantage of a self-funded plan, it would still make the plan worthwhile. The employer can hold the reserve, which normally would be held by an insurer. This provides cash-flow advantages and associated earnings from interest.

Most aggregate stop-loss coverages are based on nine months experience the first year because these plans are usually established on an incurred and paid-within-the-plan-year basis as opposed to an incurred-within-the-plan-year basis used by fully-insured plans. In the first year, there is typically only nine months of "true" experience, since claims incurred before but paid after the inception of the plan are the responsibility of the prior insurer.

However, in addition to the advantage of holding the reserve, if claims experience is better than anticipated, the employer will share in these savings. Remember, self-funded plans, especially for smaller groups, are based on the premise that a potential savings exists if experience is better than expected; savings are not guaranteed.

● **Myth:** If you have only small claims, self-funding is great. One large claim, however, can destroy you.

Reality: The appropriate high-deductible major medical limit or deductible stop-loss insurance eliminates this problem. High-deductible major medical plans with a deductible in the \$1,000-\$5,000 range mean that the

employer has a self-funded liability no greater than \$5,000 per covered person. Therefore, a \$100,000 claim by an employee would result in a maximum liability to the employer of \$5,000. The larger the group, the larger the self-funding level the employer can assume. Proper plan design eliminates the "catastrophic" loss problem.

● **Myth:** If you leave a self-funded plan, finding a new insurer is a problem.

Reality: Plans are now available that can dramatically minimize this problem. For example, there are plans that provide both self-funded and insured coverage for extension of benefits for eligible totally disabled employees or dependents. This type of coverage allows a new insurer to take over a group that has left a partially-insured or self-funded plan because the insurer would not be responsible for totally disabled employees. This places the partially-insured or self-funded plan in the same position, from the viewpoint of a new insurer, as if they had been fully insured at the time of plan termination.

The same criteria that are applied in analyzing a traditional insurance proposal submitted by an insurer should be applied in analyzing a self-funding proposal submitted by a TPA and/or insurer.

● **Myth:** Most self-funded plans are sold by small, financially unsound third-party administrators and/or insurers.

Reality: Many well-known insurers offer these plans but have not publicized them much because insurers generally like holding reserves and are hesitant to allow employers to gain the benefits of income.

In addition, there are a number of reputable third-party administrators now administering these types of coverages. The employer or broker seeking a partially-insured or self-funded plan should do the proper research to determine the appropriate insurer or third-party administrator.

The same criteria applied in analyzing a traditional insurance proposal submitted by an insurer should be applied in analyzing a self-funding proposal submitted by a third-party administrator and/or insurer.

While the myths discussed above were true in the past, new products have been developed that make self-funding an attractive, safe and financially rewarding option.

There are three general areas to be considered in selecting a self-funded and/or partially insured plan.

They are insurance contract provisions, service requirements and selection of an insurer and/or third-party administrator.

● **Insurance contract provisions.** Since this article is devoted primarily to companies in the 25-500 employee bracket, it will be confined to insurance contract issues affecting these groups.

The major areas of concern are reimbursement contracts, claims bunching, annual aggregate stop-loss coverages and claims run-off.

When a high-deductible major medical contract is selected, that portion of the contract that is insured—the portion above the employee deductible—is structured as a "typical" insurance company contract, and claims are paid on an indemnity basis. This differs from specific stop-loss coverage, under which claims in excess of the stop-loss limit must be paid in full during the plan year by the employer before the claims are eligible for reimbursement by the insurer. This drawback to specific stop-loss coverage can be eliminated by purchasing an aggregate stop-loss policy with monthly as well as annual limits, so that claims exceeding the monthly aggregate limit will be paid on an indemnity basis. Thus, the employer can budget for monthly claims payments based on the monthly aggregate stop-loss limit. This feature is designed to protect a small employer's cash flow from adverse claims fluctuations.

The typical aggregate stop-loss policy provides for an annual stop-loss for self-funded claims paid by the

stop-loss level before the end of the policy year, the amount of claims exceeding the aggregate and paid by the employer would be reimbursed by the insurer before the end of the plan year. Most insurers require an audit of all claims at the end of the plan year, thus further delaying promptness of reimbursement.

For a smaller employer, this delay in reimbursement could be very serious. Therefore, a monthly as well as an annual stop-loss should be considered in any aggregate policy purchased by employers in this size category.

The next problem caused by the annual reimbursement provision in most stop-loss policies is claims bunching—a large number of small to medium-sized claims occurring in a short time span. Although an employer has an annual aggregate liability, which limits the total self-funded liability, large amounts of paid claims incurred early in the plan year may mean additional cash outlays by the employer over and above the amount budgeted for the year. For example, a \$120,000 annual aggregate attachment point implies \$10,000 of paid claims per month. Since claims generally are not incurred evenly throughout the year it is possible, as an example, for \$50,000 in paid claims to be incurred in a two-month period. The employer is responsible for funding claims in excess of the budgeted amount. Once again, an aggregate policy with a monthly stop-loss can eliminate this problem.

The final insurance policy design item of importance is claims run-off protection. Upon termination, most partially-insured or self-funded programs leave the employer with a claims run-off liability. Most aggregate stop-loss policies are written on an incurred basis, thus leaving the employer with an unknown claims liability for incurred but unpaid claims. If an employer has been experiencing bad claims or has the possibility of several large outstanding claims, this can be of significant concern. However, there are now aggregate stop-loss policies that offer a claims run-off (post-termination) provision that converts the plan to a fully-insured plan at the time of termination and allows the employer to know its financial obligation at the time of termination.

Aggregate policies with both a monthly and an annual stop-loss are now available for groups with as few as 25 employees. Employers and brokers need to be aware of available coverages so they can design benefit plans that minimize the traditional drawbacks of partially-insured or self-funded plans.

● **Service requirements.** Employers and brokers should evaluate the level of reporting and claims service offered by insurers and/or third-party administrators in support of their self-funded plans, based upon a careful review of the systems and personnel qualifications of those companies. Self-funded plan administration needs more management reports than administration of fully-insured plans, and this requirement must be carefully reviewed.

● **Insurer or third-party administrator.** Decisions must be made by the employer and broker when selecting a partially-insured or self-funded plan on which insurance product to use, which insurer to select for service and whether a third-party administrator should be used for administration. The same set of criteria that normally would be applied to the service capacities of an insurer should also be applied to those of a third-party administrator. The decision as to which insurer should offer the stop-loss or high-deductible coverage can be determined based on an evaluation of the benefit design criteria described above and must include an evaluation of the safeguards offered by the insurer to allow the smaller employer to safely assume some level of self-funding in a group health benefits program as well as a review of the cash-flow requirements of the employer.

Of course, the more guarantees and the more insurance benefits that are provided in the contract, the larger the premium or the fixed expense will be for the employer. Generally, the greater the number of employees, the higher the self-funding level and the lower the plan fixed cost.

In summary, the traditional view that some form of self-funding is not viable for the small employer needs to be re-evaluated. Proper plan design can minimize or eliminate risks of partially-insured and self-funded plans. This, combined with the appropriate claims and administration capabilities of an insurer or third-party administrator, dramatically enhances the viability of such

An Interview with Professor Irwin Corey About the Future of the Insurance Market

Many people have been making statements and predictions about the insurance industry. To clarify matters, we sent a reporter to interview Professor Irwin Corey, the World's Foremost Authority.



Q. Professor, we have been in the longest, most severe down cycle in insurance history. Can you pinpoint the cause?

A. Certainly. The influence of television.

Q. Could you explain that?

A. It should be elucidatingly obvious. You don't need to be a supernumerary in the industry to see there would have been underwriting losses even if everyone were sane. But a lot of insurance companies became befuddled by the tube. They ran around acting as if they were contestants on "Let's Make a Deal."

Q. Some industry leaders have been speaking about a "return to underwriting integrity." Is this possible?

A. These interminably astute speakers are ineffably the experts in this area. Because some of the ones speaking the loudest are the ones who were the first to leave integrity in the dust. Some wandered off pretty far. But if they left a trail of breadcrumbs, maybe they can find their way back.



Q. Did everybody follow that trend?

A. No. There were some companies—Midland was one—who continued to fulfill their function as specialists. Who continued to serve the market with unmitigated expertise even in the face of cutthroat competition from companies who didn't know their rates from their elbow. These specialists were rewarded.

Q. How?

A. The way integrity usually is. Quintessentially speaking, they took their lumps. But as the market gets tighter, a lot of long lost "friends" will phantasmagorically remember Midland's phone number again.



Q. But won't competition be just as tough?

A. Querulously enough, many of the soft market "dealers" really don't know how to be underwriters in a tight market. They only learned how to turn capacity on or turn it off. So some of their former customers are going to be antepenultimately scrambling for help.



Q. How can you be certain the market will get tighter?

A. Even the most caustic perusal of the Futility Index should make that instamatically evident.

Q. I never heard of the Futility Index. What is it?

A. When Midland came out with Futility II,[®] the special 25th Anniversary edition of the classic "game of buying and selling insurance" a few months ago, the price was, to my mind as it were, cheap. But now Midland is thinking of raising the price. This is a certain ergonomic indicator that capacity is shrinking.



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The Decisive People

Many small businesses ignore D&O risk

By STEVE TARAVELLA

LOS ANGELES—Many small-to-medium-sized businesses are unwisely operating without directors and officers liability insurance, underwriters and brokers say.

More than 50% of businesses in the U.S. with between 100 and 500 employees currently do not carry D&O insurance, estimates Harold R. Talbot, Jr., chairman and chief executive officer of Jardine Insurance Brokers Inc. in San Francisco.

The biggest reason smaller businesses don't carry D&O insurance appears to be that they simply see no need for it, according to a soon-to-be-released study on D&O insurance by The Wyatt Co. in Chicago.

Fifty-eight percent of the survey's respondents without D&O coverage say they see no need for it, reports Wyatt's vp-risk management practice, Warren G. Brockmeier, who spearheads the biennial study. Most of these companies have assets of \$50 million or less, Mr. Brockmeier estimates.

But underwriters stress that directors and officers at small businesses, those with assets of \$25 million or less, face many of the same D&O exposures as those at large corporations, including suits by employees, stockholders, regulators, customers or clients filed against their directors and officers.

And these businesses have even greater exposures to certain D&O claims than Fortune 500 companies, including claims arising from initial public offerings; mergers, acquisitions or takeover attempts; municipal contracts; and disputes among their own directors and officers.

The directors and officers of companies that don't buy D&O insurance would be held personally liable for the cost of defending suits against them and any damages assessed, unless the company has agreed to reimburse them for their costs. If the company has agreed to reimburse its directors and officers for litigation costs and awards but doesn't buy insurance, its assets are at risk.

Small banks appear to have recognized this risk.

Banks generally represent "a far higher percentage" of businesses buying D&O insurance than "you'd find in the general business environment," says John B. Foley, senior manager for specialty lines marketing at CNA Financial Corp. in Chicago, whose book of D&O business is primarily financial institutions.

More than 20% of CNA's D&O insurance business is composed of what Mr. Foley would call small risks, those banks with assets of \$100 million or less.

Fewer banks, including small ones, fail to buy D&O coverage because recent and substantial increases in civil and criminal suits against them have made them acutely aware of their exposures, Mr. Foley explains.

"Directors and officers at financial institutions tend to be held to a higher standard of responsibility than their counterparts in the corporate community," he observes.

Mr. Brockmeier of Wyatt stresses that while directors and officers of smaller businesses aren't sued as often as directors and officers of large corporations, the claims they are hit with may be just as large and so potentially more damaging.

According to Wyatt's survey, 42% of corporations with \$5 billion or more in assets experienced a D&O claim within the past nine years. Among corporations with \$25 million in assets, only 6% to 7% received a D&O claim.

But, of those companies with

slapped with D&O claims that exceeded \$5 million.

One reason many companies may see no need for D&O is because they believe they are "doing nothing wrong," operating fairly and honestly, and therefore would never need protection for claims against their directors or officers, observes Deborah Gallo DiMarco,

manager of financial services at Royal Insurance Co. in New York. But Ms. DiMarco says this approach is naive.

"The idea is that it's an allegation, whether they did it or not," she points out, explaining that the chief intent of D&O insurance is to

Banks generally represent 'a far higher percentage' of businesses buying D&O insurance than 'you'd find in the general business environment,' says John B. Foley, senior manager for specialty lines marketing at CNA.

reimburse the director or officer for defense costs, which she terms "astronomical."

Legal fees incurred defending a D&O claim "can significantly hinder the corporation and devastate an individual," she warns small companies.

As one underwriter puts it: "Directors and officers have a tendency to want the best lawyers

they know, and the best lawyers they know are generally the most expensive lawyers in town. A smaller company can ill-afford to mount those expenses."

Royal has been writing D&O coverage for about a year, and businesses with assets of \$25 million and less are in its target range. These risks, both non-profit and for-profit businesses, comprise

about 70% of Royal's D&O insurance business, and generate an annual premium volume of about \$800,000, Ms. DiMarco estimates.

The minimum deductibles for Royal's D&O policyholders are: \$1,000 per individual; \$1,500 maximum aggregate deductible if a group of directors or officers is named; and \$2,500—paid by the company—if the act that triggered the claim is indemnifiable. However, these are all subject to individual review, Ms. DiMarco says.

Although the company can write up to \$10 million in D&O limits, about 50% of policyholders in the \$25 million-and-below asset category carry limits of only \$1 million, she says. About 14% carry limits of \$5 million.

Continued on facing page

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EIL cover may be hard to find for small firms

By ROBERT A. FINLAYSON

LOS ANGELES—Small businesses with big pollution liability risks will find it difficult, and expensive, to buy environmental impairment liability insurance.

While apparently few in number, these small businesses are facing a federally imposed Jan. 16 deadline for purchasing EIL insurance.

The much larger number of small businesses whose pollution risks are small by comparison will find EIL insurance less expensive and more available. Their problem: They do not realize that they have a pollution exposure or that insurance is available to cover such risks.

A pollution risk that is small by

industry standards could be devastating to a small business.

These are the observations of EIL experts, including brokers and insurers.



Overall, EIL insurance prices are rising and the availability of the insurance is shrinking, largely because of a lack of reinsurance support (BI, July 9). Any company with a large pollution exposure, such as companies involved in the landfilling of hazardous wastes, can expect that EIL insurance will be hard to find and expensive, according to the experts.

Premiums for EIL coverage have shot up a whopping 25% to 50%, ac-

cording to brokers and underwriters. And, minimum premiums charged by some insurers are as high as \$7,500, they say.

Those businesses with less than \$5 million in annual revenues that treat, store or dispose of hazardous wastes in contact with the ground, such as a landfill or surface impoundment, will be confronted with this marketplace.

These companies must show financial responsibility to cover third-party damage claims, either by purchasing EIL insurance or qualifying as a self-insurer by Jan. 16. They must file a certificate with the federal Environmental Protection Agency showing that they have insurance or can pass the self-insurance test.

The financial responsibility re-

quirement for these small businesses is the third and final one issued under the under the Resource Recovery and Conservation Act.

EPA officials doubt that any of these firms qualify for self-insurance. They estimate that only firms with at least \$36 million in net worth would qualify to self-insure.

Despite the impending deadline, EIL underwriters report that they have not seen an influx of firms seeking coverage to meet the EPA requirement.

"My guess is that there aren't many firms out there that do less than \$5 million a year's worth of business and have a hazardous waste land disposal facility," says George Garland, an EPA official who helped develop the financial

responsibility regulations.

The cost of complying with other regulatory requirements associated with hazardous-waste disposal, rather than the insurance requirements, are likely to make it difficult for a small company to stay in the hazardous-waste business, he explains.

For those small businesses with large pollution risks, underwriters will certainly ask for a risk assessment as a condition of writing coverage. Such a risk assessment, which is usually done by an independent consultant, typically costs a minimum of \$5,000, EIL risk consultants say. But, often this cost is absorbed by the underwriter, they explain.

After the Jan. 16 deadline, EPA enforcement officials will begin checking their files to see if all those companies that are required to meet the financial responsibility requirements have submitted a certificate of insurance.

While an official enforcement strategy has not yet been worked out for these companies, enforcement staffers at EPA say they will take into consideration a firm's efforts to obtain the EIL coverage and probably will allow some leeway beyond the Jan. 16 deadline. That deadline will not, however, be extended, nor will the requirements be waived, they say.

Insurers are willing to write EIL insurance for small companies with smaller pollution risks, such as companies that store small amounts of chemical waste.

Several EIL markets have said they are specifically looking to serve small-business risks, including Swett & Crawford Management Co. Ltd. in Los Angeles, subsidiary of the St. Paul Cos.; The Home Insurance Co. in New York; broker Stewart Smith Inc. in New York; and the Pollution Liability Insurance Assn. in Chicago, a pool of 49 companies offering coverage on the Insurance Services Office form.

Evanston, Ill., based underwriting manager Shand, Morahan & Co. and member companies of American International Group also will write EIL insurance for small as well as large businesses.

These markets have targeted smaller businesses because their pollution exposures are smaller and because they have more control over their operations than do larger companies.

"The president of a small firm is out there every day; he knows what they do with their wastes," EIL coverage for broker Corroon & Black Corp. from the broker's Milwaukee office.

Lynne Miller, president of Risk Science International in Washington, which assesses EIL risks for insurers, says an underwriter can better analyze the risk of a smaller firm.

"If you have a company with 50 sites, you might do (a risk assessment on) five or six of the sites, but if you have a company with three you might do two, or even all three depending on the exposure."

In fact, EIL market observers say there is competition for the smaller accounts among EIL underwriters.

"I think the smaller companies have more of a choice of markets," says Ms. Miller.

However, Mr. Miller points out that while companies may be able to get the coverage they may not be able to handle the premium or a large deductible that's required.

Several EIL markets, including PLIA and Swett & Crawford, say they have no minimum premiums.

"If you're a small business and you don't have a heavy environ-

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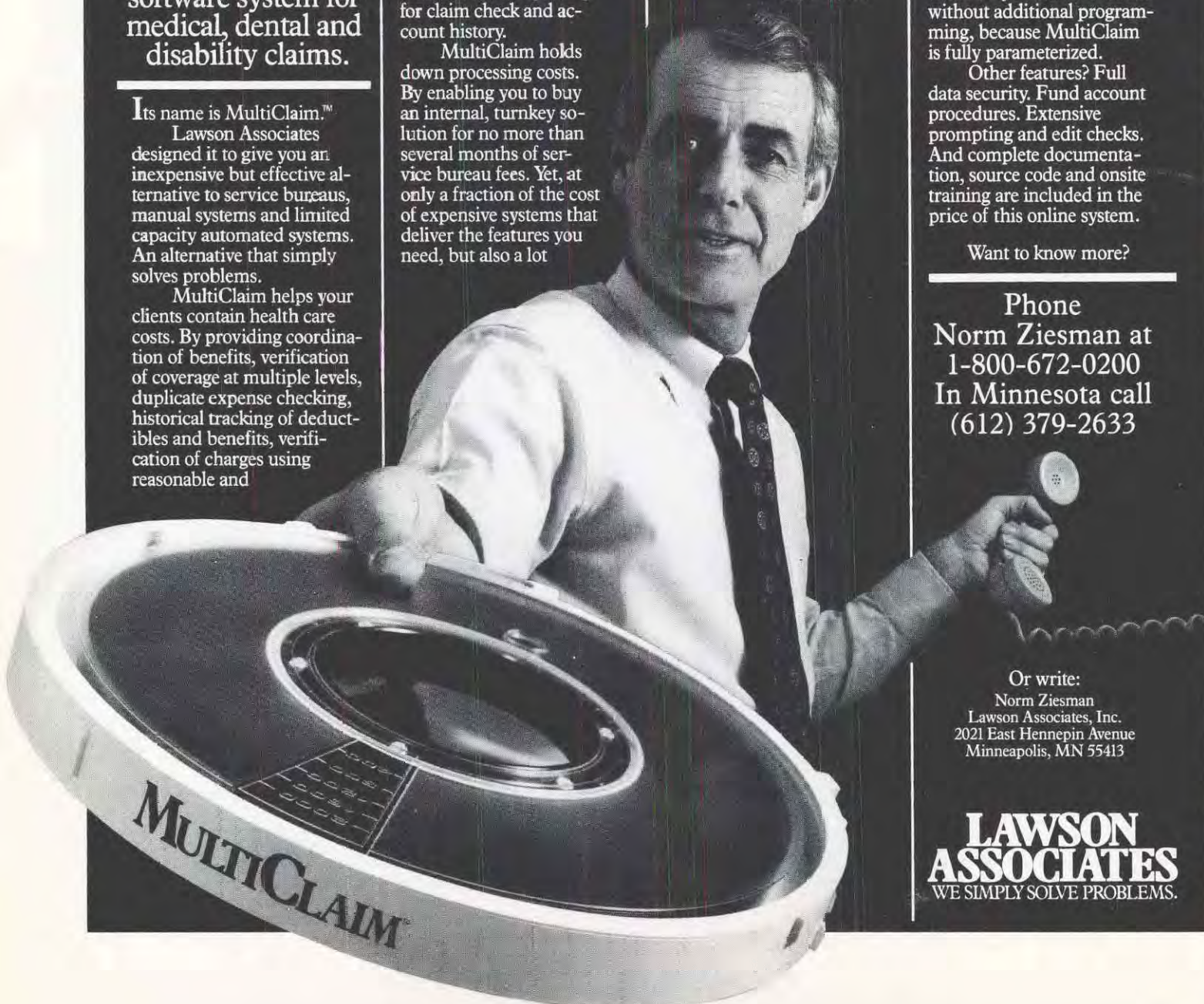
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Smaller firms may find EIL cover scarce, costly

Continued from page 40

mental exposure, you're in pretty good shape, with the exception of minimum premiums in some markets that may put the product out of the financial reach of some of these businesses," Mr. Dybdahl says.

While the risks presented by many small businesses may be less, the premium must be high enough to justify the costs to the insurer of writing a policy for a single site. The insurer has to cover its expenses, Mr. Dybdahl notes, including the cost of risk assessment.

"It's common to see an EIL quote that's three times (a small business's) general liability premium," Mr. Dybdahl says.

But Patricia Borowski, vp of government and industry affairs for the National Assn. of the Professional Insurance Agents, says that many small businesses don't really understand that they have a pollution exposure.

"That's the biggest problem," she says. "The small business doesn't understand that it has an exposure and refuses to accept the fact that it does. Small business can't afford that position anymore."

Most EIL experts agree.

"It's difficult to sell a sophisticated risk manager that he needs this coverage, let alone somebody totally unsophisticated in these matters," Mr. Dybdahl says.

Even if a company isn't regulated by the federal Resource Conservation and Recovery Act, "it doesn't mean you don't have an exposure," says Art Baden, senior underwriter for PLIA.

As a quick rule of thumb, Mr. Baden says a company should have EIL coverage if it:

- Has any on-site tanks for the storage of any fuel, chemical, or waste.
- Has any type of air emissions, including emissions from a trash incinerator.
- Discharges any waste into any body of water.
- Stores chemicals or wastes in drums.

Mr. Baden says most of PLIA's clients are smaller risks. However, the insurer members of PLIA will only write pollution coverage for clients that have other business with them. This enables PLIA to underwrite policies with very small premiums, he explains.

Most experts agree that small businesses can't afford to be without pollution coverage.

"Small businesses are least able to withstand a claim," says Mr. Dybdahl. He says that one incident could put a small company out of business.

In the case of an on-site incident that spreads off the premises and causes property or bodily injury damage to others, "they're in big trouble," he warns. "The property and bodily injury damage claims can quickly exceed the total assets of a small firm."

If the on-site contamination, or even off-site contamination, does not cause property damage or bodily injury to a third party, EIL policies will not respond.

Any liability to the small business in these cases generally would be imposed by the government. "What they do have going for them is that they're a very small target," Mr. Dybdahl notes.

In a government-forced cleanup of an abandoned waste disposal site, small businesses "tend to be overlooked where there are multiple generators." The government would rather spend its time going after a major corporation than a small generator, he notes.

Experts predict that the Insur-

ance Service Offices move to remove all pollution coverage from the standard general liability form will not make it more difficult for small businesses to get pollution coverage (BI, Oct. 29).

"When they take (sudden and accidental) pollution out of the CGL, I don't think it's going to make pollution coverage any more difficult or any easier to get. I think we're seeing difficulties today," says Ms. Borowski.

She believes that insurers are already carefully limiting the EIL coverage they will provide to those companies that clearly have identified their pollution liability risks and can document successful pollution control efforts.

Firms may need EIL cover for storage tanks

LOS ANGELES—Tens of thousands of small businesses could be required to obtain environmental impairment liability insurance for their underground storage tanks under a planned federal regulation.

Recent legislation extending the Resource Conservation and Recovery Act requires the Environmental Protection Agency to develop rules for the use of underground tanks for storing petroleum products, including gas, chemicals and hazardous wastes.

The rules will set standards for installation, maintenance and monitoring of underground tanks. The new law also requires the EPA to determine whether financial responsibility requirements are "necessary and desirable" to protect those injured by leaking underground storage tanks.

One option the EPA is now considering is requiring owners of underground tanks to get EIL insurance, says George Garland, who heads an EPA task force looking into financial responsibility requirements for those with underground storage tanks.

Another option, he says, would be a national fund, or state funds, to cover pollution from underground

tanks. Tank owners would pay into the fund, which would respond to third-party liability claims.

If the EPA requires insurance, but commercial insurers will not provide it, the agency may ask Congress to establish a national fund, he says.

Or, the EPA may simply require the insurance, and anybody that can't get it probably would have to replace their tanks or go out of business, he says. Insurers, he says, have said coverage probably would be available for new tanks, but not for older ones, which they consider more likely to leak.

This "would be one way of using the insurance industry to speed up tank replacement."

The law excludes from regulation tanks that hold less than 1,100 gallons located on residential or farm property and that are used for non-commercial purposes and tanks that store heating oil for use on the property where the tank is located.

Regulations for underground tanks storing petroleum products must be in place by March 1987. Similar rules for tanks storing chemicals and hazardous waste must be in place by September 1988.

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OSHA offers free consulting to small firms

By MICHAEL BRADFORD

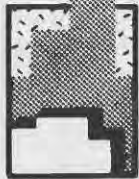
WASHINGTON—Small businesses that don't have the resources to hire safety and health consultants can get help from a high source—the government.

The federal Occupational Safety and Health Administration—through state agencies—offers a broad program of free consulting services to employers with 250 employees or fewer. If a firm employs more than 250 workers, a scaled-down version of the comprehensive consulting program is available.

State agencies, including labor and health departments, and some university systems administer the consultation program. They use safety specialists and industrial hy-

gienists that meet state certification requirements.

The consulting program is available in all states except Louisiana, which does not now offer employers the program but may eventually.



The comprehensive program available to firms with fewer than 250 workers includes an appraisal of mechanical and physical work practices, an evaluation of environmental hazards at the site, a review of job safety and health programs or the establishment of such programs and a closing conference with management to help employers act to eliminate hazards.

OSHA also provides a written report of recommendations for improving health and safety hazards and a follow-up visit to help the employer put the changes in practice.

For companies with more than 250 workers, the consultations have a narrower scope, focusing on specific hazards or problems an employer brings to OSHA's attention.

OSHA began its consulting program nine years ago because of a growing concern in the small-business community that many employers weren't financially able to comply with government safety and health standards, according to Joseph Collier, director of OSHA's Office of Consultation Programs in Washington.

"Many small businesses didn't

feel they were equipped to understand the standards and laws of compliance," Mr. Collier said. "And economically, they weren't well-prepared to get outside help."

Before the 1975 plan was implemented, consulting help was available in only a few states, where OSHA departments had developed individual guidelines. The federal plan expanded OSHA's consultation services to any state interested in implementing the program.

All OSHA consultations are confidential, and the program is completely separate from the administration's inspection program. The employer's only obligation is to correct any safety or health hazards uncovered during a consultation, and no penalties or citations can be issued during a consultation.

"We respond (for consultation) only at an employer's request," Mr. Collier said. "And, the employer has complete control over the scope of the visit. He can request consultation for the entire plant, one small part or just a particular hazard."

Recessionary periods and unprofitable business cycles haven't caused an increase in the number of businessmen seeking the free service, Mr. Collier noted. Still, some 30,000 visits per year are being made by about 600 consultants.

To request a consultation, an employer can contact his state's OSHA office. Since some states fall under OSHA's federal guidelines and others enforce their own guidelines, the types of services offered may vary somewhat.

Although most consultations have to be conducted at the work site, some can be handled at another location. For example, a firm that is planning to implement a new production process may be asked to prepare details of the process and have it reviewed at another location.

If an employer requests an on-site consultation, he will be asked to outline specifically what is needed from the consultant, and whether a comprehensive visit is desired or just a check of specific hazards. Before scheduling a visit, the consultant may research any special problems an employer faces.

There are few hazards that go beyond OSHA's limits, Mr. Collier said. "We can usually come up with the expertise one way or another. But we do only cover hazards that fall under our jurisdiction."

For example, the consultation program would not extend to companies that handle radioactive materials regulated by the Nuclear Regulatory Commission, and min-

Continued on next page

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OSHA plan

Continued from previous page
 ing safety is also outside OSHA's boundaries, he said.

When a consultant arrives at the work place, an opening conference with the employer outlines the consultation procedure. During the conference, the consultant explains the employer's obligation to protect workers and emphasizes that employee participation is encouraged during the consultation process.

The next step is a walk-through of the plant or the areas for which an employer has requested assistance.

In a complete review of an operation, a consultant will check mechanical and physical hazards not only in the work process, but also in the structural condition of the building. Floors and stairways are inspected, and exits and fire protection equipment are examined.

The consultant makes sure there is adequate space in aisles and between machines and checks storage conditions. Machinery is examined to make sure electrical hazards and safety guards are adequate.

And, the consultant considers several other conditions in the work place. He may check:

- Controls used to limit worker exposure to environmental hazards such as toxic substances and corrosives.
- Personal protective equipment, making sure that enough equipment is available and it is

adequate to safeguard the worker.

- Problems workers encounter from exposure to noise, vibration, extreme temperatures or unusual lighting.
- Work practices that include use, care and maintenance of tools.
- Housekeeping in work areas.

In addition, the consultant will review ongoing safety and health programs the firm has developed. If there is no program in force, the OSHA representative will offer advice and technical assistance in establishing one.

If a condition that is considered an "imminent danger" is discovered during the walk-through, the employer must take immediate action to make the area safe. The consultant will work with the company's management to correct any serious hazards and can recommend sources for technical help outside the areas of his expertise.

After the walk-through, the consultant and employer meet in a closing conference to discuss areas that need improvement. Solutions to problems and schedules for eliminating or controlling serious hazards are outlined.

The length of a consultant's visit "depends on the size of the establishment and what kind of services the employer requests," Mr. Collier said. If a company's operations are small or an employer only has a few specific concerns, the consultation may last only a few hours, he said, while a consultation in a large operation might continue for several days.

He explained that a written report is sent within one to two weeks after the closing conference, with a record of all the consultant's findings and a listing of agreed-on dates for correcting hazards.

Last summer, the administration began a program to exempt some small businesses from routine OSHA inspections.

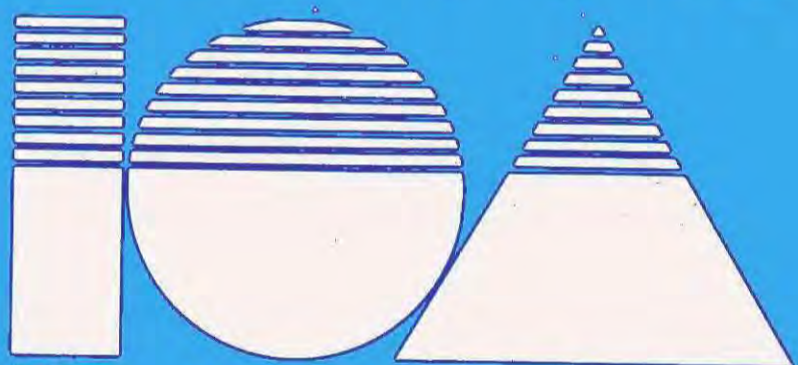
The one-year exemption is available to employers with under 150 employees that meet certain criteria. The employer must first complete a comprehensive consultation, correct all identified hazards and begin a safety and health program for workers.

Mr. Collier said the exemption program was successfully piloted in seven states before being implemented in August. Part of its function is to permit OSHA to redirect its limited inspection resources from workplaces that have already undergone comprehensive checks.

OSHA also has begun a program that provides on-site safety training and education for workers and employers. For example, Mr. Collier said, an employer whose workers are exposed to a toxic substance might request a training program on new equipment to deal with the hazard. Electrical safety programs would also be offered, he added.

Since services vary in different states, he said, the exemption and training provisions might not be available in every area. States that develop their own guidelines are allowed to add similar provisions to their programs.

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FACTS

According to the FBI statistics, in 1981 there were over 200 domestic kidnappings. This record may be incomplete because all kidnapping acts are not a violation of Federal law. There were in excess of 4,700 extortion attempts in the U.S. and over 235 violations of the Hobbs Act.

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Small firm should demand good service from broker

By STEVE SHERWOOD

A small employer, with its equally small insurance premium, cannot expect to get the type of service from its broker that a major corporation commands.

Nor is it usually able to seek out some of the non-insurance options available to the major corporation, like self-insurance or captives, in-



have a claim on this broker for certain essential services, sources say.

dustry sources say.

But, a small employer—which is unlikely to have a full-time risk manager and probably depends on its broker for insurance judgment—does

Many agree that, idealistically, these services should not vary with premium size.

The services a small business should expect from a broker include:

- A complete review of liabilities and risks (a risk assessment).
- Help in determining whether these liabilities and risks are best handled through insurance or some other risk transfer method.
- A market survey to select from among the different proposals the one that best meets the client's risk transfer needs, with the best conditions and pricing.
- Contract implementation, claims assistance and help in fulfilling requirements that must be met during the policy term.
- Making sure the insurer fulfills its obligations under the policy, including engineering, policy issuance, claims handling and prompt notice of any changes being contemplated at renewal.

"Service should not vary with premium size," says James Donahue, a principal of broker Shelton & Bowles Inc. of Dallas, which places coverages for a wide range of clients, large and small.

"A realistic dilemma is that sometimes the broker is expending more, in terms of a percentage of income, on servicing a small client, so his margin of profit is lower," Mr. Donahue says. "But, the point remains that once you take an account, income considerations have to be almost secondary."

If, over time, the broker finds he is losing money on the account, he should discuss handling the account on a fee basis or, perhaps, he should resign from the account, Mr. Donahue says.

"But there is still no way you can escape the responsibility of servicing your clients."

Warren Brockmeier, vp-risk management practice with The Wyatt Co. of Chicago, says, "Too often, after a loss, the broker feels his only function is to see that an accident report is transmitted from insured to insurer. We think he has a function larger than just acting as a delivery boy."

The broker should go to the scene of a loss and counsel his client, outlining procedures like how to handle lost property and put in claims, and the broker should act as an adviser during the adjustment period, Mr. Brockmeier says.

"This is particularly important for accounts without internal risk management," he says.

Whether a small employer is getting these services may depend on the size of the broker, Mr. Brockmeier says. Often a small business will be better served by a local or regional broker than by an alphabet house.

National brokers are gearing up to use automation to handle small accounts in a more cost-effective way, says David S. Schmidt, director of cooperative and association accounts for Nationwide Insurance Co. in Columbus, Ohio, which writes direct coverage for small- and medium-sized clients through its agent-broker network.

But, he says, "As a general rule, if you are a small policyholder with a \$50,000 premium, you might want to go to a local agent or broker, since \$50,000 will be big business to them but might be minor to a national brokerage."

Small businesses are in an especially difficult position because, with non-insurance options like self-funded retentions out of reach because of low cash-flow, they must rely heavily on insurance, Mr.

Continued on page 48

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Firms should demand service from brokers

Continued from page 46
Donahue of Shelton & Bowles says. But, insurance is costing more.

"He needs insurance, but costs are escalating rapidly; while he needs more and more coverage for the dollar, he is getting less and less. So, the broker becomes more important in searching the market and coming up with the right coverage," he says.

"If a small business is really strapped, there are not a lot of options," says William Fraley, insur-

'While (the small employer) needs more and more coverage for the dollar, he is getting less and less. So, the broker becomes more important in searching the market and coming up with the right coverage,' Mr. Donahue says.

ance manager for the Methodist Hospitals of Dallas. "I can't qualify for any of the decent rating pro-

grams. Associations offer some options for certain types of employers and they should look into them, but

most are tied to the commercial insurance market."

With five hospitals and 3,000 employees, the Methodist Hospitals has some bargaining power. But Mr. Fraley says that, in choosing a broker, he looks for many of the qualities smaller employers also have a right to expect.

"I look for the capability to do a complete marketing of my business," he says. "I look for someone who can come in and analyze my risks. I don't just want a renewal of

my old policies."

He says to be sure the broker can analyze the rating of a policy.

"Some brokers are not doing that anymore. You can get some large number mistakes that can kill you if you're not properly rated and classified. A small business is at the mercy of its broker in this and has to have someone checking on it."

Mr. Fraley says he also looks for the broker for some of the loss prevention services and wants the broker to have a person experienced in claims handling.

O.C. Erickson, controller of the Mayo Foundation of Rochester, Minn., remembers when the foundation, which operates the Mayo Clinic, was small enough that its options were limited to deductible and retrospective rating plans for such coverages as workers compensation. He has since watched the foundation grow from 2,000 to 14,000 employees and its insurance program grow in sophistication.

"As we've grown, we've moved toward the big letter brokers (Johnson & Higgins handles Mayo's property and casualty coverages) and moved rapidly from deductible plans into self-insured risk funding," Mr. Erickson says. "In growing, you tend to become almost a primary insurance carrier, leaning more heavily on the reinsurance market for coverage."

Mayo now uses its brokers mainly in a marketing function, to seek out insurance and non-insurance products the foundation and its brokers have mutually decided it needs, he says. "More of the risk management functions such as loss control and environmental safety are done in-house."

However, in early years Mr. Erickson depended more heavily on his broker, and he offers some advice for small employers.

"Whoever is dealing with the broker has to take the time to be informed," he says. "I think that person has to come up to speed with the language and concepts so he knows what expectations to have of the broker."

It is also important to have an open-door policy in listening to presentations of brokers that want your business, Mr. Erickson says. "You can't get married to one and just sit there. If your broker knows you have an open-door policy, he's liable to be more on his toes and work harder to keep you."

In judging whether a broker is giving the essential services, a small employer should ask several questions, sources agree.

"Does the broker provide more than one quote and backups to recommended courses of action?" Mr. Donahue asks. "Is he involved in claims? Are the terms of the policy explained? Does he keep me up to date on the status of losses and market conditions? Is the broker paying attention to my business to the same degree I would if I had the time and personnel?"

Mr. Erickson says, "I think the way you can tell is by asking how often when he visits does he discuss new concepts or have new ideas in structuring a line of insurance."

"Where a situation has changed, does he react with alternative ways of meeting the changes? Is he in touch with what's going on in your operation?"

Other sources say a sure sign that the broker is not doing a satisfactory job is if he or she shows up only at renewal time. In this case, they say, the employer should try to correct the situation by talking it over with the broker.

"You should do what you normally do if you feel underwhelmed by service," Wyatt's Mr. Brockmeier says. "Rattle his cage or look for another provider."



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Richard H. Bagley, 39, has been promoted to risk manager for BellSouth Corp. in Atlanta. In this newly created position, Mr. Bagley is responsible for corporate insurance and self-insurance for BellSouth and its subsidiaries. He will also develop a risk management information system for the company. Mr. Bagley reports to John Thomas, comptroller manager. Previously, Mr. Bagley had been staff manager of customer accounting. Mr. Bagley received a bachelor of business administration degree in 1966 and a master of business administration degree in 1968 from Georgia State University in Atlanta.



Mr. Bagley

comings & goings: buyers

manager of Liberty's loss prevention department. Mr. Kruse received a bachelor of arts degree in history from the University of Connecticut in 1951, and he also holds the Certified Safety Professional designation.

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William E. Newberg, 36, is the new director of risk management for Super Valu Stores Inc. in Minneapolis. Mr. Newberg is responsible for overall risk management, including property/casualty and life/health insurance programs. He reports to David Cairns, treasurer, and replaces **Karen Doolittle**, who is now vp and corporate risk manager for First Bank System Inc. in Minneapolis. Previously, Mr. Newberg was manager of the sales support unit for Risk Planners Inc., Super Valu's captive insurance agency, in Minneapolis. He earned a bachelor of arts degree in Spanish from Macalester College in St. Paul in 1970 and has the Associate in Risk Management designation.

Lawrence C. Beldin, 38, has been promoted to assistant vp of financial programs and risk management for the Farm Credit Banks of Omaha, Neb. Mr. Beldin is responsible for risk management, portfolio management and the development of investment programs. Mr. Beldin reports to Thomas Watson, vp of financial operations. Previously, Mr. Beldin had been the company's assistant vp of marketing. Mr. Beldin received a bachelor of arts degree in education in 1968 and a masters degree in business administration in 1979, both from the University of Nebraska-Lincoln. Mr. Beldin also is a fellow of the Life Management Institute.

James H. Herald, 36, has joined the Harris Corp. in Melbourne, Fla., as supervisor of corporate risk management. In this newly created position, Mr. Herald is responsible for the political risk insurance programs and international financial guarantee requirements. He reports to F.X. McCahill III, director of corporate risk management. Previously, Mr. Herald had been the financial administrator for the Harris branch in Buenos Aires, Argentina. Mr. Herald received a bachelor of science degree in international affairs from Georgetown University in Washington in 1969 and a masters degree in business administration from the American Graduate School of International Management in Phoenix, Ariz., in 1980.

Carl Kruse, 56, has been named administrative vp for Liberty Mutual Insurance Co. in Boston. Mr. Kruse is responsible for the company's retirement plans, group life insurance and thrift incentive plan, and he has employee relations and personnel responsibilities. He reports to Gary L. Countryman, president, and replaces **Francis J. Blair**, who retired. Previously, Mr. Kruse was vp and assistant general



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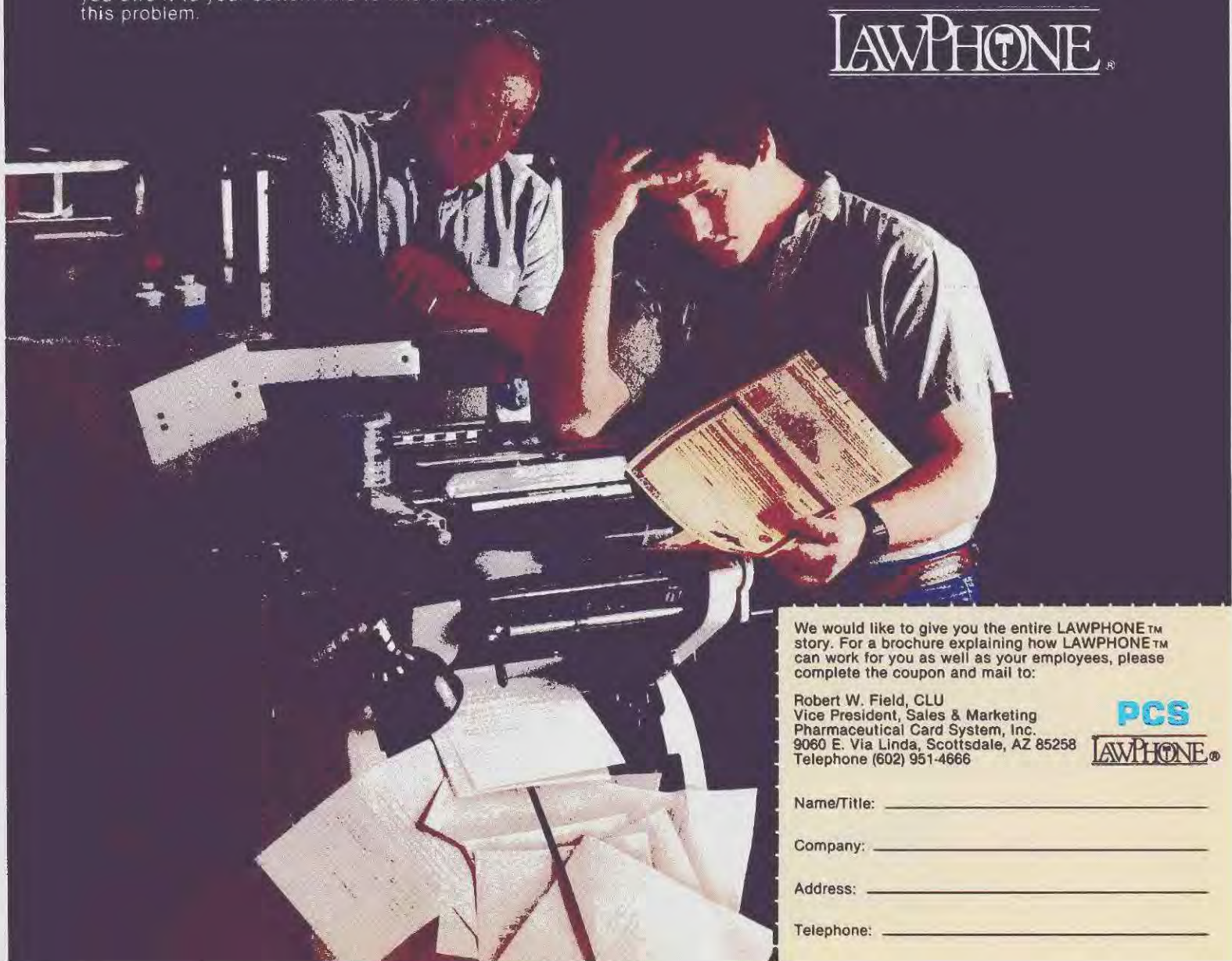
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U.S. pension administrator steps down

By JERRY GEISEL

washington

WASHINGTON—The U.S. pension administrator will resign next month.

Robert A.G. Monks, administrator of the Labor Department's Office of Pension and Welfare Benefit Programs, said last week that he will resign from the department, effective Jan. 20. Mr. Monks will take an unspecified job in private industry.

Mr. Monks, 51, joined the Labor Department last December after resigning his position as director of the U.S. Synthetic Fuels Corp. When he joined the Labor Department, Mr. Monks said that he would only serve as the U.S. pension administrator for one year.

Mr. Monks, a former chairman of the Boston Co., a Boston invest-

ment firm, seemed much more interested in pensions as investments than as employee benefits, observers say.

Yet, they say he probably will be best remembered for a speech he gave this fall before the American Society of Pension Actuaries, in which he questioned whether the nation can continue to afford to give the same tax breaks to both defined benefit and defined contribution plans.

"Something is going to have to give," Mr. Monks said in his speech. "Can we at least agree that, if a choice has to be made, defined benefit plan 'true' pensions should have top priority," he asked (BI,

Nov. 5).

Mr. Monks' remarks preceded by just a few weeks the Treasury Department's tax simplification plan which, among other things, would wipe out 401(k) salary reduction plans, a rapidly growing defined contribution plan (see story, page 1).

A successor for Mr. Monks has not been named.

OPIC has record year

The Overseas Private Investment Corp. chalked up record insurance volume and net profits.

During fiscal 1984, OPIC issued \$4.3 billion in insurance coverage

for 124 projects, topping its previous high of \$3.9 billion, which was set in 1983.

OPIC, the federal agency that provides political risk insurance to U.S. companies investing in less-developed countries, reported gross revenues of \$113.3 million in 1984 compared with \$97.5 million last year.

Net income for the year was up 18%, to \$97.2 million from \$82.7 million in fiscal 1983.

As of Sept. 30, capital and reserves stood at \$883 million, which was up from \$768 million a year earlier.

During fiscal 1984, OPIC settled 22 insurance claims amounting to \$25 million in cash and a \$6 million indemnity agreement.

Meanwhile, in another OPIC development, OPIC announced that

political risk insurance coverages are now available for companies investing in Mozambique.

That announcement follows a recently signed bilateral agreement between the United States and Mozambique to activate OPIC programs in that southwest African nation.

APPWP official

Stuart J. Brahs, a veteran lobbyist and legislative staffer, is the new executive director of the Assn. of Private Pension and Welfare Plans, a Washington-based benefits lobbying group.

Mr. Brahs, 44, most recently was director of federal legislative and regulatory affairs for the American Council of Life Insurance, an industry trade group.

He also has 15 years of experience as a legislative assistant on Capitol Hill and has worked for former Sen. Abraham Ribicoff, D-Conn., and Rep. Richard Ottinger, D-N.Y.

Mr. Brahs replaces Edward J. Davey, who resigned in September to join Johnson & Higgins in New York.

OSHA changes cutoff

The Occupational Safety and Health Administration has lowered the cutoff point it uses to determine whether it will conduct a full safety inspection at a worksite.

Since Oct. 1, 1981, OSHA inspectors have been conducting comprehensive safety inspections at companies with lost workday injury rates at or above the national average for manufacturing.

In 1983, the average lost workday injury rate for manufacturers declined to 4.2 per 100 employees, down from 4.3 in 1982.

As a result, the new cutoff point to avoid comprehensive safety inspections is 4.2 injuries per 100 employees.

Pension plan suit

The trustee of a Yakima, Wash., company's pension and profit-sharing plans has paid \$246,996 in restitution to the plans to settle a Labor Department suit.

The department had charged that Delmar Bice, a trustee of the pension and profit-sharing plans sponsored by Simcoe Equipment Co. Inc., violated his fiduciary responsibilities to the plans.

The department alleged that Mr. Bice, the owner, officer and director of Simcoe, used plan assets in his own interest or on behalf of a party whose interests were adverse to those of the plans.

In a lawsuit, the department also charged that Mr. Bice failed to collect employer and employee contributions payable to the plans.

Panel counsel named

Sen. Robert Packwood, R-Ore., has appointed John Colvin, his legislative director, as the Senate Finance Committee's chief counsel and head of the committee's tax staff.

Mr. Colvin is considered one of the most knowledgeable legislative staffers on employee benefit issues, especially health care. Like Sen. Packwood, who takes control of the Finance Committee next year when the 99th session of Congress begins, Mr. Colvin favors retaining the current tax-favored status of employee benefit plans.

Mr. Colvin has served as Sen. Packwood's tax counsel since 1975 and has been Mr. Packwood's legislative director since 1982. Previously, he worked in the chief counsel's office in the U.S. Coast Guard.



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Risk Planning Group merging into Tillinghast

Independent risk management consultant Risk Planning Group Inc. of Darien, Conn., is merging into the consulting partnership of Tillinghast, Nelson & Warren Inc. effective Dec. 31, doubling the size of the Tillinghast risk management consulting practice.

The merged operations will become the largest independent risk management consultant, with close to 40 professional staff and annual gross revenues close to \$5 million, based on preliminary 1984 figures.

"We think this opens tremendous opportunity for us and our clients," says RPG President Felix Kloman, who will become a principal and an advisory director of Tillinghast. "It gives us access to some of the finest actuaries in the world, a first-class benefits consulting group and tremendous geographic capabilities."

Mr. Kloman also praised the professionalism of Tillinghast's current risk management division, which has staff in Tillinghast offices in Newton, Mass.; New York; Atlanta; Dallas; St. Louis; and Los Angeles.

Tillinghast also has offices in Hamilton, Bermuda; Chicago; Denver; Fort Worth, Texas; Hartford, Conn.; Jacksonville, Fla.; Kansas City, Mo.; London; Nashville, Tenn.; New Orleans; San Antonio, Texas; Toronto; San Francisco; and Sydney, Australia.

Tillinghast's risk management consulting practice will benefit from the "broad-based professionalism and international contacts" of RPG, notes George Betterley, a principal with Tillinghast who merged his Boston-based risk management consulting practice with Tillinghast in 1981.

The Betterley Consulting Group Inc. merger expanded Atlanta-based Tillinghast's actuarial and employee benefit consulting practice into risk management. At that time, Betterley Consulting Group employed 10 professionals and generated estimated revenues of \$1 million.

In 1983, Dallas-based RIMCO Risk Management Inc. also merged into Tillinghast. At year-end 1983, Tillinghast's risk management practice included 21 professionals, producing gross revenues of about \$2.5 million in 1983. It was the sixth-largest independent risk management consultant in the country in 1983.

RPG brings \$2.4 million in revenues in 1984 and 21 full-time staff, 15 of whom are designated as professionals. An additional 10 risk management professionals work on a project basis for RPG; some of them are located abroad, in Stockholm, Sweden; London; and Zurich, Switzerland.

In addition to pure risk management consulting talent, the merger of RPG into Tillinghast gives Tillinghast new talent in sponsoring conferences and producing publications.

The annual conference on captive insurers sponsored each March in Bermuda by RPG will be continued under Tillinghast. RPG's publications, including Risk Management Reports, Captive Insurance Company Reports, Government Risk Management Reports, BankRisk, the annual Captive Insurance Company Directory and Cost of Risk Survey, all will continue to be published.

RPG was founded in October 1970 by Mr. Kloman, who had been an assistant vp in the consulting division of Alexander & Alexander Inc. In October 1983, however, Mr. Kloman said he felt that the staff of RPG had more ideas than resources to implement them and that the firm needed a merger partner.

The RPG staff will continue to work from Darien, but the office will eventually will change its

markets

name to Tillinghast, Nelson & Warren.

Life insurer for Blues

Northland Investment Ltd., a holding company formed by New Hampshire Blue Cross/Blue Shield and the West Virginia Blues, will own about 60% of a new life insurance company if regulatory authorities approve creation of the company.

American Bankers Life Assurance Co. in Miami would own the rest of Northland America Life Insurance Co., which would be domiciled in Concord, N.H.

The new company would write

group term, short- and long-term disability, accidental death, supplemental life and dependent life coverages.

The New Hampshire Blues has acted as a general agent for American Bankers Life since 1975, and the new company would absorb American's book of business that is handled by the Blues, the companies have indicated.

Other insurers and insurance groups have opposed the formation of the new company, saying it violates the powers granted to the New Hampshire Blues as a non-profit organization.

However, New Hampshire statutes say Blue Cross can invest 10%

of its assets "into anything they want," said John Corbett, president of Combined Services Inc., a subsidiary of New Hampshire Blues.

The New Hampshire Blues' investment into the holding company will amount to less than 1% of its assets, he said. "This is simply an investment. Blue Cross will not run the company. They won't have any direct authority."

Mr. Corbett pointed out that the New Hampshire and West Virginia Blues would each own about 30% of Northland America Life as co-investors in the holding company. That would make American Bankers Life the majority owner with 40% of the company.

Final approval will come from insurance departments in New Hampshire, West Virginia and Florida. A decision is expected to

be announced by the end of the year.

Name change

After operating for 105 years with the same name, Farmers' Reliance Insurance Co. in Lawrenceville, N.J., has become American Reliance Insurance Co.

The property/casualty underwriter began as an insurer of grange associations in southern New Jersey in 1879. Today the company writes regional coverages through 750 independent agents.

"The objective of the change was to choose a name that better reflects who we are today, the lines of insurance we write and the agents and customers we serve," said Bruce W. Herrick, American Reliance president.



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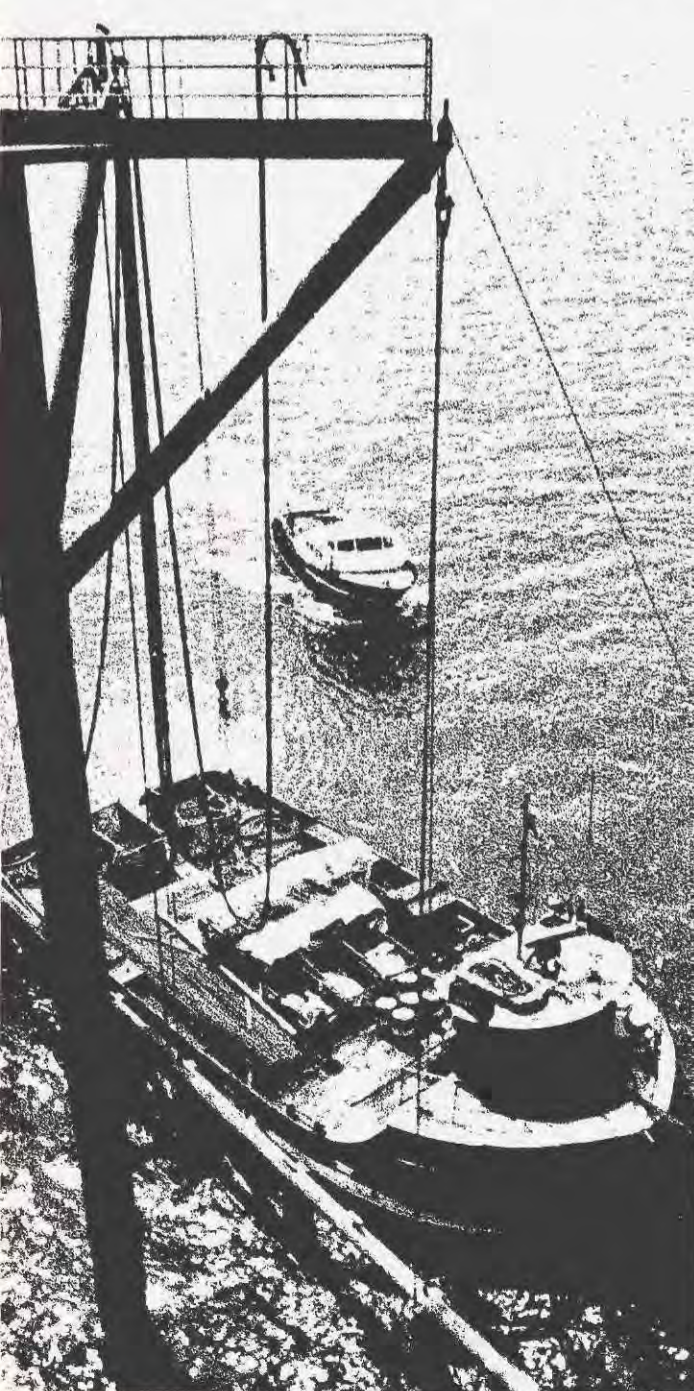
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Correspondents, Lloyd's London

Reorganization at Polaris Cos. results in several promotions

A reorganization and expansion of Polaris Cos., a Minneapolis-based holding company, has resulted in a number of management changes at the company and its subsidiaries.

Allin Karls, president and chairman of Polaris, had been president and chairman of the subsidiaries. He will remain chairman of the subsidiaries, each of which has a new president.

Doug Beach promoted to president of North Star Casualty Services. He had been executive vp and chief operating officer of the insurance administration and risk management service company.

Lou Golinvaux named president of the newly formed North Star Life & Casualty Insurance Agency. He had been with the American Business Insurance Agency in Minneapolis.

Also, **Ken Hopkins** named senior vp of North Star Life & Casualty Insurance Agency, and **Ed Frandle** promoted to vp of management information systems at North Star Casualty Services. Mr. Hopkins had been a vp of American Business Insurance Agency,

comings & goings: industry

and Mr. Frandle had been director of management information systems at North Star.

Insurers

Ray D. Johnson Jr. elected chief operating officer of Mission Insurance Group Inc. in Los Angeles. He will retain his responsibilities as senior executive vp of MIG and as president of Mission Insurance Co., the group's major underwriting company.

At American International Group Inc., **Steve Schleisman** named resident vp of the New York Region. He joined the company in 1972. Also, **Eliot Pardee** becomes senior vp of the North American Division of American International Underwriters, an AIG subsidiary. Mr. Pardee, who joined American International in 1976, will initially be based in Washington.

Jamie L. Pirtle elected senior vp-claim division for Maryland Casualty Co. He will be located in the Baltimore home office. Mr. Pirtle joined the company in 1955 and most recently was vp-claims. He replaces **Donald R. Burke**, who is retiring. Also at



Mr. Pirtle

Maryland Casualty Co., **Theodore A. Schmidt** elected senior vp of underwriting. He also will be located at the Baltimore office. He joined the company in 1956, and most recently was vp and senior underwriting executive.

Michael A. Galati named senior vp for home office property/casualty claims at Mission Insurance Co. in Los Angeles. He had been president in his own claims consulting firm, Miken Associates Inc., before joining Mission earlier this year.

Diedrich D. Oglesbee named vp of field management for the commercial insurance division of Aetna Life & Casualty in Hartford, Conn. Mr. Oglesbee had been a regional vp in the commercial insurance division. He succeeds **Herrick A. Drake**, who died Nov. 4.

Raymond M. Hassett named vp for the home office field operations department at United States Fidelity & Guaranty Co. in Baltimore. Mr. Hassett joined USF&G in 1964, and most recently had been Hartford, Conn., branch manager.

Charles F. Barr elected vp, secretary and general counsel of United Pacific Insurance Co. and United Pacific Life Insurance Co., both Reliance Insurance Cos. subsidiaries headquartered in Federal Way, Wash. Mr. Barr joined Reliance in 1981, and he will continue as Reliance's assistant general counsel.

Continued on facing page

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Continued from facing page
Excess/surplus

James F. Duffy elected senior vp of the specialty lines group at St. Paul Fire & Marine Insurance Co. in St. Paul, Minn. He will be responsible for St. Paul's operations in surplus/specialty risk underwriting and broking as well as reinsurance intermediary markets. Mr. Duffy had been president of Atwater McMillian, the surplus lines and specialty risk subsidiary of St. Paul Fire & Marine.

Also, **Kenneth F. Goldstein** named to succeed Mr. Duffy as president of Atwater McMillian. Mr. Goldstein joined Atwater McMillian in January 1984 as executive vp.

Walter D. (Rick) Hardy named executive vp-service at Intercontinental Insurance Managers Inc., a managing general agency based in Schaumburg, Ill. Mr. Hardy had been vp of claims at the agency. In his new position, he will be responsible for coordination of services, including loss control, claims management and risk management services, at all offices.



Mr. Hartman Mr. Barnes

P. McCaffrey Jr. named vps and members of the board of the Wyatt Co. in Chicago. Both have been with the actuarial and benefits consulting firm for more than 20 years.

Also at Wyatt, **Robert L. Barnes** named vp and manager of the Chicago office. Mr. Barnes joined Wyatt in 1967. He succeeds **John Hanson**, who retired. And, **Sven Thomsen** joined the risk management consulting staff of Wyatt in Chicago. Mr. Thomsen had been with International IRM, a brokerage firm.



Mr. Hardy

Reinsurance

Wolfgang Schlaeger was appointed director and executive vp of Gerling Global Offices Inc. in New York, the U.S. manager of Gerling Global Reinsurance Corp. Also, **Jack Fu** appointed vp. **Fred Kallrath** resigned as president of Gerling Global Offices Inc. on Oct. 1. Mr. Kallrath died Oct. 2.

Agents/brokers

Richard J. DeRue named senior vp and manager of Johnson & Higgins' Miami office. Mr. DeRue joined J&H in 1970, and he had been manager of the property/casualty department in the Minneapolis office. In his Miami post, he succeeds **Victor J. Giglio**, who has moved to the casualty department in New York.

Kenneth A. Carter succeeds **Reginald Bowers** as chairman of Lloyd's of London broker Sedgwick North America Ltd. Mr. Carter is deputy chairman of Sedgwick Insurance Brokers Ltd. and chairman of Sedgwick Cargo Ltd. Mr. Bowers continues to act on a number of accounts for Sedgwick North America and remains a director of Sedgwick Group P.L.C. and Sedgwick Insurance Brokers Ltd.

Other suppliers

At Tillinghast, Nelson & Warren Inc., **Mitchell J. Cole** named vp and principal. He is responsible for the newly established risk management consulting services in the New York office. He had been a partner in the Risk Planning Group.

Also at Tillinghast, **Joseph F. Quinn** joined the New York office as an officer of Tillinghast & Co., a new subsidiary specializing in mergers and acquisitions. Mr. Quinn had been president of Hartford Specialty Co.

Warren P. Cooper joined Hugins Financial Services Inc. as vp in the property-casualty/risk management unit. Before joining the Philadelphia-based consulting firm, which is a member of the Hay Group, Mr. Cooper had been chief actuary for the New Jersey Insurance Department.

Ronald L. Simpson joined Frank B. Hall Consulting Co. in Los Angeles as vp. Mr. Simpson had been group sales consultant with Massachusetts Mutual Life Insurance Co.

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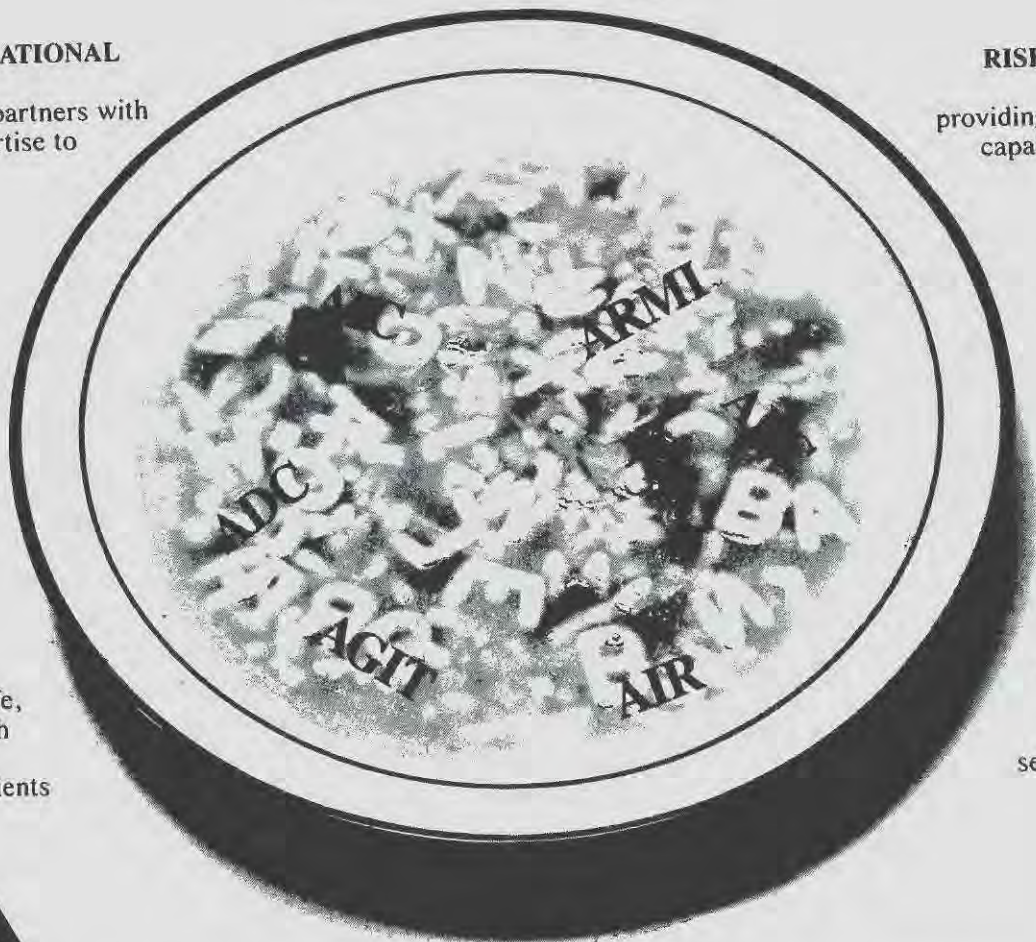
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Work comp rates to rise in Texas

around the states

AUSTIN, Texas—An average 8.6% increase in workers compensation rates in Texas will take effect Jan. 1, on the heels of an average 2% rate increase Oct. 1.

Some \$140 million in insurance premiums is expected to be generated by the increases, said a spokeswoman for the Texas Insurance Board.

The 2% increase approved this fall will cover the cost of benefit changes that took effect Sept. 1. The maximum weekly benefit rose to \$203 from \$189 and the minimum weekly benefit rose to \$35 from \$33.

The additional average 8.6% increase approved by the board was based on employers' loss experience, the Insurance Board spokeswoman said.

The combined average 10.6% rate increase compares with an average 28.7% increase recommended by the National Council on Compensation Insurance.

Maryland rate increase

BALTIMORE—Maryland workers compensation insurers are seeking a 2.2% increase in rates, according to the National Council on Compensation Insurance.

"The purpose of this increase is

to account for the statutory change in maximum weekly indemnity benefits taking effect Jan. 1," said JoAnn M. Porter, an NCCI government, consumer and industry affairs director. The maximum weekly benefits are scheduled to jump to an estimated \$325 from \$311, she said. The weekly benefits figure is still an estimate, she said.

The NCCI is asking that the rate increase take effect Jan. 1 for new and renewal policies.

The most recent change in rates was an average 5.2% decrease that took effect Jan. 1.

N.J. panels appointed

TRENTON, N.J.—Three recently created committees in New Jersey will investigate separate insurance-related issues, including the relationship between banking and insurance.

Federal and state prohibitions separate banking and insurance powers, but many favor ending those barriers, said Kenneth D. Merin, insurance commissioner. A task force will investigate both sides of the issue and is expected to issue a report by May 1.

Another committee was appointed to help the Insurance De-

partment with the regulation of dental plan organizations.

The third panel was created to advise Mr. Merin on disciplinary cases against agents and brokers.

Lawyer's malpractice

SACRAMENTO, Calif.—Insurers writing malpractice coverage for attorneys in California must soon meet some of the same reporting requirements as underwriters of doctors and dentists malpractice.

S.B. 1627, an amendment to the California Insurance Code, takes effect in January. It requires insurers of lawyers malpractice coverage in California to report to the state Insurance Department information such as:

- The total number of lawyers for whom coverage was written during the preceding year.
- The total amount of written and earned premiums during the preceding year.
- The total number of claims outstanding and the amount of loss reserves, segregated by year claims were filed.
- The total number of lawsuits filed against policyholders, identified by the year the claim was filed.

Program set on insurance, banking

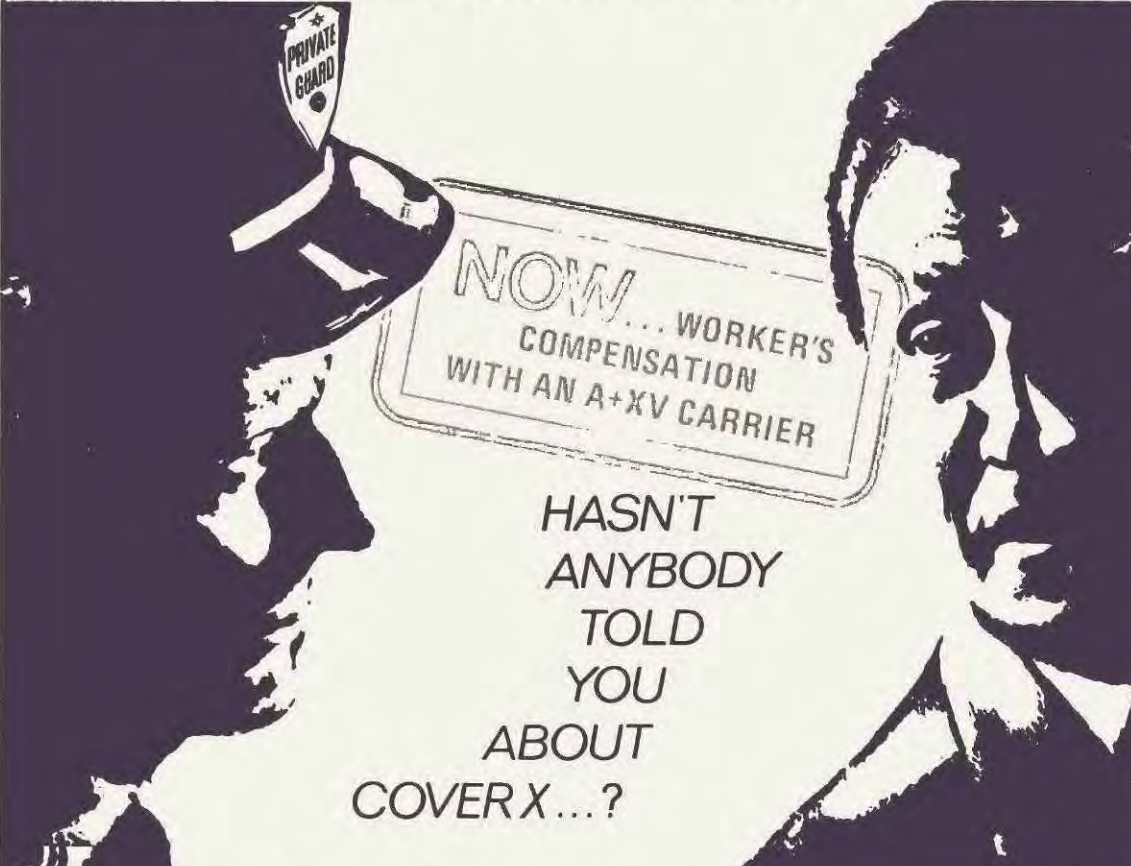
WASHINGTON—A program about insurance and financial services regulation will be held 2-4:30 p.m. Wednesday, Dec. 12, in the Hilton Hotel in Washington.

There is no charge to attend the program, which is sponsored by the Assn. Internationale de Droit des Assurances (AIDA), an international organization of attorneys, professors, insurance regulators and others interested international insurance law and regulation.

The program is being held at the

same time and place as the winter meeting of the National Assn. of Insurance Commissioners. The relationship of banking and insurance is a topic of heated discussion among regulators and will be taken up earlier that morning by the Integrated Financial Services Task Force, chaired by Bruce Foudree, the Iowa insurance commissioner. Mr. Foudree, who is expected to be elected president of the NAIC during the conference, is one of five speakers on the AIDA panel.

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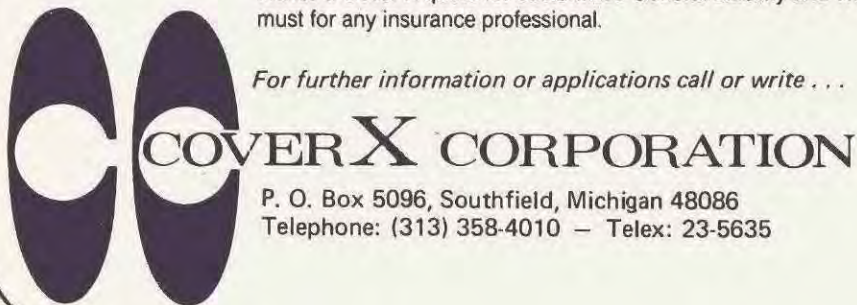
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JAN. 10. Products Liability Insurance luncheon seminar in Montreal, sponsored by the Quebec Risk & Insurance Management Assn.; \$18. Suzan Ness, Chairman, Dominion Textile Inc., 1950 Sherbrooke St. West, Montreal, Quebec H3H 1E7; 514-989-6297.

JAN. 11-12. Preparation and Trial of a Complex Toxic Chemical or Hazardous Waste Case seminar in New York, sponsored by the Practising Law Institute; \$350. Registrar, PLI, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

JAN. 11-13. End Crisis Management seminar in Atlanta, sponsored by Retirement Advisors Inc.; \$425; \$375 for registration three weeks in advance. RAI, 919 Third Ave., New York, N.Y. 10022; 212-421-2400.

JAN. 15. 1984 Federal Tax Package: Its Impact On Risk And Benefits Managers seminar in San Francisco, sponsored by the Risk & Insurance Management Society; \$95. Kim Suthelmer, RIMS, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

JAN. 15-16. Application of Microcomputers to Occupational Health and Safety course in San Diego, offered by the University of Southern California; \$375. University of Southern California, Institute of Safety and Systems Management, Office of Extension and In-Service Programs, Los Angeles, Calif. 90089-0021; 213-743-6523/6524.

JAN. 17. Pre-Admission Certification seminar in New York, sponsored by the Task Force on Utilization Review; free for members; \$25 for non-members. The New York Business Group on Health Inc., 1633 Broadway-46th floor, New York, N.Y. 10019; 212-397-1260.

JAN. 21-22. Health Care Cost Containment Workshop in Miami, sponsored by the Health Research Institute; \$395. Also Feb. 11-12 in Los Angeles. Workshop Coordinator, Health Research Institute, 49 Quail Court, Suite 200, Walnut Creek, Calif. 94596; 415-676-2320.

JAN. 21-25. Industrial Ventilation Fundamentals course in San Diego, sponsored by the University of Southern California; \$650. University of Southern California, Institute of Safety and Systems Management, Office of Extension and In-Service Programs, Los Angeles, Calif. 90089-0021; 213-743-6523/6524.

JAN. 22. Data Workshop & National Statistical Data Base Briefings workshop in Miami, sponsored by the Health Research Institute; free. Also Feb. 12 in Los Angeles. Workshop Coordinator, Health Research Institute, 49 Quail Court, Suite 200, Walnut Creek, Calif. 94596; 415-676-2320.

JAN. 23. Health Improvement/Prevention workshop in Miami, sponsored by the Health Research Institute; \$195. Also Feb. 13 in Los Angeles. Workshop Coordinator, Health Research Institute, 49 Quail Court, Suite 200, Walnut Creek, Calif. 94596; 415-676-2320.

JAN. 23-25. 10th Annual Enrolled Actuaries meeting in Washington, sponsored by the American Academy of Actuaries and the Conference of Actuaries in Public Practice; \$215 for members; \$240 for non-members. Sue Hendrickson, AAA, 1835 K Street N.W., Washington, D.C. 20006; 202-223-8196.

JAN. 23-25. Antitrust in the Health Care Field conference in Washington, sponsored by The National Health Lawyers Assn.; \$340 for NHLA members, \$390 for non-members. Registrar, Program Division, NHLA, 522 21st St. N.W., Suite 120, Washington, D.C. 20006; 202-833-1100.

JAN. 28-31. Physical Security Workshop in Las Vegas, sponsored by the American Society for Industrial Security; \$445 for members, \$535 for non-members. Registrar, ASIS, 1655 North Fort Myer Drive, Suite 1200, Arlington, Va. 22209; 703-522-5800.

JAN. 29-30. "Where Do We Go From Here?" Annual flexible compensation conference in Washington, sponsored by Charles D. Spencer & Associates Inc.; \$400. Registrar, Charles D. Spencer & Associates Inc., 222 West Adams St., Chicago, Ill. 60606; 312-236-2615.

FEB. 1. Advanced Post-Graduate Cost Containment workshop in Los Angeles, sponsored by the Health Research Institute; \$195. Workshop Coordinator, Health Research Institute, 49 Quail Court, Suite 200, Walnut Creek, Calif. 94596; 415-676-2320.

FEB. 1-3. Third Annual Southwest Head Injury Symposium in Costa Mesa, Calif., sponsored by Northridge Hospital Medical Center; \$185 before Jan. 1; \$200 after Jan. 1; Pamela W. Schiffmacher, Northridge Hospital Medical Center, 18300 Roscoe Blvd., Northridge, Calif. 91328; 818-885-8500.

FEB. 4-8. Occupational Health Nursing: Basic Theory Update course, offered by the University of Southern California; \$550. USC, Institute of Safety and Systems Management, Office of Extension and In-Service Programs, Los Angeles, Calif. 90089-0021; 213-743-6523/6524.

FEB 4-MARCH 10. Systems Reliability and Risk Analysis study program, offered by the Massachusetts Institute of Technology; \$7,700. Director, Advanced Study Programs, Center for Advanced Engineering Study, MIT, Cambridge, Mass. 02139; 617-253-6128.

The Datebook is compiled from notices sent to Business Insurance. Notices should be sent at least eight weeks in advance to Datebook, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. Business Insurance reserves the right to select meetings of most interest to its readers and cannot guarantee that notices will be printed.

Group must raise \$1.5 million in bid to save bankrupt insurer

Continued from page 2

retention limits—which ranged from \$1,000 to \$100,000 per occurrence—but also North-West's layer of liability—generally \$50,000 per occurrence. Under the plan, the policyholders also would agree to stay with the newly created insurer for three years, thereby guaranteeing a base of business.

Under this plan, at least the policyholders could recover the reinsurance due on their claims, which they expect to be more than they could recover as creditors of the insurer.

The CIA first presented its rescue plan in October during hearings on the liquidation in Multnomah County Circuit Court in Portland. Both Oregon's and Louisiana's insurance commissioners agreed to the CIA plan in a prepared order presented during the Dec. 4 liquidation proceedings.

But, as part of that agreement, when the new insurer is created in Louisiana, it would be placed in rehabilitation there, said attorney James W. Williams, Mr. Fenet's law partner.

On Dec. 4, the Circuit Court judge in Orgeon ordered the company liquidated but approved the CIA's plan for running off the business written by Mid-Continent.

The new insurer, to be known as North-West Insurance Co. of Louisiana, would assume all the business written by Mid-Continent, not only in Louisiana, but some 12 other states, Mr. Williams said.

According to the latest count, more than 9,000 claims are outstanding from all North-West and Mid-Continent's operations, said Jack Sanguin, an Oregon special deputy commissioner. Those claims represent about \$32 million in net losses, after reinsurance recoverable, or \$59.5 million in gross losses, he said.

North-West, a subsidiary of New Orleans-based Surplus Underwriters Inc., owned Southeast Indemnity Co., a still-active workers compensation insurer in Houston, in addition to Mid-Continent.

The 13 states in which North-West was admitted are Alaska, Arkansas, Colorado, Idaho,

Iowa, Mississippi, Missouri, Montana, Nevada, New Mexico, Oregon, Utah and Washington.

North-West also wrote on a surplus lines basis in 17 other states, primarily through Mid-Continent, sources say. But in some of those states, notably California, North-West itself wrote the surplus lines business.

The estimated 67 outstanding claims in California, totaling \$468,000 in gross losses, may be paid on a pro rata share from any assets of the liquidation, said Kathleen Dahlin, the assistant Oregon attorney general who represents the Insurance Department in the liquidation.

She said if the CIA plan fails, the claims it would have covered also would come under the general liquidation and be entitled to a pro rata share of the assets.

A detailed breakdown of outstanding claims per state was to be presented to insurance commissioners and staffs during a special session Dec. 9 at the annual winter meeting of the National Assn. of Insurance Commissioners, being held this week in Washington.

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New A&A surpasses M&M in retail broking

Continued from page 1

Based on the \$21.25 price of A&A shares at the close of trading on the New York Stock Exchange last Thursday, the shares involved in the transaction carry a value of about \$236 million.

In announcing the agreement, A&A and Reed Stenhouse cautioned that it is subject to several conditions, including:

- Completion of a business and legal review of both companies.
- The approval of A&A and Reed Stenhouse shareholders.
- Approval by government authorities in the U.S., Canada, U.K., Australia and New Zealand.
- Assurance from the Council of Registered Insurance Brokers of Ontario that Reed Stenhouse's broker's license will be maintained after the acquisition.

- Approval for the listing on various stock exchanges of the A&A and Reed Stenhouse shares called for in the proposal.

- Confirmation from the Office of Fair Trading in the U.K. that the acquisition will not be referred to Britain's Monopolies and Mergers Commission.

Mergers can be referred to this commission for review if they are deemed to be damaging to the British economy or if they would result in a monopoly in a given area of commerce explained John Riley, a Reed Stenhouse vp.

"That can be a very awkward exercise. It can lead to a tremendous delay in the transaction being allowed to be completed," he said.

A&A and Reed Stenhouse officials say the two companies are uniquely suited for a merger.

"It's an incredible fit," Mr. Irvin observed.

Reed Stenhouse has strong retail brokerage operations in the U.K., where A&A's strengths are reinsurance and wholesale brokerage. Reed Stenhouse also has deeper retail brokerage roots in Canada, Australia, New Zealand and the Pacific Basin, all of which will augment A&A's international presence, Mr. Irvin noted.

And, A&A's major strength is in the U.S. retail brokerage market, where Reed Stenhouse has been trying unsuccessfully to turn a profit for several years.

For the year-ended Sept. 30, 1983, Reed Stenhouse Holdings Inc., the company's U.S. division, lost about \$1.3 million Canadian (\$1.1 million U.S.) on record gross revenues of \$67 million Canadian (\$54.4 million U.S.).

The U.S. business accounted for about 23% of the firm's total gross revenues of \$297 million Canadian, (\$241 U.S.). Canadian business accounted for 37%; U.K. and Ireland for 24%; Australia, New Zealand and Southeast Asia for 11%; and other business for about 5%.

There are some areas where the two companies have overlapping operations that will have to be consolidated, though, principally in the U.S. and London.

Reed Stenhouse, for example, has its own reinsurance operations—Sten-Re Ltd. in London and Sten-Re, Cole & Associates, in the U.S.—while A&A has Alexander Howden Reinsurance Brokers Ltd.

in London and Thomas A. Greene & Co. in the U.S.

No decisions have been made yet on how the integration will proceed or which offices may be merged, but a task force has been formed to study the questions, Mr. Irvin said.

Mr. Irvin and Mr. Riley both said that large-scale layoffs during the integration process are not likely.

"With the market the way it is, we'll need talent, and Reed Stenhouse will be a source of talent," Mr. Irvin observed.

The two companies also have equity interests in different foreign insurance brokerages in some of the same countries.

In France, for example, Reed Stenhouse owns 49% of Societe Generale de Courtage d'Assurances S.A., while A&A has a 21% equity interest in Cie. Europeenne de Courtage d'Assurances et de Reassurances.

A&A will have to "sort some things out" in these situations, says Mr. Irvin, adding that the problem is "nothing real significant."

Mr. Riley said that A&A and Reed Stenhouse had been discussing a merger on and off since 1974, but that a recent reorganization of Reed Stenhouse and changes in U.K. exchange control laws made the transaction possible.

At the end of last year, Reed Stenhouse bought out Stenhouse Holdings Ltd., a London affiliate that owned 55% of Reed Stenhouse's stock. That acquisition was made possible by Stenhouse Holdings' sale of an unwanted industrial

division and the discontinuation of a U.K. law that limited investment by British citizens in foreign companies, Mr. Riley explained.

These same developments cleared the way for the merger with A&A, he added.

"That certainly took away a big roadblock," he said.

Analysts generally agreed that the deal is a good one for A&A.

"On the fundamentals, I think it's very good for A&A," said James B. Stradtner, a general partner with Alex Brown & Sons in Baltimore. "The one has operations where the other does not."

"It gives A&A a boost up in the international arena," noted Leonard Wilson, a special limited partner with L.F. Rothschild, Unterberg Towbin in New York.

"It looks like A&A paid a fair-sized (price-earnings) multiple, but earnings are going to accelerate," said David Seifer, an analyst with First Boston Corp. in New York, adding that the acquisition is well-timed to take advantage of rising property/casualty insurance rates.

"It's certainly not going to create the problem of the last one," he said, referring to the disastrous consequences of A&A's 1982 acquisition of Alexander Howden Group.

Analysts say the acquisition will result in an 1985 earnings dilution of 10 cents per share, reducing earnings to \$1.40 per share from \$1.50.

But Peter Densen, A&A's senior vp-finance, says the economic benefits of the acquisition will compensate for the dilution.

"There will be enormous income enhancement and (greater) efficiency to at least offset initially any dilution there may be," he said.

For 12 months ending Sept. 30, Reed Stenhouse's fiscal year, the Canadian broker reported revenues of \$336 million Canadian, up 5.6% from \$318 million Canadian in 1983. But, at U.S. exchange rates at Sept. 30 of 1983 and 1984, revenues fell to \$255 million from \$258 million.

Net earnings, however, declined 8.9% to \$11.7 million Canadian from \$13.2 million Canadian in 1983. At U.S. exchange rates, 1984 net income was \$8.9 million and 1983 was \$10.7 million.

Among the management changes in the works, William M. Wilson, president and chief executive officer of Reed Stenhouse, will become chairman and chief executive of A&A International Inc. John C. Sienkiewicz, who has been president and chief executive of A&A International, will retain the title of president.

And, four members of Reed Stenhouse management will be named to A&A's board of directors: John B. Devine, chairman and chief executive of Reed Stenhouse & Partners Ltd.; David C. French, chairman and chief executive of Reed Stenhouse Inc. in the U.S.; Cedric G.E. Gyles, chairman and chief executive of Reed Stenhouse Ltd., Canada; and Mr. Wilson.

Two outside members of the Reed Stenhouse board—William Douglas H. Gardiner and Angus Grossart—also will join the A&A board.

Meanwhile, Mr. Irvin will replace Richard M. Page as chairman of Alexander Howden Group, which will be renamed Alexander Howden Holdings P.L.C., the company announced (See update.)

Ronald A. Iles, chairman of Alexander Howden Reinsurance Brokers, and Dennis L. Mahoney, chairman of Alexander Howden Ltd., have been named joint chairmen of Alexander Howden Insurance Brokers Ltd., which will be renamed Alexander Howden Group Ltd.

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Doctors nationwide can check legal histories

Physicians nationwide may soon have access to a service that tries to reduce malpractice claims and insurance premiums by red-flagging litigation-prone patients.

Physician's Alert Inc., which operates under the premise that people who have been plaintiffs in civil lawsuits in the past are more likely to file a malpractice claim against their physician than are people who never have initiated litigation, is now expanding nationwide.

Until now, only Detroit physicians had access to the year-old service, which, for a fee, provides a legal history of potential patients (BI, May 28). The company's data base has been confined to lawsuits filed in the three-county metro Detroit area within the past 48 years.

But that's changing. Physician's Alert now does business under a newly-formed parent, and it hopes to be operational by March 1985 in New York, Los Angeles, San Francisco and Chicago, as well as Detroit, says Paul H. Huth, who co-founded Physician's Alert last November.

The company recently joined forces with I.P. Sharp Ltd., a Toronto-based computer time-share business that specializes in accumulating and disseminating various data bases, and formed The DocketSearch Network Inc. as its parent. The new company and its data base will be headquartered in Chicago.

The second wave of expansion, which is expected to conclude by the end of next year, will launch the service in Dallas, Houston, Atlanta, Miami and Boston.

The company expects to enroll 5% of the practicing physicians in each city after one year of operation. That figure approximately represents the share of the Detroit market the company has already enrolled, Mr. Huth says.

Eventually, the Physician's Alert hopes to attract doctors in all U.S. cities with populations of more than 150,000, Mr. Huth says.

Typically, a physician subscriber phones the service, using a toll-free 800 number, with names of several patients from the upcoming week's appointment calendar for which he or she is seeking a legal history. When the Network is completely operational, a doctor in New York, for example, who may be wary of treating a particular individual, can find out if that person has sued someone before, either in New York or any of the other above-mentioned cities.

The company charges physicians \$150 annually for the screening service, plus \$15 per phone call to the data base if any prior lawsuits are discovered, and \$8 per call if no legal history is uncovered.

products & services

Trucking coverage

A new coverage for trucking firms based in New York is available from Global Facilities Inc., a special risk underwriter in Rockville Centre, N.Y.

The Global program offers protection for cargo and personal property, rental reimbursement and umbrella policies.

The underwriter will make all permit filings to the Interstate Commerce Commission for clients that travel outside New York.

More information on the coverage is available from Global at 200 Sunrise Hwy., Rockville Centre, N.Y., 11570; 212-523-5959.

Fire alarm unit

The W.L. Jenkins Co. has introduced a new model of its Flashing alarm unit specifically for fire alarms.

The Flashing combines the simultaneous flashing of a red light in a vibrating bell housing. The new model has the word "fire" in bold white letters on each side of the bell, according to the company, which makes it useful for the hearing impaired as well as the visually impaired.

The special Flashing fire alarm model is available in six-, eight- and 10-inch sizes for all standard voltages in A/C and D/C models.

The A/C model costs an average of \$45 each, while the D/C version averages about \$38 each.

For more further information, contact the company at 1445 Whipple Road S.W., P.O. Box D Station C, Canton, Ohio 44708; 216-477-3407.

Wellness program

San Diego-based Softworld Inc. has introduced a software wellness program called Positive Lifestyling. This new program is designed to help employees in the areas of nutrition, exercise, stress management, chemical dependence and weight control.

According to the company, the program first assesses the employee's current condition through some basic tests and then, based on

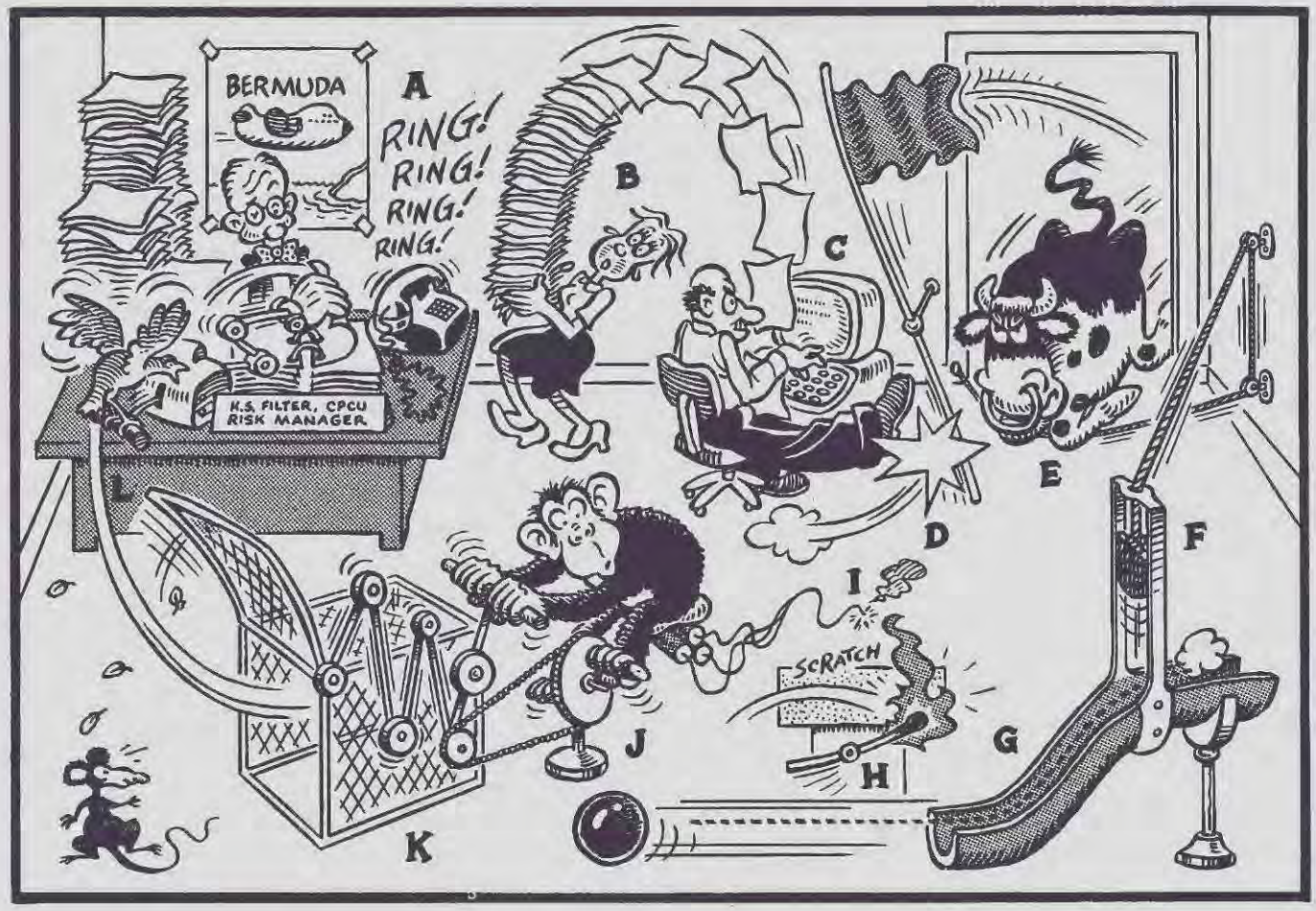
the responses, gives the employee immediate feedback on the extent to which his or her lifestyle affects his or her long-term well-being and health.

It then has respondents set their own goals in 11 wellness areas, including aerobics and carbohydrate intake, and monitors their daily progress, using graphic displays to show their progress. The program has been designed to track progress for up to four years.

Positive Lifestyling, which runs on the IBM PC and XT computers, retails for \$145. A demonstration disk is \$7 plus \$3 for shipping and handling.

For more information, contact Ian D. Urquhart, marketing director, 9550 Black Mountain Rd., Suite G, San Diego, Calif. 92126; 619-578-4878.

Self Insurance Is No Do-It-Yourself Project.



Toxic substances

A new employee training program focusing on the safe handling of toxic substances has been developed by the Illinois State Chamber of Commerce.

The "Right to Know" Training Program consists of a slide presentation and training manual. The manual is divided into two parts: The first part is to guide the manager in implementing an effective program, and the second part contains the text and instructor's role in the training program.

The cost of the two-part program is \$160 for ISCC members and \$210 for non-members. For the slide presentation only, the cost is \$130 for members and \$160 for non-members. For the training manual only, the cost is \$30 for members and \$50 for non-members. Contact "Right to Know" Training Program, Center for Business Management, 20 N. Wacker Drive, Chicago, Ill., 312-372-7373.

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PARKER SERVICES, INC.

Risk Management Services

Union Carbide

Continued from page 1

"How do you work out awards for people in India? Will the people be sophisticated enough to get lawyers to take cases against Union Carbide in the (United) States?" asks the London broker.

"This will go on for years," he added. "Then the long-term effect (of the poison gas) will be a danger—when mothers produce babies and the babies are perhaps defective. . . It's a tricky one, this."

The ultimate cause of the poisonous gas leak could be the subject of protracted litigation, if, for example, it is found that a piece of equipment manufactured by a company other than Union Carbide were to blame for the disaster.

Union Carbide's property and liability insurers could subrogate against the responsible party, experts note.

Union Carbide, headquartered in Danbury, Conn., refused to return repeated phone calls from *Business Insurance*.

Marsh & McLennan Cos. Inc., Union Carbide's broker, also refused to comment.

Under Indian law, foreign multinationals must buy primary liability insurance for their Indian operations from an Indian insurance

company. Insurers in India include the state-owned National Insurance Co., General Insurance Corp. of India, New India Assurance Co. Ltd., Oriental Fire & General Insurance Co. Ltd. and United India Insurance Co. Ltd.

The primary limit purchased by Union Carbide is unknown but is estimated to be no more than \$1 million.

Under its worldwide liability insurance program that kicks in above the primary coverage, Union Carbide retains about \$5 million of the risk, industry sources estimate.

Among the insurers known to be involved on Union Carbide's worldwide program are: Royal Insurance-U.S., a subsidiary of Royal Insurance P.L.C. in London, for an undisclosed amount below \$73 million; CIGNA Corp., for an undisclosed amount; and American International Group, on several layers.

Royal officials, who said they were uncertain of their liability, were meeting last week with officials of Union Carbide and M&M.

"There is very little information coming back from India at the moment," said Robert Pinto, secretary of Royal Insurance-U.S. "There is confusion going on. We don't know what the limit of the primary insurance coverage is."

AIG participates on three layers above \$73 million.

AIG writes \$7 million of the \$27 million excess of \$73 million layer, \$7 million of the \$50 million excess of \$100 million layer and \$1 million of the \$25 million excess of \$175 million layer.

AIG reinsured about 80% of its \$15 million exposure on the Union Carbide account, said Paul Robitaille, director of investor relations at AIG.

AIG had not, as of last Thursday, received any notification of claim from Union Carbide.

CIGNA participates only on the layer above \$175 million.

Reports on the number of dead and injured in the disaster increased daily last week. The estimate of 1,600 dead late last week was expected to climb to at least 2,000. And while 50,000 people were reported to have been treated for injuries, more than 200,000 were reported to have been exposed to the poisonous gas.

Of the 50,000 treated, 20,000 were said to have been seriously injured.

Only one of the 120 Union Carbide employees was reported to have died.

The poisonous gas cloud of methyl isocyanate spread over the town of Bhopal in the Indian state of Madhya Pradesh on Dec. 3.

The cloud emanated from a leak in the methyl isocyanate tank at the Indian plant. The highly volatile chemical, used to make a pesticide, expands rapidly under heat and pressure. Devices used to safely vent and neutralize the deadly gas apparently failed.

The Indian government has set up a commission led by Indian High Court Justice N.K. Singh to investigate the disaster, said a spokesman for the Indian Embassy in Washington.

Any litigation that the state may bring against Union Carbide in either Indian or U.S. courts will have to wait until the commission completes its investigation, the spokesman said.

Union Carbide Chairman Warren M. Anderson flew to India last week with a team of experts to investigate the disaster.

Before leaving, he told news reporters, "If emergency relief is reported, we are there to provide it."

Meanwhile, Union Carbide has shut down the production of the deadly chemical at its Institute, W. Va., plant until the cause of the Indian disaster is known.

Union Carbide said the West Virginia plant has a computerized early warning system to detect the buildup of temperatures and pressure in the tank.

Still, the West Virginia Air Pollution Control Commission in Charleston plans to review the safety procedures of Union Carbide after the company concludes its investigations in Bhopal, said Ronald Engle, the agency's chief chemist.

While Union Carbide's comprehensive general liability coverage would cover losses related to sudden pollution, the company apparently has been concerned about the possibility of gradual pollution related to its facilities in the United States.

About two years ago, Union Carbide asked London agent ERAS (International) Ltd. to write environmental impairment liability insurance to cover its U.S. operations. At the time, ERAS could provide up to \$30 million in EIL coverage.

But, after conducting a survey of Union Carbide's U.S. operations, ERAS wanted certain conditions applied to the coverage that Union Carbide would not accept, said Dr. Malcom Aickin, director of ERAS in London.

The survey, conducted by ERAS (U.S.A.) Ltd., was designed to "look at a company's consciousness of the environment, its care of the environment and management's approach to the environment," Dr. Aickin said.

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vps, etc. 5,357

Financial Management:

chief financial officers,
vps of finance, secretaries,
treasurers, etc. 9,876

Insurance Management:

vps, directors, managers of
insurance, risk, benefits
compensation, safety,
security, etc. 7,254

Associations

1,069

Government, Unions, Educational Institutions

860

Commercial Consumers

Sub-Total 24,416

Insurance Agents
& Brokers 9443

Insurance Cos. 5636

Financial Institutions 403

Actuaries, Attorneys,
Adjusters, Appraisers
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Others allied to the field 1127

TOTAL 44,245

*Source: Business/Occupational breakdown of qualified circulation, May 7, 1984 issue, as submitted to BPA for June 1984, BPA Publisher's Statement.

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Dec 17	Dec 5
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Jan 7	Dec 19
Jan 14	Dec 27
Jan 21	Jan 9
Jan 28	Jan 15
Feb 4	Jan 23
Feb 11	Jan 30
Feb 18	Feb 5
Feb 25	Feb 12
Mar 4	Feb 20
Mar 11	Feb 27
Mar 18	Mar 5
Mar 25	Mar 13
Apr 1	Mar 20
Apr 8	Mar 27
Apr 15	Apr 2
Apr 22	Apr 9
Apr 29	Apr 16
May 6	Apr 24
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benefit beat

UAW pact in Canada has benefits similar to U.S.

United Auto Workers at the Canadian divisions of Ford Motor Co. and General Motors Corp. have new labor contracts containing benefits plans almost identical to those of their U.S. counterparts.

Both automakers recently reached agreements with the UAW—the Ford contract was ratified by 87.8% of union voters on Nov. 11; the GM contract was ratified by 83.3% of the voters on Oct. 29.

The major difference between the Canadian and U.S. contracts is in their health care plans. The Canadian contracts do not include health care coverage because workers receive medical care through the Ontario Hospital and Insurance Plan (OHIP), a government-financed health care program.

However, dental benefits were increased by the new contract. The lifetime orthodontic benefit maximum was increased to \$1,000 from \$800. In addition, all dental benefits, which had been reimbursed at 90%, will be paid in full.

Identical benefits changes were made at both companies in the following areas:

- Pensions. The basic pension of current retirees will immediately increase by \$1 a month per year of credited service, to a maximum of \$30 a month. Currently, workers receive pension benefits based on job classification and retirement date.

In addition, current retirees will receive lump-sum payments in December 1985 and December 1986 equal to \$6.67 per year of service, up to a maximum of \$200.

The pension benefits of workers who retire during the new contract also will increase by as much as \$3.85 a month for every year of credited service over the life of the contract, depending on job classification and date of retirement.

And, the pensions of current retirees who retired under the "30-and-out" pension program will increase by \$30 a month. The "30-and-out" program allows employees to retire after 30 years of service, no matter what their age.

In addition, workers who retire under this provision will receive increases over the life of the contract, depending on job classification and date of retirement.

- Sickness and accident bene-

fits. The new contract also will raise sickness and accident benefits. Weekly payments for an assembler will increase immediately to \$315 from \$255, and will increase again, to \$325, in September 1986. The highest-paid job category will receive a weekly increase to \$410, up from \$335.

- Life insurance. Workers also won increases in life insurance benefits. Life insurance for an assembler will increase immediately to \$29,500 from \$27,500, and will increase again in September 1985 to \$30,000. For a tool-and-die maker, the immediate increase will be to \$35,000 from \$32,500, and another increase, to \$36,000, will follow in September 1985.

- Accident insurance. Under the new contract, workers also will receive more accidental death and dismemberment insurance. For an assembler, coverage will increase immediately to \$14,750 from \$13,750, and will increase to \$15,000 in September 1985. For a tool-and-die maker, the immediate increase will be to \$17,500 from \$16,250, and to \$18,000 in September 1985.

Benefit beat keeps insurance and employee benefit managers informed on what other companies are doing and of current developments in the employee benefit field. We'd like to know if you've made any changes. Write Diane Kastiel, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611; 312-649-5393.

Treasury justifies benefit tax

Continued from page 1

A company that self-insures its health benefits would calculate its costs by adding its expected claims payments and administrative costs, the Treasury says. In lieu of using actual administrative costs, an employer could add 7% of claims payments as a reasonable administrative cost.

The proposal requires employers to compute the cost of coverage in advance of the payroll period. The cost would have to be refigured at least once a year or whenever there are significant changes in coverage.

If a self-insurer cannot determine in advance the actual cost of coverage, "reasonable estimates" of the costs would be allowed.

However, if the Internal Revenue Service determined that the cost was underestimated, the employer could be liable for the income taxes that would have been paid by the employee if the proper cost of coverage had been determined.

The income taxes owed would be computed at the maximum rate applicable for individuals, or 35% under the tax simplification plan.

For example, if the value of the health care benefits provided by the employer were estimated at \$120 a month, an employee with individual coverage would be taxed on an additional \$50 a month in income, the difference between the estimated \$120 in benefits and the \$70 cap. However, if the actual value of the benefits were determined to be \$200 instead of \$120, the IRS could make the employer liable for the taxes due on an additional \$80 per month in income per employee, or \$960 a year per employee.

If the employer had 300 employees receiving individual coverage,

it could be liable for taxes due on \$288,000 at a tax rate of 35%, or \$100,800.

The employer also would have to pay the additional FICA taxes that would be due on this unreported income, including the employee's share in addition to the employer's own share. (Starting Jan. 1, employers and employees each will pay 7.05% on the first \$39,600 of salary in FICA taxes.)

The employer also would have to pay additional unemployment taxes owed on the unreported payroll.

This threat of an IRS penalty for miscalculations of benefit costs could encourage self-insurers to purposely estimate health plan costs high to avoid being hit with additional costs later.

However, a Treasury Department official stresses that the department is sympathetic to the problems self-funders will face in computing the per-employee value of the health benefits they provide. Employers would not be penalized if a "reasonable" effort had been made to accurately estimate the per-employee value of health benefits, the official stressed.

The Treasury wants to cap tax-free health benefits because it believes they lead to careless use of health care services by employees.

The escalation of health care costs in recent years is a result of "overconsumption of such services by employees for whom they are tax-free, and, in many cases, available without limit," Treasury says.

The tax-free status of health care contributions also has contributed to the erosion of the tax base and higher marginal tax rates, the Treasury report says.

"Imposing reasonable limits on
Continued on next page

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Benefit tax changes

Continued from preceding page
the amount of health care available tax-free is an important part of the effort to broaden the base of taxable income and reduce marginal tax rates," the department said.

Last week's report also explains why the Treasury wants to change the tax status of other benefits:

Cafeteria plans

The Treasury Departments says it wants to eliminate Section 125 of the Tax Code that allows employees to choose from a menu of tax-free and taxable benefits because the freedom to choose between the benefits or cash under many cafeteria plans undermines the principle that benefits should be extended broadly on a non-discriminatory basis.

"Generally, the rationale for excluding an employer-provided benefit from employees' income is to encourage the broadest extension of the particular benefit to employees on a non-discriminatory basis.

"The cafeteria plan rules undercut this rationale since they permit individual employees to elect cash over the benefit without affecting the tax treatment of other employees.

"In effect, the tax benefits are made available without regard to whether all employees receive the particular benefit on a broad, non-discriminatory basis," the report says.

401(k) plans

The Treasury says it wants to eliminate 401(k) plans and instead increase the amount of tax-deductible contributions that can be made to Individual Retirement Accounts to \$2,500 from \$2,000 because 401(k) plans, the department says.

Under a 401(k) plan, a worker may reduce his or her pretax salaries by up to \$30,000 a year. The contributions are funneled into an account where they earn interest tax-free until they are withdrawn. However, the Treasury points out that lower-income employees do not have an opportunity to set aside \$30,000, making this a benefit available only to the well-to-do.

In contrast, more people would be able to take advantage of the \$2,500 contribution allowed to IRAs, the department says. "IRAs are available to all individual taxpayers, without regard to form of

employment or occupation," the report says.

Thus IRAs, and not 401(k) plans, are the "appropriate vehicle for receipt of deductible retirement plan contributions by individuals."

Term life insurance

"The exclusion of group-term life insurance from income causes significant inequities among taxpayers," the Treasury says.

Under Section 79 of the Tax Code, which Treasury wants to repeal, employer-paid term life insurance premiums for up to \$50,000 of coverage is not included as taxable income to workers.

"Taxpayers receiving group-term life insurance through an employer-sponsored plan effectively purchase such insurance with pretax dollars, whereas taxpayers not covered by an employer must use after-tax dollars to acquire the same insurance. Thus two taxpayers with identical real incomes must pay different amounts in income taxes."

The group-term life insurance exclusion lowers the product's after-tax cost "and thus encourages employees to request and employers to provide more insurance than the employees would be willing to pay for on their own," Treasury says.

Dependent child care

Under current law, which the Treasury Department wants to repeal, individuals receive tax credits if they pay for dependent child care services themselves, while employer-paid child-care benefits are excluded from taxable income.

"There is no basis for the different tax treatment of employer-provided and individual-financed dependent care," Treasury says.

To equalize tax treatment, tax deductions would be allowed for all taxpayers using dependent care services whether they are provided by the employer or purchased by the employee. The tax credit employees receive now if they purchase child care services themselves would be repealed.

Deductions would be allowed on up to \$2,400 in child care expenses for one dependent or \$4,800 for more than one.

"Repeal of the dependent care exclusion (for employer-provided benefits) should not adversely affect the income tax liabilities of most employees receiving such as-

Treasury cites gains from taxing benefits

WASHINGTON—Wiping out the tax-favored status of most employee benefits could reduce the federal deficit by billions of dollars, according to the Treasury Department.

If employers' health care contributions that exceed \$175 a month for family coverage and \$70 a month for individual coverage were included as taxable income to employees, the government would gain an additional \$34.2 billion from 1987 through 1990, Treasury says.

Taxing the first \$50,000 of group term life insurance would swell receipts by \$9.8 billion between 1986 and 1990.

Other employee benefit changes and the revenues to be raised from 1986 through 1990 include:

- Repealing tax-free treatment of cafeteria benefit plans, \$8.5 billion.
- Eliminating cash or deferred arrangements, like 401(k) salary reduction plans, \$4.6 billion.
- Taxing interest earned by reserves held in Voluntary Employee Beneficiary Assns., supplemental unemployment trusts and black lung disability trusts, \$2.1 billion.

The total: \$59.2 billion.

But, expanding to \$2,500 from \$2,000 the annual tax-deductible contribution a worker could make to an Individual Retirement Account would cost the federal government a total of \$13.7 billion from 1986 through 1990, according to the Treasury.

The net gain, then, would be \$45.5 billion.

assistance since an offsetting deduction for dependent care expenditures still would be available," the report says.

"Employers would still have an incentive to provide on-site dependent care services, or to contract for this provision, where they promote employee convenience or result in cost savings," Treasury contends.

Educational assistance

Under amendments Congress attached this year to Section 127 of the Tax Code, employees are not taxed on tuition reimbursement checks—subject to a \$5,000 annual limit—they receive from their employers.

Treasury does not want this section of the code to be renewed when it expires on Dec. 31, 1985.

While education is a national priority deserving broad public and private support, "the exclusion from income of employer-provided educational assistance, however, is not an appropriate means of extending that support," the Treasury report says.

"The benefits of the exclusion are not fairly distributed since it is available only to employees in qualified plans. Even within the group of eligible employees, the exclusion is of greater value to high-income taxpayers."

In addition, Treasury says, "There is no reason to believe that the education assistance exclusion of current law benefits the groups for which it was intended—minorities and the unskilled. The tax benefit is greatest for high-bracket taxpayers, and participation in adult education by those groups is relatively low."

Van pooling

Under Section 124 of the Tax Code, employees are not taxed on an employers' cost of van-pooling services. Treasury says this section, added in the early 1970s to encourage energy conservation, should not be renewed by Congress when it expires on Dec. 31, 1985.

"The qualified transportation exclusion is an inefficient mechanism to promote energy conservation since it targets only one form of group transportation, employer-provided van pools," the Treasury report says.

"This may cause taxpayers to reject possibly more effective but non-subsidized transportation alternatives. The exclusion is unfair because it is not available to all individuals, and because, where available, it provides a greater benefit to high-bracket taxpayers."

Legal services

Section 120 of the Tax Code excludes employer-provided legal benefits as taxable income to employees. Treasury says this section of the code should not be renewed when it expires on Dec. 31, 1985, because it encourages overutilization of legal services and is not available to all employees.

"The exclusion from income of employer-provided group legal services encourages overconsumption of legal services by permitting employees to purchase them with pre-

tax dollars," Treasury says.

"This exclusion also is unfair because it is not available to all taxpayers, and is of greater benefit to high-income taxpayers."

VEBAs

The Treasury Department wants to tax investment income earned on assets in Voluntary Employee Beneficiary Assns., also known as 501(c)(9) trusts, to eliminate what it considers a taxpayer subsidy of these plans.

VEBAs are used by employers to self-fund their benefit coverages, especially long-term disability plans.

"The tax benefit of tax-exempt growth for amounts set aside to fund deferred compensation should generally not be available outside of the qualified retirement plan area," the report says.

"This exemption of investment income from tax effectively shifts a portion of the cost of employee compensation to the general public," Treasury says.

Under the Treasury proposal, employers still could take tax deductions for VEBA contributions.

Overfunded Pension Plans

Hundreds of employers in recent years have been reaping a cash bonanza by terminating overfunded pension plans to recapture excess assets.

The Treasury Department wants to make such terminations more costly by imposing a 10% excise tax on reversions from overfunded plans to eliminate the tax advantage of terminating a pension plan. An excise tax is not deductible.

"Current law permits employers to gain unintended tax advantages by overfunding defined benefit plans and receiving assets back on plan termination," Treasury notes. "Although plan assets reverting

to the employer are includable in its income, the employer retains the benefit of an initial deduction and of tax-deferral on the plan's income.

"Such tax-favored treatment is inappropriate where plan assets are not used to provide employee retirement benefits," the report says.

Retirement Plan Distributions

The Treasury Department wants to impose special taxes on pre-retirement distributions (before age 59½) from retirement plans "to assure that tax-favored retirement plans are used for retirement purposes."

A 10% tax would be imposed if the distribution were used for college expenses incurred by a dependent or for the first-time purchase of a home, while a 20% tax would be charged for distributions used for other purposes.

This additional tax would be non-deductible and could not be offset by any deductions or credits otherwise available to the individual.

"The tax would reduce or eliminate the tax advantages that can be obtained by using tax-favored plans to save for non-retirement purposes, including college expenses and the purchase of a residence," the report says.

Treasury notes that individuals who receive pre-retirement distributions could avoid the special taxes by rolling the distribution into an IRA.

Copies of "Tax Reform for Fairness, Simplicity and Economic Growth, Volume 2," will be available at \$10 each from the Superintendent of Documents, Government Printing Office, Washington, D.C. 20402. Specify publication number 048-000-00369-9.

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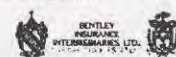
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Brokers are cleaning house to prepare for the recovery

By **LEONARD M. WILSON**
Special to Business Insurance

WITH 1984 ALMOST completed, it is pretty clear that this year has constituted a bridge between chaotic rates and firming in prices for commercial lines of insurance. It also will quite likely turn out to be a transition between several years of downward-trending earnings for the public insurance brokers and a strong earnings comeback. "Next year will be better" is a slogan that stands a good chance of proving valid.



Mr. Wilson

Coming out of the past few dismal years, the public insurance brokers not surprisingly have a few skeletons in their closets that, when brought out in the open, burden earnings.

It is a time-honored principle for public companies to clear out financial skeletons when earnings expectations are grim anyway. In an atmosphere of widely perceived bad news, additional bad news usually tends to have little incremental effect on stock prices.

Therefore, many insurance industry companies often use periods of poor operating performance to clean house. That means that when operations regain their momentum, unpleasant surprises will be less likely to surface.

Following this tested principle, we have seen in recent quarters an unusual incidence of special charges, non-recurring expenses and general deck-clearing emanating from insurance brokers.

Alexander & Alexander Services Inc. lifted amortization of goodwill in the second quarter of this year to allow for certain divestitures. Earnings in the quarter were only 4 cents a share, and yet investors, shrugging off the depressed result, ran the stock to the mid-20s subsequently.

The non-recurring charges were virtually

Leonard M. Wilson, a special limited partner at L.F. Rothschild, Unterberg, Toubin in New York, specializes in insurance brokerage stocks. He is a member of the New York Society of Security Analysts.

ignored by investors. Bad news, once out in the open, became good news because it no longer was a potential event for future disclosure.

Corroon & Black Corp., in the third quarter, posted a charge of about \$6 million designed to strengthen reserves at a small underwriting subsidiary. Although few observers could have predicted the charge, the stock did not sell off. It was as if investors, independently but of a single persuasion, followed the principle, "Out of sight, out of mind."

Frank B. Hall & Co. Inc. used the third quarter to clean out its underwriting activities. A pretax reserve of about \$30 million was established for possible loss on disposition of underwriting operations. A charge of that magnitude cannot be regarded lightly, and yet the announcement had little impact on the share prices. Underwriting will be treated as a discontinued operation under accounting rules, thereby withdrawing ongoing losses from the income statement.

Frank B. Hall paired the bad news with a piece of good news, however. Realignment of the company's pension plan added 89 cents per share, and it also will contribute \$40 million worth of cold cash million the corporate coffers.

Not to be left out, Marsh & McLennan Cos. Inc. created a reserve of about \$3 million for losses in winding down activities relating to claims administration.

For a company of Marsh & McLennan's size, that amount is almost petty cash. Nonetheless, any unexpected charges, after the bond losses earlier in the year, are a little disconcerting. The stick, though, proved unshakable.

Can we say that this catalog of special charges will insulate fourth-quarter and 1985 income statements from the unexpected? We hope so, and we think that each of the public insurance brokers would like to enter 1985 with a clean slate as far as extraordinary financial events are concerned.

Since most of the write-offs relate to wound-down underwriting, perhaps the brokers stand a good chance of not having to incur additional charges. Alexander & Alexander remains most vulnerable in this realm. Reserve bolstering at the British underwriting subsidiary—reinsurance, to be more precise—cannot be ruled out.

The so-called housecleaning has revolved

around underwriting, with the exception of Marsh & McLennan, which had modest participation in property/casualty underwriting.

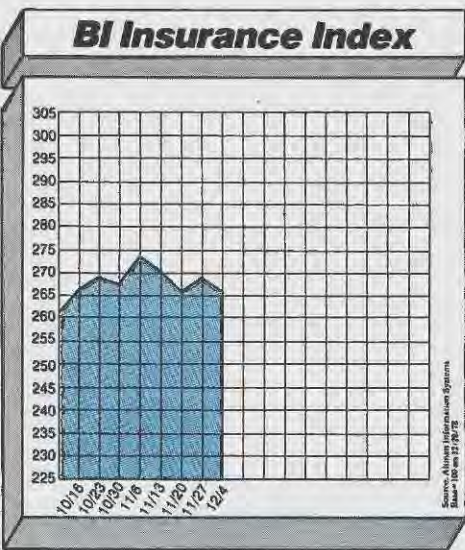
The rationale for a broker controlling an underwriting subsidiary was based on the potential for abetting placement of risks for the brokerage in tight markets. It is interesting that brokers, with perhaps the best collective sense of the underpricing in commercial lines, were unable to avoid getting burned themselves.

Only The Crump Cos. Inc. ran an underwriting subsidiary with sufficient restraint to avoid the pitfalls.

In this upcoming cycle of tighter capacity, it could be that a controlled fronting company might enhance a broker's placing capabilities.

However, the winding down of underwriting activities has chastened the brokers. The temptation for brokers to be underwriters, even on a most-circumscribed basis, will be weak.

As 1985 approaches, then, the supposition is valid that operating gains, which are likely to be quite gratifying, should not be vitiated by unpleasant surprises. And this, hopefully, will be the real value of the brokers' housecleaning of 1984.



The Business Insurance stock index fell for the period ending Dec. 4, after a slight gain the previous week. The BI index of insurance industry stocks closed at 265.9 points Dec. 4, down 2.9 points from 268.8 on Nov. 27. In all, 11 stocks were up, 34 were down, and 16 were unchanged. Sparked by reports of its impending acquisition by Alexander & Alexander Services Inc., Reed Stenhouse Cos. Ltd. stocks rose the most, with a gain of 32.1%. However, A&A declined 8.7%. The other largest gains were posted by Bitco Corp., up 14.8%; Tokio Marine & Fire Insurance Co., up 3.8%; Kemper Corp., up 2.7%; and SAFECO Corp., up 2.4%. The other largest declines were posted by Integrated Resources Inc., down 24.2%; Aneco Reinsurance Ltd., down 18.2%; United Fire & Casualty Co., down 14.7%; and Lincoln National Corp. Indemnity, down 5.7%. The BI index fell 1.1% for the period, compared with a drop of 1.8% for the NYSE in the same period.

British Issues					
4 Dec Companies	Price pence	P/E	Div. pence	Yield %	1 Week
					High—Low
Comm Union	179	N/M	16.9	9.4	181—178
Gent Accident	520	52.0	27.1	5.2	537—520
Gdn Royal Exch	684	18.2	32.9	4.8	693—684
Royal	537	82.6	32.6	6.1	548—537
Sun Alliance	427	26.7	20.0	4.7	433—425

Brokers					
CE Heath	540	9.2	24.3	4.5	1 Week
					High—Low
Hagg Robinson	220	11.9	9.7	4.4	220—213
JH Minet	206	14.2	7.4	3.8	206—198
Sedg Grp	324	15.1	11.5	3.5	324—311
Stew Wrightson	485	13.9	21.4	4.4	485—454
Willis Faber	540	19.3	30.0	2.8	540—524

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

BI Industry Stock Report

DEC. 4, 1984 11/28/84 THRU 12/4/84

DEC. 4, 1984 11/28/84 THRU 12/4/84

Insurance Cos.		Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol. (000)	DEC. 4, 1984 11/28/84 THRU 12/4/84									
										Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol. (000)		
Aetna Life & Cas Co	NYSE	34.88	-3.1	17.9	2.64	7.6	35.63	34.88	826.4	United States Fid & Gty Co	NYSE	26.38	1.4	8.5	2.08	7.9	26.88	26.25	1,020.7
American Bankers Ins Group	OTC	11.38	-1.1	7.0	0.50	4.4	11.50	11.38	61.3	Corroon & Black Corp	NYSE	27.50	-2.2	5.4	1.20	4.4	27.88	27.50	24.3
American General Corp	NYSE	24.75	-0.5	9.1	0.90	3.6	24.75	24.25	890.5	Ustlife Corp	NYSE	34.00	-2.2	9.5	1.04	3.1	35.38*	34.00	269.4
American Indty Finl Corp	OTC	16.75	-2.9	0.0	1.12	6.7	17.25	16.75	3.4	Washington Natl Corp	NYSE	21.25	-2.9	11.7	1.08	5.1	21.63	21.00	61.2
American Intl Group Inc	NYSE	63.00	-5.3	12.3	0.44	0.7	66.63	62.75	551.4	Zenith Natl Ins Corp	OTC	11.25	0.0	8.9	0.68	6.0	11.25	11.25	40.0
American Natl Ins Co	OTC	28.63	-1.3	7.9	1.08	3.8	29.13	28.63	85.9	INSURANCE COMPANIES					AVERAGE	14.6	3.9		
Aneco Reins Ltd	OTC	1.13	-18.2	0.0	0.00	0.0	1.13	1.00*	14.9	Agents/Brokers									
Aveco Corp	AMEX	17.75	-4.7	11.9	0.60	3.4	18.75	17.50	8.3	Alexander & Alexander Svcs	NYSE	22.25	-8.7	0.0	1.00	4.5	24.38	22.25	600.7
Banks Iowa Inc	OTC	44.00	1.1	13.8	1.56	3.5	44.00	43.00	7.6	Baldwin & Lyons Inc	OTC	42.00	0.0	14.7	0.80	1.9	42.00	42.00	0.0
Bitco Corp	OTC	7.75	14.8	0.0	0.40	5.2	7.75	6.75	46.3	Corroon & Black Corp	NYSE	27.75	-0.9	37.0	1.00	3.6	28.13	27.75	47.3
Carolina Cas Ins Co	OTC	3.00	0.0	0.0	0.00	0.0	3.25	3.00	1.0	Crump E H Cos Inc	OTC	17.88	-0.7	16.0	0.44	2.5	18.00	17.88	23.0
Chubb Corp	NYSE	47.38	-2.6	12.1	2.20	4.6	48.00	46.75	389.3	Emett & Chandler Cos Inc	OTC	11.00	0.0	0.0	0.00	0.0	11.00	11.00	2.9
Combined Intl Corp	NYSE	35.75	0.7	9.1	2.08	5.8	36.38	35.63	182.5	Gallagher Arthur J & Co	OTC	27.25	0.0	19.5	0.22	0.0	27.25	27.25	24.5
Continental Corp	NYSE	34.00	-1.1	12.67	2.60	7.6	34.75	34.00	308.0	Hall Frank B & Co Inc	NYSE	23.88	-1.5	0.0	1.00	4.2	24.50	23.88	64.9
Crawford & Co	OTC	18.50	0.0	11.9	0.66	3.6	18.50	18.50	9.0	Integrated Res Inc	AMEX	12.13	-24.2	4.7	0.00	0.0	15.00	12.13*	314.3
Crown Life Ins Co	OTC	116.00	0.0	7.6	4.00	3.4	116.00	116.00	0.0	Marsh & McLennan Cos Inc	NYSE	53.38	1.4	25.8	2.40	4.5	53.38	52.63	209.7
Employers Cas Co	NYSE	36.25	0.0	8.3	1.20	3.3	36.25	36.25	2.1	Pae & Assoc Inc	OTC	5.75	0.0	0.0	0.00	0.0	5.75	5.75	0.3
Equifax Inc	NYSE	33.25	1.5	13.4	1.70	5.1	33.25*	32.63	21.5	Reed Stenhouse Cos Ltd	OTC	17.50	32.1	33.7	0.60	3.4	17.50*	13.13	133.1
Farmers Group Inc	OTC	50.50	-0.5	10.9	1.52	3.0	52.00*	50.50	971.4	AGENTS/BROKERS					AVERAGE	27.7	2.8		
Foremost Corp Amer	OTC	26.25	-0.9	15.4	0.96	3.7	26.50	26.25	56.6	Conglomerates/Holding Cos.									
Fremont Gen Corp	OTC	16.00	0.0	22.9	0.48	3.0	16.00	15.75	336.9	American Express(Fireman's Fd)	NYSE	35.13	-4.7	18.3	1.28	3.6	36.38	35.00	2,090.9
Great West Life Assurn Co	OTC	316.00	1.8	8.5	12.00	3.8	316.00	310.50	0.0	Anderson Clayton(Ranger/PanAm)	NYSE	34.00	-1.8	16.0	1.32	3.9	34.38	33.63	49.6
Hanover Ins Co	OTC	27.50	-1.8	13.1	0.56	2.0	28.00	27.50	27.6	Armco Inc	NYSE	9.25	-7.5	0.0	0.00	0.0	9.75	9.13*	445.1
Hartford Steam Boiler Insptn	OTC	58.00	0.0	28.3	3.00	5.2	58.00	58.00	3.1	CIGNA Corp	NYSE	40.00	-3.6	33.1	2.60	6.5	41.00	40.00	691.5
Jefferson Natl Life Ins Co	OTC	20.13	0.0	9.5	0.44	2.2	20.13	20.13	2.9	City Investing Co. (Home Ins.)	NYSE	37.25	-2.3	9.0	2.00	5.4	38.00	36.88	904.8
Kemper Corp	OTC	42.75	2.7	30.3	1.80	4.2	42.75*	42.13	125.5	GMA Finl Corp (CNA)	NYSE	29.13	-0.4	14.2	0.00	0.0	29.50	29.13	29.9
Lincoln Natl Corp Ind	NYSE	37.00	-5.7	8.6	1.84	5.0	38.63	37.00	668.4	Control Data (Comm. Credit)	NYSE	34.00	-3.9	12.2	0.66	1.9	34.63	33.63	1,361.7
Mission Ins Group Inc	NYSE	8.00	-4.5	0.0	0.50	6.3	8.50	7.88	453.9	General Re Corp	NYSE	59.38	-2.9	20.7	1.44	2.4	60.50	59.00	126.1
Northwestern Natl Life Ins	OTC	26.00	0.0	10.1	0.80	3.1	26.25	26.00	276.6	ITT (Hartford Group)	NYSE	27.50	1.4	7.5	1.00	3.6	27.50	26.38	2,516.7
Ohio Cas Corp	OTC	41.88	-1.2	15.9	2.68	6.4	42.13	41.50	184.8	Optimum Hldg Corp	OTC	2.50	0.0	0.0	0.00	0.0	2.50	2.50	4.0
Old Rep Intl Corp	OTC	32.38	-1.1	6.5	0.88	2.7	32.75	32.38	62.2	Sears Roebuck & Co. (Allstate)	NYSE	30.88	-4.6	7.8	1.76	5.7	31.63	30.75	1,659.8
Orion Cap Corp	NYSE	22.25	-0.6	0.0	0.76	3.4	22.38	22.25	29.5	Teledyne Inc (Argonaut)	NYSE	259.63	-3.9	7.6	0.00	0.0	263.75	259.63	389.5
Preferred Risk Life Ins Co	OTC	26.00	0.0	8.5	0.74	2.8	26.00	26.00	5.8	Transamerica Corp	NYSE	26.25	-3.7	10.9	1.64	6.2	26.75	26.25	224.3
Provident Life & Acc Ins Co	OTC	77.50	-1.9	7.3	2.88	3.7	79.00	77.50	10.5	(Occidental & Fred S. James)	NYSE	26.25	-3.7	10.9	1.64	6.2	26.75	26.25	224.3
St Paul Cos Inc	OTC	48.88	-1.5	0.0	3.00	6.1	49.25	48.50	489.0	CONGLOMERATES/HOLDING COS.					AVERAGE	11.2	2.2		
SAFECO Corp	OTC	31.63	2.4	8.8	1.50	4.7	31.88	31.50	214.3										
Sri Corp	NYSE	16.75	-2.9	13.8	0.68	4.1	17.25	16.50	45.1										
Seibels Bruce Group Inc	OTC	20.50	-1.2	0.0	0.80	3.9	20.75	20.25	30.8										
Statesman Group Inc	OTC	5.25	-2.3	7.8	0.15	2.9	5.50	5.25	34.6										
Tokio Marine & Fire Ins Co	OTC	144.25	3.8	25.0	1.05	0.7	145.50	141.50	18.6										
Travelers Corp	NYSE	36.00	-2.0	9.1	1.92	5.3	36.13	35.75	676.0										
United Fire & Cas Co	OTC	14.50	-14.7	0.0	0.80	5.5	17.00	14.50*	1.3										

*Record high/low since Jan. 1, 1984

System design: Altman Information Systems

The figures were release by the Insurance Services Office Inc. and the National Assn. of Independent Insurers, reporting for 600 insurers that account for 97% of the U.S. property/casualty business.

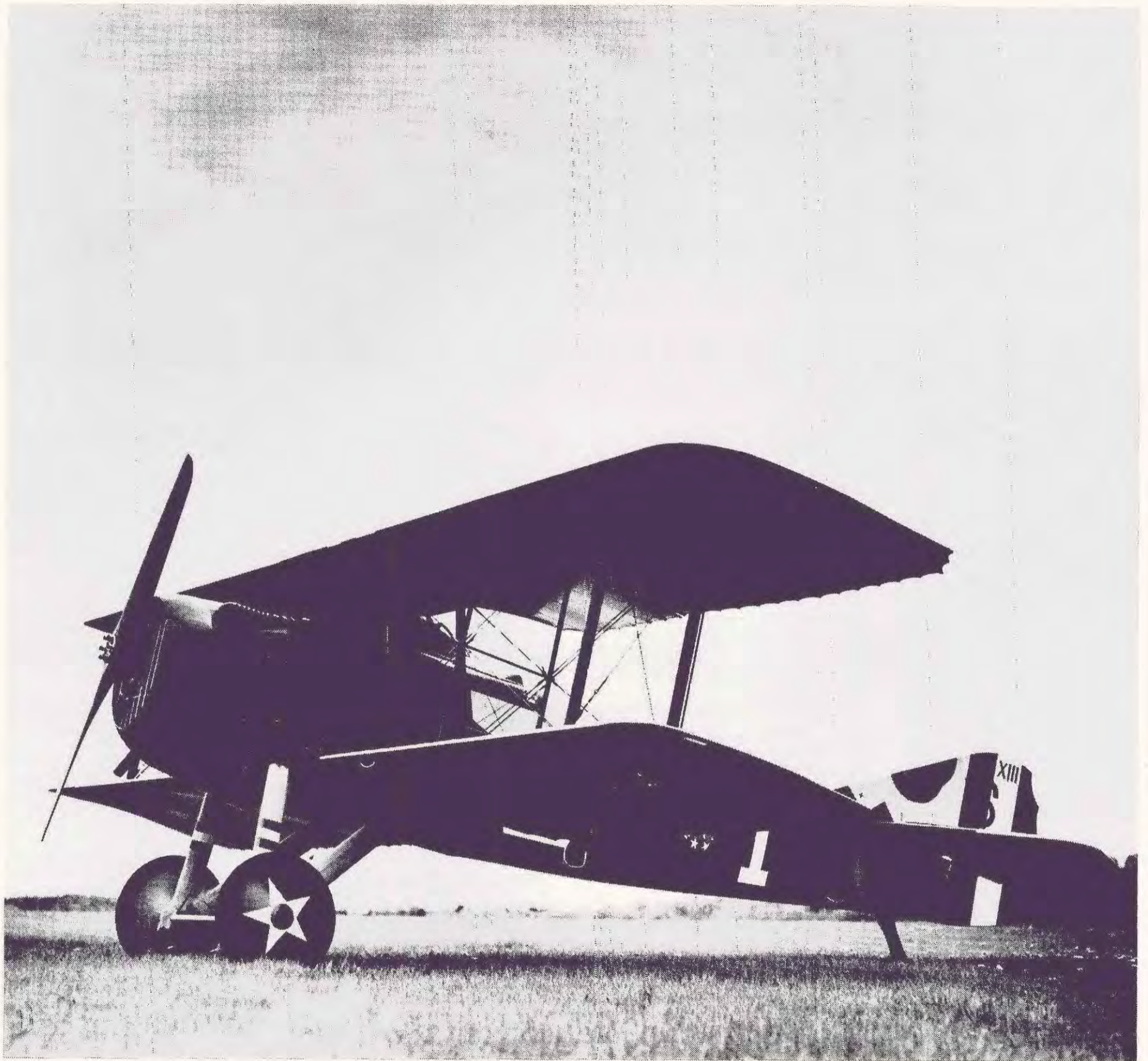
The underwriting loss of \$14.70 billion for the first nine months of 1984 was 17.8% of the earned premiums of \$82.75 billion. By comparison, in the same nine-month period last year, the underwriting loss of \$8.92 billion was 11.6% of earned premiums of \$76.94 billion.

Written premiums for the first nine months of 1984 totaled \$86.60 billion, up 7.9% from \$80.24 billion for the same period last year.

Hartford Steam Boiler
The Hartford Steam Boiler Inspection & Insurance Co. declared a regular quarterly dividend of 75 cents a share, which is payable Jan. 31, 1985, to stock

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