

Business Insurance

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Estimate of Integrity insolvency increased to \$300 million

TRENTON, N.J.—The New Jersey Insurance Department has increased its estimate of the size of Integrity Insurance Co.'s insolvency to \$300 million, a department spokesman confirmed.

At the time it petitioned for Integrity's liquidation in February, the Insurance Department had estimated the insolvency at \$50 million to \$75 million (BI, March 2). Paramus, N.J.-based Integrity was forced into liquidation partly because of its inability to recover \$25 million.

Continued on next page

Dispute possible over PSA claims

By LINDA J. COLLINS and STACY SHAPIRO

HARMONY, Calif.—The apparent murder-suicide that caused the crash of a Pacific Southwest Airlines jet last week could create insurance coverage disputes between the airline's hull insurance and hull war risk underwriters, according to aviation brokers and underwriters.

Evidence suggests that the crash of a British Aerospace-146 200 series jet en route to San Francisco from Los Angeles International Airport last Monday was caused by a disgruntled ex-employee of the airline's parent, USAir Group. And, that could cloud whether USAir's hull insurance or hull war risk insurance policies will respond to the loss.

All 43 people aboard the plane died in the crash.

While one aviation broker said the recent rash of air crashes around the world may slow down rampant competition in the aviation market, others say the losses thus far are not large enough to halt rate reductions.

USAir has a 15-month policy providing \$65 million in hull all-risk coverage and \$600 million in liability coverage placed in the U.S. and French aviation markets effective May 1, according to London aviation sources. The aircraft was valued at \$16.3 million.

U.S. Aircraft Insurance Group is the lead underwriter of the coverage, which a PSA spokeswoman confirmed was placed through broker Frank B. Hall & Co. Inc. in New York.

Aviation Office of America Inc. in Dallas also participated in the coverage, according to an aviation source in London.

More than 90% of USAir's hull war risk insurance is placed in the London market and is led by Stephen Merrett, a Lloyd's of London marine underwriter and chairman of Merrett Holdings P.L.C.

AOA also participated in this coverage, which was placed by Lloyd's broker Leslie & Godwin Aviation Ltd.

Officials at USAIG could not be reached for comment, and Frank B. Hall aviation brokers did not return phone calls.

Spokesmen for USAir and AOA would not discuss coverage.

The crash, at 4:14 p.m. on Dec. 7, killed five PSA crew members

Continued on page 50

St. Paul bids \$495 million to buy London's Minet

By STACY SHAPIRO, LINDA J. COLLINS and CAROLYN ALDRED

LONDON—St. Paul Cos. Inc. could become the first U.S. property/casualty insurance company to own 100% of a Lloyd's of London broker.

Less than one month after Lloyd's of London proposed to drop its ban on insurance companies holding more than 26% of a Lloyd's broker, St. Paul bid 275.5 million pounds (\$495 million) Thursday to buy the outstanding shares in Minet Holdings P.L.C.

St. Paul already owns 20 million, or 26%, of a total of 78 million issued Minet shares.

The offering, including the value of unexercised stock options and other items, values Minet at 400 million pounds (\$718.2 million), according to Minet and St. Paul.

Minet, the eighth-largest insurance broker in the world, is recommending that shareholders accept the offer, but Corroon & Black Corp., the sixth-largest U.S. broker—which holds a 29.9% stake in Minet—has not said whether it will sell its shares.

Under the terms of the offer, St. Paul can withdraw its offer if it fails to obtain 90% of the outstanding shares.

Corroon & Black "has not been consulted with respect to this offer," said a joint statement released by St. Paul and Minet on Friday.

However, two Corroon & Black directors on Minet's board voted for the acquisition, pointed out Minet Chairman Ray Pettitt in an interview with *Business Insurance*.

Corroon & Black's Chairman and Chief Executive

St. Paul's bid for Minet 'represents a premium of approximately 64% to the midmarket price,' Minet said in statement.

Officer Robert F. Corroon and Senior Vp and Chief Financial Officer Stephen A. Crane, who are members of Minet's board, were en route to London on Friday and could not be reached for comment.

Securities analysts *Business Insurance* contacted expect Corroon & Black will accept St. Paul's bid and may use the proceeds to take the broker private.

"The odds look strongly in favor of it going ahead," said Lee Coppack, a stock analyst with the London-based firm Sheppard's.

The takeover has to be approved by the Council of Lloyd's, which only last month published proposals to abandon its rules prohibiting insurance companies owning Lloyd's brokers (BI, Nov. 23).

The Council is expected to consider the proposed acquisition at its next Council meeting on Feb. 3, 1988, a Lloyd's spokesman said.

"Obviously the discussion document is still on the table, and ratification will take place toward the end of January," said Minet Chairman Ray Pettitt.

However, in a speech in New York last Thursday, Lloyd's Chairman Peter Miller questioned whether it is prudent for Lloyd's to allow foreign competitors to acquire Lloyd's brokers.

St. Paul, though, maintains it will operate Minet at arms length, and that Minet's "broking businesses will continue to be operated in the best interests of Minet's clients and... in full compliance with the rules and regulations of Lloyd's," said a company statement.

St. Paul is offering 475 pence (\$8.53) a share for the 58 million shares it does not already own, representing

Continued on page 49

Cure for COBRA's bite unlikely in '87

By JERRY GEISEL

WASHINGTON—Congress is unlikely to overhaul the onerous penalties under COBRA until at least next year due to legislative maneuverings over the budget deficit.

Employers, who had stormed Capitol Hill with protests over the current penalty provisions, had expected Congress would incorporate new, less burdensome COBRA penalties into budget reconciliation legislation that is moving on a fast track.

Those new proposed penalties, under which an employer generally would pay an excise tax of \$100 for each day it failed to extend coverage to a COBRA beneficiary, are part of House-approved budget reconciliation legislation.

Because no congressional opposition to the new penalties had surfaced, it had been expected that a conference committee would accept the new COBRA provisions when it meets to iron out differences between the House and Senate budget reconciliation measures.

The Senate measure, which was expected to be approved last week, does not contain comparable provisions that would reduce the severity of the penalties for employers that violate the health care continuation coverage provisions of the Consolidated Omnibus Budget Reconciliation Act of 1985.

But now, due to legislative maneuverings, enactment of the COBRA penalty changes, which employers are calling a vast improvement compared with the current law they have protested, are likely to be delayed until at least next year, benefit experts say.

When the House in late October approved the budget reconciliation bill, it lumped the COBRA changes into the technical corrections part of the measure.

Many of those technical corrections are aimed at fixing glitches in the Tax Reform Act of 1986. Other sections, though, give tax breaks to certain industries and companies and thus would be revenue-losers for the Treasury Department.

As part of a recent so-called summit pact between congressional and administration

negotiators to reduce the federal budget deficit by \$76 billion over the next two years, no revenue-losing provisions are to be included in the final budget reconciliation bill.

The reconciliation measure will implement the summit deficit reduction pact through specific tax increases and cutbacks in federal spending.

Because revenue-neutral provisions, like COBRA, are so closely interwoven with the revenue-losing changes, legislators have decided—at least for now—to delete virtually all of the technical corrections section of the reconciliation legislation during the conference committee.

"Summit participants agreed that no revenue-losing provisions should be contained in the final reconciliation bill. In this regard, revenue-losing provisions and technical corrections to previously enacted tax bills will be dropped in conference committee," said House Ways and Means Committee Chairman Daniel Rostenkowski, D-Ill.

If the House-passed technical corrections are scrapped, employers will continue to face

massive, unprecedented tax penalties if they violate COBRA.

Current IRS regulations implementing COBRA—under which most employers must offer health care continuation coverage to former employees for up to 18 months and to widowed or divorced spouses and dependents for up to 36 months—would strip an employer of its annual tax deduction for health care expenses if the employer violated COBRA's health care continuation provisions for only one day.

The same penalty applies regardless of whether the violation was willful or inadvertent and quickly corrected.

In addition, under the current penalties, all of a company's highly compensated employees would be taxed on the cost of their employer-provided health care coverage if the company violates any of the provisions of COBRA.

With the COBRA penalty changes now likely to be stripped from the budget reconciliation bill, "employers will be headed into

Continued on page 41

Brokers, risk managers oppose ban on brokers' use of affiliates

Page 2

Five NYIE syndicates consider becoming licensed insurers

Page 2

Critics adapt to constraints of new ISO occurrence form

Page 3

Ross promoted on BI sales staff

Martin J. Ross, 29, will become Eastern Advertising Manager of *Business Insurance* on Jan. 1, announced Advertising Director Donald A. Walsh in New York.

Mr. Ross, currently a district manager on the advertising sales staff in New York, joined *BI* in March 1985. Previously, he was a national account representative at Lanier Business Products in New York.

In this newly created position, Mr. Ross will direct the New York sales staff and will report to Mr. Walsh.



Mr. Ross

"Marty has done an outstanding job as a sales representative for *Business Insurance*," Mr. Walsh said in announcing Mr. Ross' promotion. "Not only has he proven himself to be dedicated and hard working, but he also has demonstrated a high degree of personal initiative and an unfailing commitment to his responsibilities," he added.

Mr. Ross received a bachelor of science degree in business administration in 1981 from St. John's University in Jamaica, N.Y.

A new salesperson will be hired to take over Mr. Ross' current territory in the Eastern United States.

Mr. Ross can be reached in New York at 212-210-0228.

Merrett expands

Continued from page 3

can't sit here innocently and expect the business to (continue to) flow to us," said Stephen Cane, company secretary of MUAM and development director of Merrett Management Services Ltd.

"There will be resistance from certain traditional quarters, particularly from Lloyd's brokers, but it is a business opportunity for our names, which we are obliged to take," Mr. Cane said.

Lloyd's present premium income from U.K. property risks represents only 153 million pounds (\$274.7 million) of the total U.K. property market of 2.7 billion

pounds (\$4.8 billion), according to the new Merrett syndicate's prospectus.

"There are a number of reasons why Lloyd's have found it difficult to compete successfully with the companies for this class of business. The primary reasons are the difficulty of access (to the Lloyd's syndicates) and the poor support service sometimes provided. As a result, much of the business that finds its way to Lloyd's tends to be the poorer quality risks that are difficult to place with the companies," the prospectus says.

"The Lloyd's market has traditionally relied upon a system whereby business is brought to the Room," the prospectus says.

However, it continues, "regional producers of small to medium sized risks have found it more convenient to use the local offices of the composite insurers."

Close local contact with policyholders and producers is successfully exploited by insurance companies, whereas "Lloyd's—even through the Lloyd's brokers, our 'marketing arm'—has not been able to establish the necessary links with the sources of the business," the prospectus says.

Syndicate 1104 will operate on a similar basis to Lloyd's motor syndicates, and up to 30% of its business will be produced by regional non-Lloyd's brokers and financial institutions, such as building societies, according to the syndicate's prospectus.

Lloyd's brokers, for a small commission, will stand as financial guarantor for the non-Lloyd's broker placing business with a Lloyd's syndicate, Mr. Cane said.

Syndicate 1104 will begin underwriting Jan. 1, with a stamp capacity of about 10 million pounds (\$17.96 million).

In addition, MUAM will consider opening more offices throughout Britain if the new syndicate is successful.

And, there is no reason why the syndicate must be confined to Britain, Mr. Cane said.

"The concept could apply outside the U.K. to the U.S. and Europe, depending on local legislative requirements. But assuming all the local legislation can be overcome, it doesn't matter where the office is based—whether it's Birmingham, England, or Birmingham, Alabama," he said.

Merrett is forming a Birmingham-based company, to be called Merrett Insurance Services Ltd., to produce all the policy documentation and provide other support services for the new syndicate.

MUAM syndicate 1104 is only the second non-motor syndicate at Lloyd's to be given special dispensation by Lloyd's council to deal more directly with policyholders.

In November 1986, Lloyd's gave marine syndicate 40, managed by Murray Lawrence & Partners, permission to form Haven Yacht Insurers, a subsidiary non-Lloyd's agency that writes U.K. private yacht insurance under a binding authority agreement for syndicate 40 (*BI*, Aug. 31).

Although business must be introduced to the syndicate by a Lloyd's broker, renewals can be handled by non-Lloyd's brokers or the policyholders, according to underwriter Anthony Bartleet.

All of Haven's business is conducted at its offices located outside of Lloyd's, Mr. Bartleet said. And, the syndicate is "very reliant" on business from non-Lloyd's brokers, he said.

"We could no longer get the business we wanted to by the traditional route, because it is not worthwhile for Lloyd's brokers to place large-volume, small-premium business at Lloyd's," syndicate 40 underwriter Mr. Bartleet explained.

"We're experimenting and cannot say at this stage whether we

Continued on page 49

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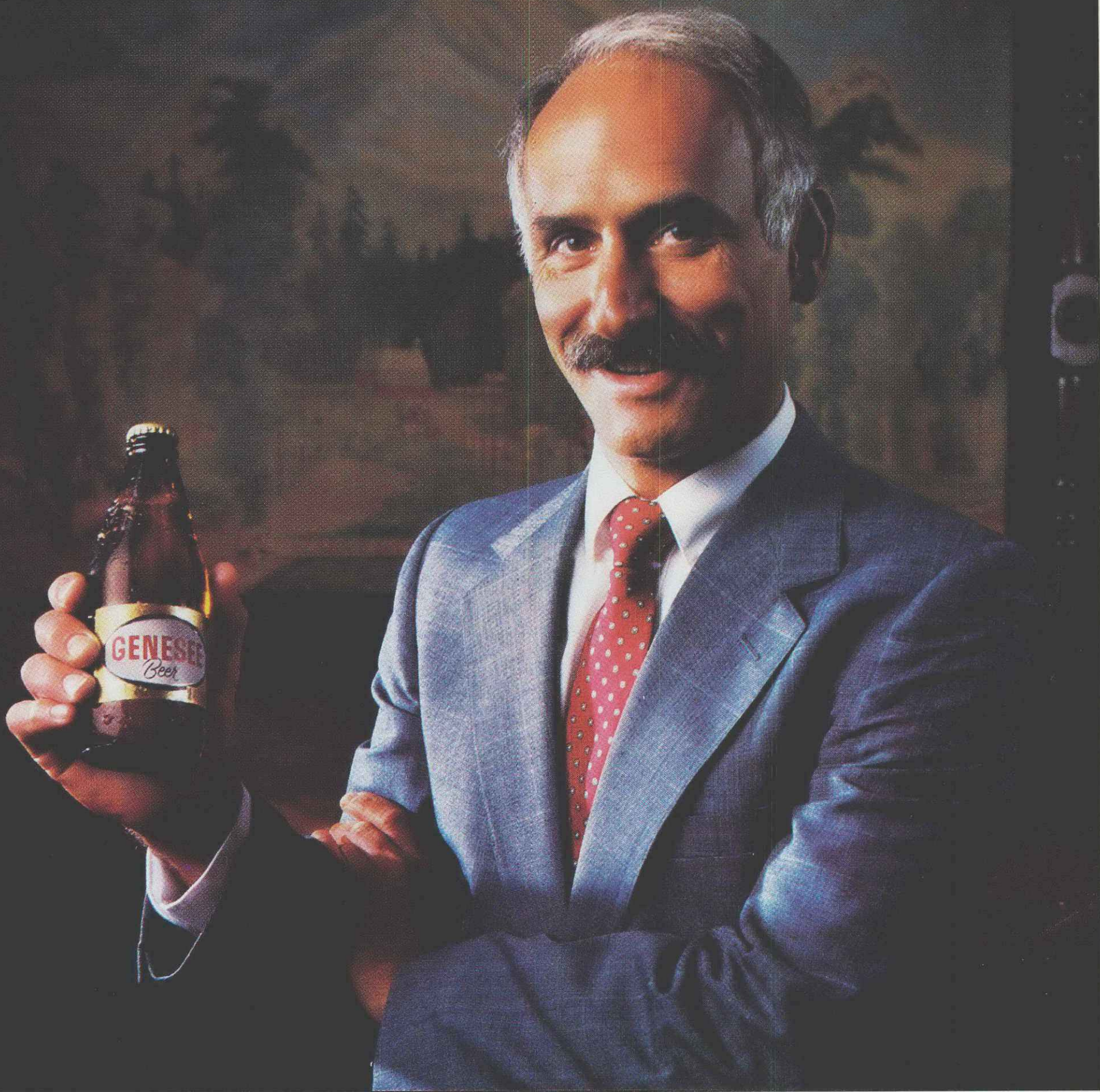
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"Smooth." A brewer's word for Wausau's claims service.

"The way Wausau handles claims and payment of claims is smooth," says Paul Killion, personnel director of Genesee Brewing Co., Rochester, New York.

"If you have an employee whose check is late or the amount is wrong, that's a sore point. Wausau

excels at timely and accurate payment of claims."

As for claims administration, Mr. Killion says, "Claims information comes in on time and it's accurate. If we have a question on how our claims are doing or on trends in accidents, we get the

information and statistics.

"We've had a chance to compare Wausau with other carriers, and Wausau's better."

Thank you, Mr. Killion. That's a claim we're glad you made.

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California considers tougher LOC rules

By **GLENN HUNTLEY**
and **DONNA DiBLASE**

LOS ANGELES—Stricter, clearer regulation of the use of letters of credit by reinsurers to secure their obligations to ceding insurers may be necessary to avoid some of the problems uncovered in the liquidation of Mission Insurance Co., according to an attorney involved in the liquidation.

"In the process of locating and

attempting to draw upon Mission's LOCs we discovered several problems with the named beneficiaries on the letters of credit, problems with presentment, discrepancies in the amounts and injunction and fraud problems," explained Christopher M. Maisel, a partner in the Los Angeles law firm of Rubenstein & Perry. The firm was appointed by the California Insurance Department to liquidate MIC (BI, March 2; Feb. 2).

Mr. Maisel testified at a California Insurance Department public hearing on the issue of reinsurance regulation Dec. 3-4 in Los Angeles. The department held similar hearings Nov. 23-24 in San Francisco (BI, Dec. 7).

The Insurance Department is investigating whether it needs to adopt new regulations or modify existing regulations governing reinsurance to prevent troubles in the primary insurance industry.

State regulators asked representatives of reinsurance companies, attorneys and other interested parties to comment on several areas of possible regulation, including:

- Limits on the use of LOCs to secure reinsurance obligations to ceding companies.
- Mandatory inspection of cedents' underwriting and accounting records by a reinsurer or independent accountant.
- Uses and abuses of offset

rights, under which the premiums a ceding company owes its reinsurer are offset by the claims payments a reinsurer owes the cedent, and vice versa.

"The Mission situation demonstrated in the fall of 1986 that reinsurers owed the various Mission companies between \$250 million and \$300 million in paid losses, most of which were past due. In some instances, alien reinsurers had formed themselves into groups, had ceased payment and instituted so-called negotiations regarding commutations," Mr. Maisel said.

"An analysis was done regarding the letters of credit, and it was determined that it was in the best interest of the Mission companies to present the letters of credit for payment all at one time on those reinsurers who owed paid losses and had not paid" the Mission companies, he said.

However, the liquidators were delayed in collecting \$127 million of \$187 million in LOCs because the LOCs named the group's non-insurance company affiliates as beneficiaries, he noted.

To avert problems with the named beneficiary appearing on an LOC, Mr. Maisel suggested that the department consider proposing legislation requiring that "only the ceding company may appear as the beneficiary on the LOC" and that the provisions of the LOC be reviewed annually.

Mr. Maisel also suggested that the department propose legislation that would require LOCs to be honored upon presentation by a court-appointed liquidator or conservator instead of only at the time the insurer becomes insolvent because banks argue they cannot know that an insurer is insolvent, he explained.

Mr. Maisel also suggested that:

- The department prohibit the practice of including multiple affiliated ceding companies in the same reinsurance contract or that the contracts expressly provide for severable liability, with no cross-company offsets.

- LOCs reflect on their faces that they are established in consideration of the beneficiary taking a reinsurance credit.

- Ceding companies be required to report to the department and cease taking credit for reinsurance when an assuming insurer is 180 days past due in paid losses.

- That ceding companies report to the Insurance Department and keep company-by-company records of business ceded and reinsurance recoverables and that they be prohibited from showing pool managers or intermediaries as the assuming company.

Other attendees at the Los Angeles hearing asked that the department take care not to injure the successful portion of the reinsurance industry as the department tries to deal with problem cases.

While admitting there have been "abuses" of reinsurance, James F. Dowd, president of Skandia America Corp. of New York, said there is a tendency to overregulate insurers.

"It's unfortunate that the remedial regulatory action falls on the same ones who need it least," said Mr. Dowd, who flew in from the East Coast solely to attend the hearings.

Mr. Dowd questioned the need for reinsurers—especially alien reinsurers—to establish in California financial mechanisms that secure their obligations to ceding insurers in the state. Mr. Dowd said he did not see a reason to move money back into the country before it is necessary.

Deputy Insurance Commissioner
Continued on page 48

RLI UPDATE

Consolidated Statutory Financial Information

RLI Insurance Company and Mt. Hawley Insurance Company

STATUTORY SURPLUS (000 Omitted)

1987 — \$61,783*
1986 — \$53,063
1985 — \$37,037
1984 — \$16,739
1983 — \$12,238
1982 — \$11,084

COMBINED RATIO

1987 — 77.2*
1986 — 84.1
1985 — 99.7
1984 — 97.0
1983 — 94.9
1982 — 99.1

5 YEAR
COMBINED RATIO: 92.9
(1982-1986)

ASSETS (000 Omitted)

1987 — \$157,388*
1986 — \$159,568
1985 — \$105,993
1984 — \$ 48,719
1983 — \$ 35,156
1982 — \$ 36,171

LOSS RESERVES (000 Omitted)

1987 — \$50,402*
1986 — \$46,243
1985 — \$22,784
1984 — \$ 9,150
1983 — \$ 4,985
1982 — \$ 4,455

*Six months results ended June 30, 1987

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Opinions

A&A edict disturbing

ALEXANDER & Alexander Inc.'s edict that its brokers use affiliate Alexander Howden Ltd. to place business in the London insurance market resurrects an old issue: Should a U.S. retail broker consolidate most of its London market business with its London affiliate?

Certainly A&A and other brokers with London affiliates have some convincing arguments for this consolidation of business with their affiliates. For one, each contends that it has invested substantial sums to assemble the best staff in London to handle its clients' business with the commitment to service and quality of the parent company. For another, each contends that its organization provides the security and stability needed by a client, who could be filing claims long after the policy expires. And, each broker maintains that its London staff is less likely to make an error handling the account, which not only benefits the client but also reduces the retail broker's errors and omissions exposure.

These three reasons certainly address what we think should be the overriding consideration when a retail broker selects a London broker: What is in the best interests of the client?

Not to be overlooked, however, is the economic advantage to the broker of keeping the business in the family: about an additional 5% in commission income earned by the London broker.

We have no doubt that the management of the retail brokers with London affiliates would not want their account executives to place business with an affiliate for the additional commission income if a competing broker would do a better job for the client. It would be foolish to risk losing an entire account for an additional 5% brokerage.

But, that's not to say that an account executive, knowing it is the formal or informal policy to use the affiliated broker, may find it simply easier to use the affiliated broker than to delve into the capabilities of competing brokers.

A&A has tipped the scales even more in favor of its affiliate than brokers with informal policies to use their affiliate. A&A's new policy requires account executives to obtain the approval of a regional director before a broker other than Howden can be used (*BI*, Dec. 7).

We can appreciate that A&A management is frustrated that only about 55% of A&A business placed in London is handled by Howden. We recognize that Howden is one of the best London brokers now and can expertly handle some of that 45% of the business going to competitors.

And, A&A is simply coming lately to what several other U.S. brokers with London affiliates have accomplished through informal policies. Marsh & McLennan places 90% of its clients' business

through its subsidiary, C.T. Bowring & Co. Ltd.; Frank B. Hall & Co. Inc. places 85% of its clients' business with its subsidiary Leslie & Godwin P.L.C. In addition, Johnson & Higgins as a rule places its clients' business with its long-term trading partner Willis Faber unless the client specifically requests J&H to use another broker.

But A&A's goal of Howden handling 95% of all A&A business placed in London by year-end 1988 seems too ambitious when clients' interests also are considered.

A&A contends that it will be seldom that Howden will not be the best broker to place the business, and then another broker will be used. And, A&A disputes that switching accounts to Howden at renewal will be disruptive. A&A points out that it will not move any business without the agreement of the client and it will not do anything detrimental to the client.

The A&A edict also is disturbing for another reason: It smacks of taking control out of clients' hands and locking the client into an unwanted relationship.

However, clients of A&A and other brokers have the final say on which London broker handles their business. A risk manager with any doubt about the criteria used to select the London broker should ask the retail broker for an explanation. An answer of, "We know we have the best people for this account," should not suffice. The risk manager should ask for a written analysis of the strengths and weaknesses of several brokers equipped to handle the account, including independent, specialty brokers.

Without question, the U.S.-affiliated London brokers all have talented teams specializing in the various risks that are placed in London. But, there are risks for which a specialty broker can do a better job, reflecting experience and good relationships with underwriters.

This raises another issue: If retail brokers continue to consolidate business with their affiliates, will it be to the detriment of a diverse and competitive London brokerage market? Will the small, specialty brokers be driven out of business?

If the leading U.S. retail brokers all placed about one-third of their business with unaffiliated London brokers, they would support a diverse and competitive market, including the growth of small, specialty brokers.

We suspect this will not happen, however, and there will be fewer, larger London brokers.

On an individual risk, the wisdom or folly of consolidating business with a London affiliate is known when the final product is delivered. For the London insurance market as a whole, however, the truth will not be known for years to come.

Letters

Federal government cooks its own goose

To the editor: A recent issue contains a letter to the editor from William R. Dagneau, "Whose Fault is Increasing Complexity of Benefits?" (*BI*, Nov. 23), in which Mr. Dagneau outlines some of the

problems in administering modern benefit programs. There is an easy solution: Cancel the plan.

The federal government, in order to encourage employers to provide medical benefits to their employees, allowed tremendous tax advantages for non-cash compensation.

The government is now taking advantage of the prevalence of such plans to enact a Sen. Edward Kennedy-inspired national health care plan.

It is time for employers to shout, "I'm mad as hell and I'm not going to take it anymore!"

The federal government must be made to realize that it is killing the goose that laid the golden egg.

Mark A. Mitchell
U.S. Benefit Consultants
Marietta, Ga.

Benefits legislation takes dangerous turn

To the editor: I say "Amen" to William R. Dagneau's letter "Whose Fault is Increasing Complexity of Benefits?" (*BI*, Nov. 23).

While benefits administration is only a portion of my job, I spend a lot of time contacting Congress on the subject, without avail.

We cannot do the job individually. Benefit managers and CEOs must band together in some way to stop this congressional idiocy related to employee benefits.

COBRA is an excellent example of industry's failure to try to call a halt to this Washingtonian madness.

Continued on page 41

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The CNA Insurance Companies are setting a new direction in health care delivery with a national PPO network. This national network emphasizes quality and cost-efficient care.

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Retain the McCarran-Ferguson Act

In an attempt to address problems which have beset the insurance marketplace, legislation has been introduced to repeal or modify the McCarran-Ferguson Act. Since its enactment in 1945, this Act, which grants states the right to regulate insurance, has been surrounded by myths and misconceptions. These misunderstandings have led some to believe

that current insurance problems can be resolved by repeal or reform of the McCarran Act. We disagree. Instead, we believe that repeal or modification would aggravate, not lessen, recent problems. It would result in less competition and higher costs to both insureds and insurers. Fewer insurers would be able to develop or offer needed coverages.

We believe this to be the case for several reasons. First, we feel that there is no evidence to support any connection

between the McCarran-Ferguson Act and recent problems of unavailable or unaffordable insurance.

Next, we believe that state regulation has proven effective. It enhances a regulator's awareness of local conditions and allows needed changes to be made with greater flexibility and sensitivity to local concerns.

Furthermore, we suspect that a total repeal of the McCarran Act could result in a dual regulatory system of overlapping,

confusing and conflicting authority among state and federal governments.

We also believe it is tort reform and court reform, not repeal or reform of the McCarran Act, which will ultimately address the problems of unavailable and unaffordable insurance. Our industry should accept its share of responsibility for these problems and dedicate itself to exposing the myths and misconceptions concerning the insurance mechanism and its relationship with our court system.

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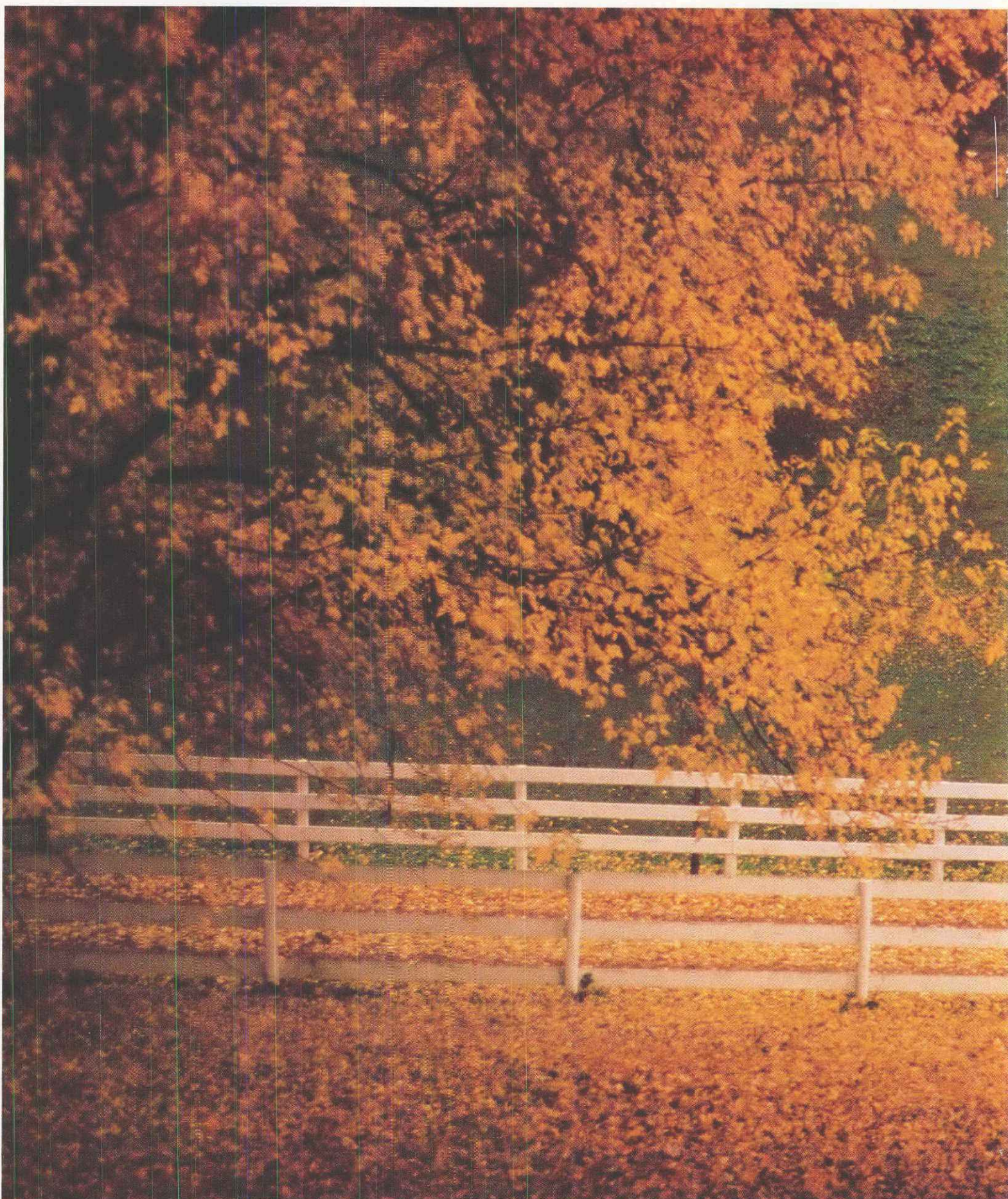
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We are particularly interested in medium-sized firms producing \$10 million to \$100 million annually in premium volume.

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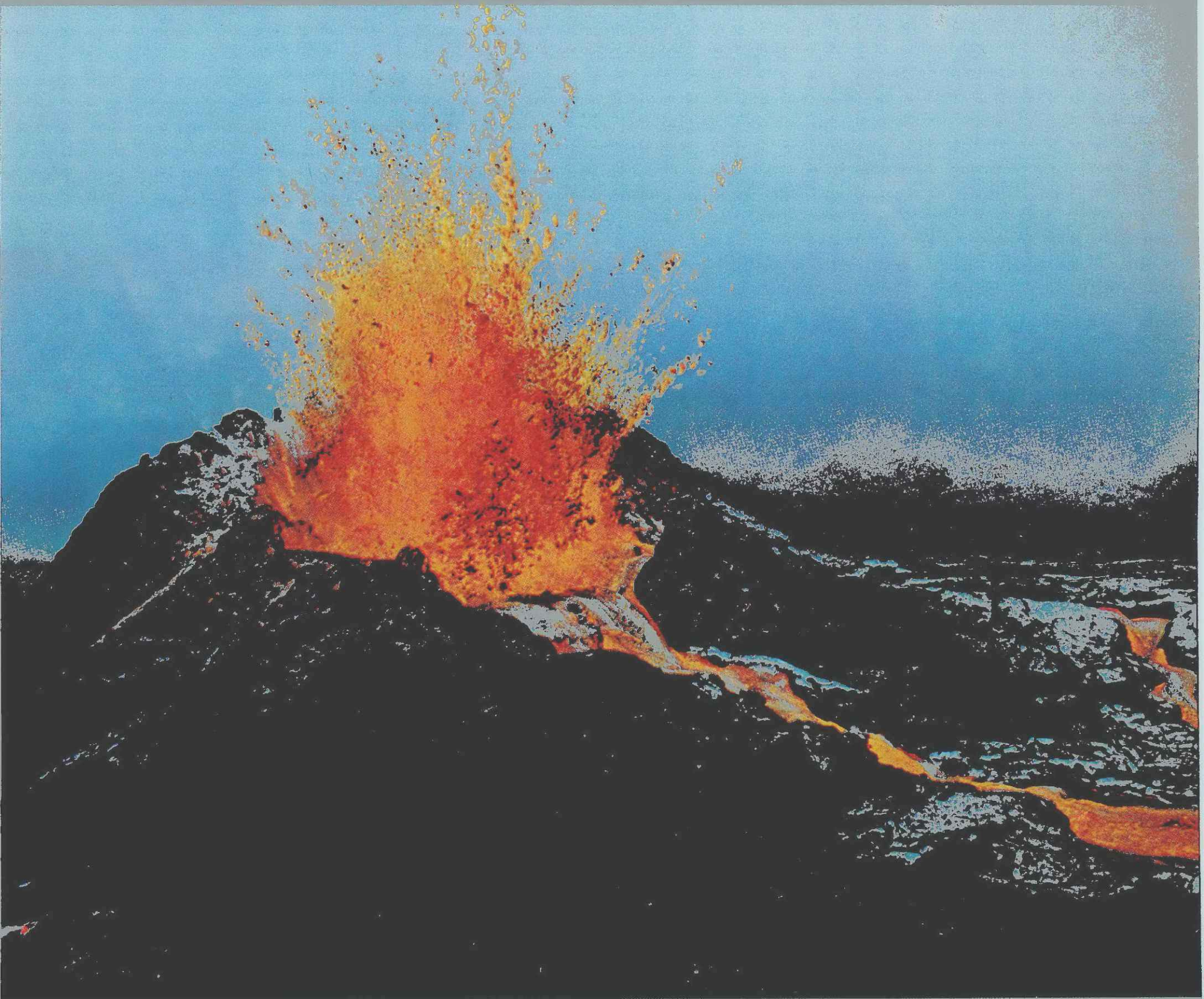
Shand Morahan offers a range of E&O coverages for a variety of professions and exposures. These include Franchisor Liability, which covers claims arising from acts, errors or omissions by franchisors and their employees; Electronic Data Processing E&O is available for EDP professionals in firms involved in computer services, programming, systems analysis, software design, training and consulting.

Liability coverage is also available for Manufacturers' Product Engineering/Design E&O exposures of industrial product manufacturers and their employees. Our Specified Professions policy provides E&O protection to a range of professions including management consultants, printers, publishers, public relations firms, property managers, advertisers, claims adjusters and others not covered under our other professional liability policies.



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We were the first major insurer to offer our own prepaid dental plan in addition to traditional indemnity plans. Plans that encourage preventive care.

We've even revolutionized claim review, with a unique three-tier process. It combines review by professionals with the most sophisticated claims processing system available. And, in 1985 alone, we saved our clients over \$138 million.

If you'd like to know more about our dental plans, please write to Jon Selteneim, B247, CIGNA Companies, Hartford, Connecticut 06182.

Putting a lid on dental costs. It's one more example of CIGNA's commitment to personalized service to business.



Prenatal care class trims firm's health bill

Sunbeam Appliance Co. of Downers Grove, Ill., has implemented a prenatal education program at its Coshatta, La., plant that has saved the company hundreds of thousands of dollars by reducing the risk of premature births.

The program, developed by Kevin Breese, manager of employee relations, and David Adams, Coshatta health services administrator, requires that all pregnant employees attend one-hour classes every two weeks on prenatal care as soon as they are aware of their pregnancy. The employees must attend the classes for the full term of the pregnancy.

The classes, led by two faculty members from Northwestern State University of Louisiana, in Natchitoches, instruct employees about prenatal care, nutrition, discomforts of pregnancy and other related problems, development of the fetus and related changes in the mother, signs and symptoms of birthing and labor and postpartum care.

In addition, Pat Thompson, an instructor of maternal child nursing, and Billie Bitowski, an instructor of nursing specializing in community health, work one-on-one with employees.

Each pregnant employee is monitored, and progress is charted on the basis of the mother's blood pressure, weight, edema and the results of urine tests to detect proteins.

Mr. Adams, who is an industrial registered nurse, follows up between classes and pays special attention to those women who are in the later stages of pregnancy or are at high risk because of excess weight, hypertension or past problems with births.

The classes, which also are available to spouses, are held on company time. About 15 to 20 women attend each session, according to Mr. Adams.

In 1984, before the program was in place, Sunbeam paid out nearly \$500,000 in medical costs related to the support of four premature babies of Coshatta plant employees, according to Mr. Breese.

A premature baby can quickly exhaust the \$250,000 in major medical coverage provided by Sunbeam, which self-insures its medical plan, according to Mr. Adams.

Since the program was installed in Coshatta in April 1986, there have been no premature births, Mr. Breese said.

The program, which costs \$15,000, including instructors' fees and employees' time, has reduced the average cost per maternity case at Sunbeam by 90% since 1984 and by 83% since 1985, to \$2,893 currently, said Mr. Breese.

Because of the success of the program, Sunbeam also implemented a similar program at its Holly Springs, Miss., plant, Mr. Breese said.

Holly Springs plant employees experienced five premature births in 1984, and five premature births in 1985, with an average cost per infant of \$35,000. But since the prenatal education program was installed in late 1986, there have been no premature births at the Holly Springs plant, he said.

"The company saves money in three ways," Mr. Breese said. "Improved health for our employees and their families, enhanced employee relations and greatly reduced medical expenses."

American Express

American Express Travel Related Services Co. Inc. is offering its employees a new long-term health care plan underwritten by The Travelers Corp.

Benefit beat

Some 24,000 American Express employees will be eligible to participate in the plan that helps pay for home health care, nursing home care and adult day care.

The plan, which goes into effect Jan. 1, is available to employees, their spouses and to parents of employees.

Enrollees may elect one of two levels of coverage. One plan provides \$25 a day for home health care and adult day care and \$50 a day for nursing home care. The other plan provides \$50 a day for home health care and adult day care and \$100 a day for nursing home care. Generally, these amounts are payable after a 90-day

waiting period.

Depending on the benefit option chosen, the plan will pay a lifetime maximum of either \$75,000 or \$150,000 per covered individual. The lifetime maximums will provide for four years of continuous nursing home care, according to Travelers.

Premiums, which are paid by employees or their parents, are based on the age of the covered individual at the time coverage begins and generally remain level for the life of the policy.

For example, an employee between the ages of 50 and 54 would pay a biweekly premium of \$8 for the \$50 per-day nursing home cov-

erage and \$16 for the \$100 per-day coverage.

Employees can have premium payments deducted from their payroll or directly billed to spouses or parents.

American Express employees can enroll in the Long-Term Care Plan without submitting evidence of insurability. Other eligible individuals must complete a medical questionnaire.

Travelers allows employees to continue the coverage after they leave their jobs or retire by paying premiums directly to Travelers.

Travelers says it also will introduce an Elder Care Referral Service in 1988 that will provide employees with a toll-free phone number to obtain information on long-term care and referral assistance.

"Each time one of our employees is faced with a potentially devastating long-term care situation, we are affected, too."

That is why we are offering a benefit to try to avoid some of the financial and emotional distress that accompanies this type of situation," said Margaret Gagliardi, vp-compensation and benefits at American Express Travel Related Services.

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 Stacy Adler, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611; 312-649-5262.

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Panel calls for fault-based tort system

By COLLIN NASH

NEW YORK—The liability crisis is far from over, despite a softening insurance marketplace, and it could deteriorate further unless a fault-based tort system is established nationwide, according to speakers at a recent symposium.

Citing the move away from a fault standard of liability and the resulting explosive growth in damage awards, Rep. Daniel Lungren, R-Calif., said: "Policymakers must rise to meet the challenge by returning to the values inherent in a fault-based system of liability."

"Congress would be well advised to get our nation's spending, tax, and regulatory houses in order, as well as examine the liability issue in the context of how it impacts American competitiveness at home

and abroad," he said at a symposium titled "Liability Insurance: Is the Crisis Over?" sponsored by the C.V. Starr Center for Applied Economics at New York University on Dec. 1.

Maurice Greenberg, president of New York-based American International Group Inc., criticized a "no fault" American society that expects compensation for being wronged.

Consequently, "the definition of liability by itself has been expanded far beyond anything that existed a decade or so ago," he said.

Mr. Greenberg called the tort system a "Robin Hood" system in which the "defendants with the deepest pockets... ultimately bear the liability without regard" to their degree of negligence.

Policymakers must return to the values of a fault-based liability system, says Rep. Daniel Lungren.

He blamed the legal system for bringing about the explosion of liability and the subsequent effect on liability insurance, saying the legal profession is "feeding" on the insurance industry.

The insurance industry can expect to spend between \$31 billion and \$38 billion per year by 1990 defending claims, according to a report published recently by the C.V. Starr Center.

However, the industry contributed to the crisis, Mr. Greenberg admitted. He explained that the industry misled itself earlier this decade, believing that investment income generated by premiums written during the 1981-1984 soft cycle—a period of high interest rates—would more than offset underwriting losses.

This proved to be a "foolish assumption," since unlike other products, liability underwriting results remain unknown for many years, Mr. Greenberg said.

The crisis was compounded because the U.S. tort system was expanding rapidly while rates declined, Mr. Greenberg said.

"Non-economic losses or payment subsidies became a lottery system," he said, explaining that it becomes difficult to underwrite

risks when predictability is removed.

When losses began to surface and the annual industry balance sheet indicated rates were inadequate, industry leaders recognized they were confronted with an acute problem and responded by increasing rates significantly beginning in 1984, he said.

"In my own state of California, municipalities continue to face difficulty in obtaining coverage," Rep. Lungren said.

"There still remains an availability problem with respect to some lines of insurance, such as environmental coverage, medical malpractice, day care and some areas of transportation," he said.

The crisis in medical malpractice developed even earlier—in the 1970s—when insurers were prevented from increasing medical malpractice rates in the face of annual 20% increases in claims costs, according to Patricia Danzon, a professor of Health Care Systems and Insurance at the Wharton School of Business at the University of Pennsylvania.

Insurers subsequently withdrew from the market, causing what "initially was a crisis of affordability to become a massive crisis of lack of availability of coverage," Ms. Danzon said.

"The public policy objectives in looking at changes in the tort system should not simply be to minimize the cost of claims but also to provide efficient incentives for injury prevention," Ms. Danzon said.

"Although the tort system could be made more efficient by various reforms, we lack the data to fully evaluate alternatives. The tort system is imperfect, and there are no quick fixes," she said.

Ms. Danzon, who called urbanization the major social factor contributing to malpractice claim frequency and severity, said "major tort reforms have slowed increased rates, while not reversing them."

Insurers also face other problems that may lead to restricted availability and higher rates in the future, the speakers said.

Under the 1986 Tax Reform Act, insurers must discount their loss reserves for tax purposes to account for future investment income to be earned between the time the reserve is established and claims are actually paid.

That new tax provision will restrict the availability of insurance, because the tax will reduce surplus for insurers, Mr. Greenberg observed.

Mr. Greenberg also predicted that the toxic waste and pollution issues looming on the horizon will prove to be an even greater headache for insurers than problems with the tort system.

"The insurance industry is being singled out as a messenger of bad news, and we're shooting the messenger," he said, citing the litigation between Shell Oil Co. and 250 of its insurers in California—the largest coverage dispute over pollution claims ever to reach the trial stage—and the pollution coverage litigation between Westinghouse Electric Corp. and more than 140 of its insurers in New Jersey (BI, Oct. 12; Sept. 28; June 15).

If a chemical company disposes of waste within regulations, and a decade later new findings show that their actions were harmful to society, policymakers retroactively change the regulations and instruct companies to "clean up their act," Mr. Greenberg said. As a result, corporate lawyers file claims against insurers for coverage the insurers never intended to provide nor underwrote, he said.

William J. Baumol, director of the C.V. Starr Center, moderated the session.

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Up to 50% off traditional premium rates for your low-risk client. For example, a \$50,000 annual premium can earn a bonus of \$75,000 over a 3-year period.

And it's flexible. When heavy losses occur, premiums can increase, but never by more than 50%, *no matter how great the claim.*

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Zimmerman Line Slip attracts 11 insurers

Eleven insurers are participating on the Zimmerman Line Slip to write group and individual life, accident and health reinsurance coverage.

The line slip was formed by George G. Zimmerman as an adjunct to his brokerage business, George G. Zimmerman & Co. in Mendham, N.J.

The members of the line slip are: Beneficial Life Insurance Co. in Salt Lake City; Business Men's Assurance Co. of America in Kansas City, Mo.; General American Life Insurance Co. in St. Louis; Maine Fidelity Life Insurance Co. in Keene, N.H.; Oxford Life Insurance Co. in Phoenix, Ariz.; Provident Mutual Life Insurance Co. in Philadelphia; Resources Life Insurance Co. in Fort Lee, N.J.; Security Benefit Life Insurance Co. in Topeka, Kan.; Standard Insurance Co. in Portland, Ore.; State Mutual Life Assurance Co. of America in Worcester, Mass.; and Transamerica Occidental Life Insurance Co. in Los Angeles.

The 11 insurers, which are all A-rated by A.M. Best Co., have combined assets in excess of \$30 billion, according to Mr. Zimmerman.

"Ninety percent of our business is group and 10% individual," and 40% of the coverages the line slip writes are accidental death and dismemberment, 30% are workers compensation carve-out policies, 20% are medical and 10% are disability, according to Mr. Zimmerman.

The work comp carve-out policies include AD&D and disability coverages, he said.

For all group coverages, the line slip currently offers a limit of \$2.2 million per life and an aggregate limit of \$22 million per employer. Mr. Zimmerman expects that by the end of 1988 limits will be \$3 million per life and \$30 million aggregate.

The slip writes both treaty and facultative reinsurance contracts, says Mr. Zimmerman, adding that 80% of the business is on a pro rata or quota share basis, rather than excess of loss.

Mr. Zimmerman predicts the annual gross premiums for the line slip will exceed \$30 million by year-end 1988.

For more information, contact Mr. Zimmerman at P.O. Box 372, Mendham, N.J. 07945; 201-543-3250.

New brokerage

The MBA Group of Braintree, Mass., formerly the Massachusetts Businessmen's Assn., has spun off its property/casualty brokerage division into an independent company, United International Brokers.

United International will broker property/casualty coverage for its 42,000 members as well as other interested parties.

"United International provides property and casualty brokerage services to companies of all sizes," says Richard Valentine, president of The MBA Group.

"Since United International grew out of an already operating division, everything is up and running," Mr. Valentine said.

"Within a very short period of time we expect to generate in excess of \$2 million in annual revenues," he added.

Mr. Valentine said United International, which has 21 employees, may acquire other brokerages to meet this goal.

For more information about the brokerage, contact Richard Wellner, president, United International Brokers, 135 Wood Road, Braintree, Mass., 02184; 617-848-

Markets

8946.

Software partnership

Weyerhaeuser Information Systems of Tacoma, Wash., and National Risk Management Inc. of San Ramon, Calif., have formed a partnership to provide customized computer software and hardware for self-insured employers, self-

administered employers, public entities and third-party administrators.

With the two firms joining together, Weyerhaeuser will be able to market NRM computer products in addition to its own computer products, and NRM will be able to allocate its resources toward new product development, according to Dave Jenkins, project manager at

Weyerhaeuser.

For more information contact Mr. Jenkins at 800-654-9347.

Humana expands

Humana Medical Plan Inc., a Miami-based health maintenance organization, has acquired the Miami and Tampa subscriber contracts of Travelers Health Network of Florida Inc.

Travelers Health Network is an HMO subsidiary of Hartford, Conn.-based The Travelers Insur-

ance Co.

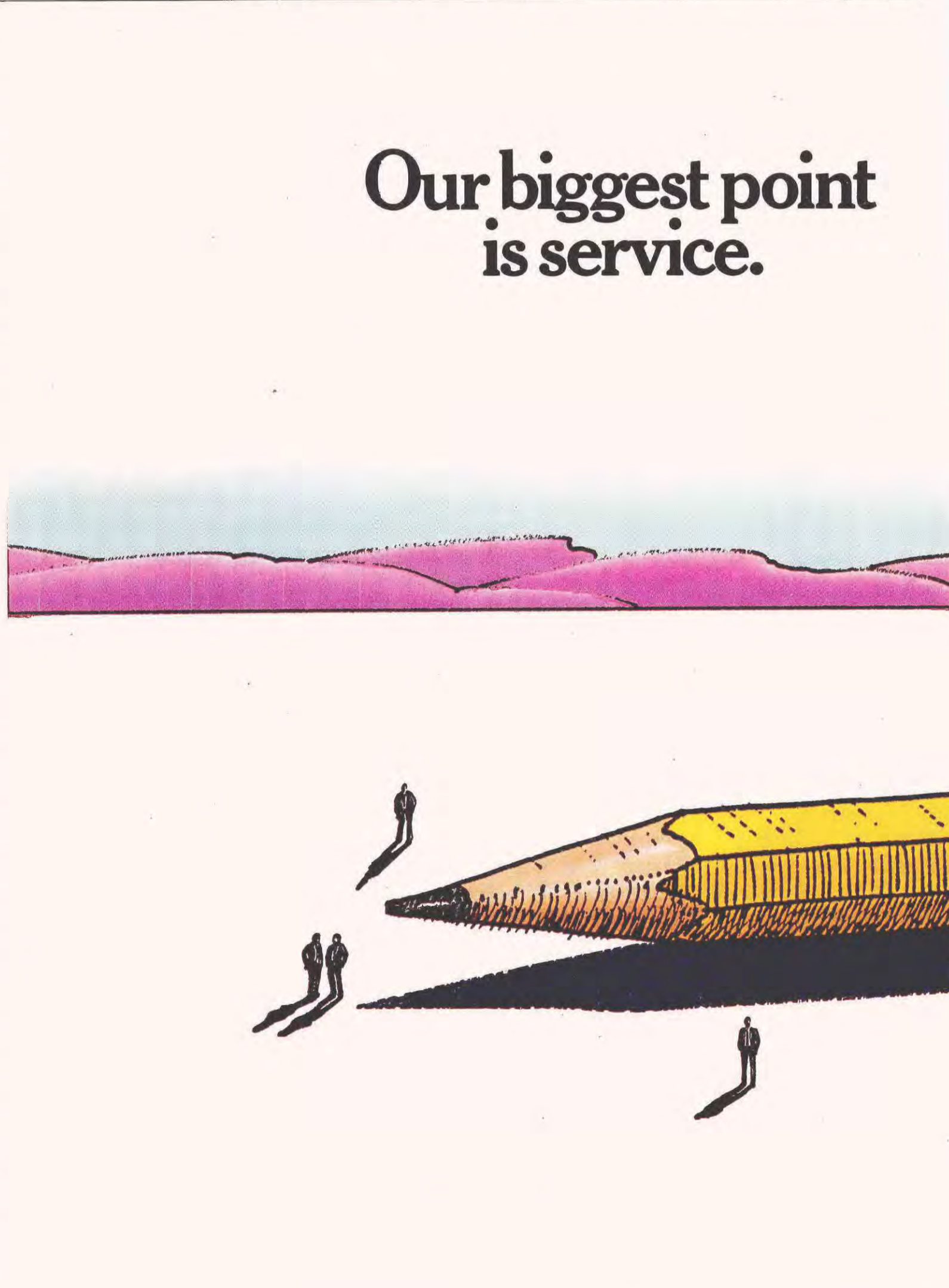
The Florida HMO acquisition adds approximately 1,200 members to the Humana Medical Plan, an affiliate of Humana Inc., which has a total enrollment of 544,000 in all of its managed care programs.

New Jersey HMO

CIGNA Corp. has expanded its health maintenance organization into northern New Jersey.

Continued on next page

Our biggest point is service.



Continued from previous page

CIGNA Healthplan of Northern New Jersey Inc. in Paramus, N.J., will serve Morris, Bergen, Essex, Passaic, Hudson, Middlesex, Somerset, Monmouth and Union counties.

"With some of the state's largest employers in our service area, we see northern New Jersey as an important market," said Richard W. Kaplan, president of CIGNA Healthplan's East-Central division.

The HMO is an individual practice association model.

Stephen A. Rogers has joined CIGNA Healthplan of Northern New Jersey as vp and general manager.

Most recently, Mr. Rogers served as vp of medical delivery at U.S. Healthcare Systems Inc. in Blue Bell, Pa.

CIGNA currently operates 29 HMOs nationwide with more than 1.2 million enrollees.

For more information, contact Mr. Rogers at Mack Center III, South Tower, 140 E. Ridgewood, Paramus, N.J. 07652; 201-262-7700.

Hall merges offices

Frank B. Hall & Co. Inc. of Briarcliff Manor, N.J., has combined the management of its San Francisco and Hawaii offices.

The San Francisco office of

Frank B. Hall will take over the day-to-day management of the Hawaii office.

"This consolidation will give Hall's Honolulu staff greater access to the depth of technical resources at the San Francisco office, such as marketing, engineering, loss control and claims management," explained Gordon Biddle, Pacific Northwest regional manager at Frank B. Hall San Francisco Inc.

PPO network expands

The Travelers Corp. has expanded its preferred provider network by launching new PPOs in Columbus, Ohio, Cincinnati and

Kansas City, Mo.

The Travelers Preferred-Columbus network includes seven hospitals and a provider network of 400 physicians, and the Travelers Preferred-Cincinnati network includes seven hospitals and a provider network of 600 physicians.

Travelers Preferred-Kansas City includes 14 hospitals and a provider network of 500 physicians.

All of The Travelers PPOs include the Taking Care wellness program and the Patient Advocate utilization review program.

For more information on Travelers Preferred-Columbus or Travelers Preferred-Cincinnati contact William Gross, executive

director, 4807 Rockside Road, Suite 320, Independence, Ohio 44131; 513-771-0677.

For more information on Travelers Preferred-Kansas City contact Peter Strauss, executive director, 231 S. Bemiston, Suite 715, St. Louis, Mo. 63105; 913-661-0211.

Name change

Corroon & Black/Fairfield & Ellis has changed its name to Corroon & Black of Massachusetts Inc.

Mergers/acquisitions

Quantex Financial Corp. of Iselin, N.J., has acquired Motor Vehicle Casualty Co. of Elmhurst, Ill., from Providence Washington Insurance Co. of Providence, R.I.

The Motor Vehicle Casualty Co., which is licensed in 39 states, will be renamed Edison Insurance Co. and will operate as a wholly owned subsidiary of Quantex.

It writes specialty lines coverages including marine, professional office multiperil and transportation.

Gary G. Kubesch and Russell V. Ely have purchased Milwaukee-based Tower Special Facilities, an excess/surplus wholesaler, from Fiduciaries Inc. of Pewaukee, Wis.

Mr. Kubesch serves as president and treasurer of the new corporation and Mr. Ely serves as vp and secretary.

Hilb, Rogal & Hamilton Co. of Richmond, Va., has acquired T.O. Mayer & Associates Inc. of Baltimore. Terry O. Mayer, president of T.O. Mayer & Associates, will continue as president of the brokerage.

Buck Consultants Inc. of New York has merged with Martin Paterson Associates Ltd. of London. The United Kingdom and Ireland operations will be known as Buck Paterson Consultants Ltd. and will be headed by Chief Executive Officer Martin Paterson.

Mutual of America Life Insurance Co. of New York has entered into a contract to acquire American Life Insurance Co. of New York.

New offices

The Principal Financial Group has opened a federal government relations office at 655 15th St. N.W., Suite 950, Washington, D.C. 20005; 202-737-5930.

The Hay Group has moved to 205 N. Michigan Ave., Suite 4000, Chicago, Ill. 60601; 312-819-2100.

J.H. Ferguson & Associates Inc. and J.H. Ferguson Agency Inc. has moved to 1800 Sherman Place, Suite 402, Evanston, Ill. 60201; 312-866-0260.

Reliance Insurance Co. has opened a new office at Westchester Financial Center, Sixth floor, 11 Martine Ave., White Plains, N.Y. 10606; 914-949-5555.

Lindsey & Newsom Insurance Adjusters Inc. has relocated its El Paso office to 4141 Pinnacle, Los Arcos Building, Suite 105, El Paso, Texas 79902; 915-533-0710.

Dennehy/Advanced Underwriters has moved to 3221 W. Big Beaver Road, Suite 201, Troy, Mich. 48084-2885; 313-649-0090.

Associated Agencies Inc. has moved to 651 W. Washington Blvd., Chicago, Ill. 60606-2193; 312-707-9000.

Wheeler Kelly Hagny Insurance Inc. has moved to Exchange Place, seventh floor, 112 N. Market, Wichita, Kan. 67201; 316-262-1414.

Environmental Strategies Corp. has opened a new office at 101 Metro Drive, Suite 650, San Jose, Calif. 95110; 408-286-0100.

Richard Whiley Inc. has opened a new branch office at 12 Piedmont, Suite 410, Atlanta, Ga. 30305; 404-264-0222. ■

No matter what size policy we write, service is our biggest selling point. That's why brokers are starting to see Appalachian and Affiliated from a different perspective.

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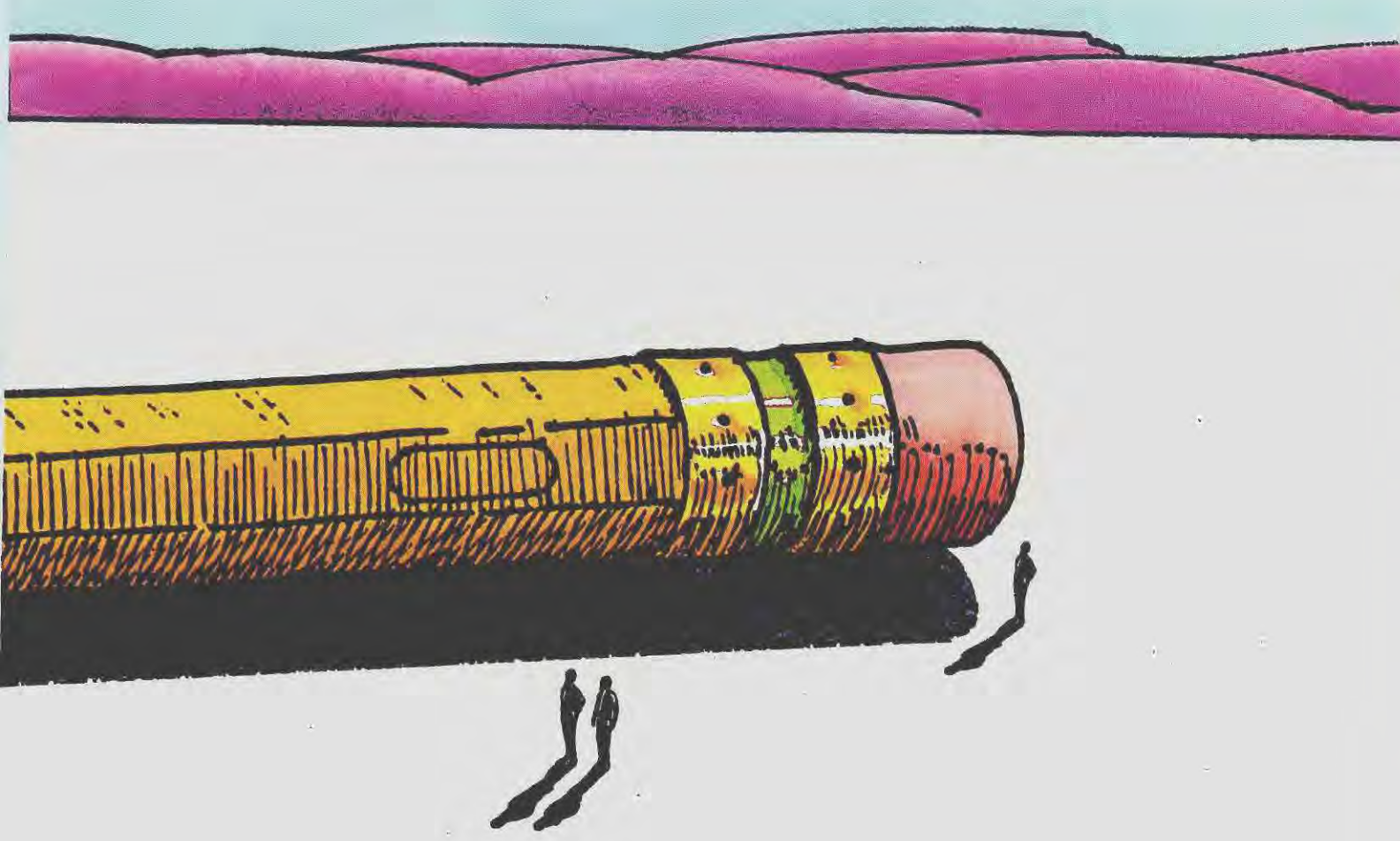
Appalachian and Affiliated offer a complete product line—including an "all risk" policy that's simple, comprehensive, and flexible. We have a proven track record of serving brokers who require fast, competitive, and complete service. We put you directly in touch with our underwriters for fast responses. And, our claims

settlement and paperwork response is just as fast, just as efficient, and certainly, fair. We've even been known to hand deliver a policy in a pinch.

We can also make available the expertise of Factory Mutual engineering—expertise helpful in reducing or controlling property losses and in satisfying your clients.

So, if you want insurers who provide capacity, coverage, and service, talk to Appalachian and Affiliated. We'll help give you a new perspective on property insurance.

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Hotel fire safety bill introduced in House

By DEBORAH SHALOWITZ

WASHINGTON—Hotels and motels would have to install fire sprinkler systems under a bill introduced by Reps. Doug Walgren, D-Pa., Sherwood Boehlert, R-N.Y., and Manuel Lujan, R-N.M.

Under the bill, H.R. 3704, existing hotels would have seven years to comply with regulations that would be issued by the U.S. Fire Administration, a part of the Federal Emergency Management Agency, and incorporated into each state's fire code.

"Most Americans believe that hotels and motels are already equipped with sprinkler systems," Rep. Walgren said. "That's why it is such a shock to learn that 85% of our hotels and motels do not have sprinklers."

"The states and municipalities that require sprinklers are generally those that have suffered from fatal fires," Rep. Boehlert said. "Do we have to wait for tragedy to strike each state before citizens are protected?"

The bill would leave details of setting codes and their enforcement to the states.

Rep. Boehlert said that the fire at the DuPont Plaza Hotel in San Juan, Puerto Rico, which killed 96 people last New Year's Eve, "could have been prevented quite easily." He said that "if the hotel had been fully covered by sprinklers, it is unlikely there would have been any deaths; there probably wouldn't even have been any fire" (BI, Jan. 12).

Vaccine insurance

Manufacturers of childhood vaccines would have to buy insurance or self-insure to provide compensation to victims of vaccine-related injuries under a bill introduced by Sen. Malcolm Wallop, R-Wyo., and supported by the Reagan administration.

Congress enacted a compensation program last year for victims of vaccine-related injuries—the National Childhood Vaccine Injury Act of 1986—but the law did not provide a mechanism to fund the program.

The bill, S. 1907, would provide a funding program based on the workers compensation model, said Health and Human Services Secretary Dr. Otis Bowen in a statement after Sen. Wallop introduced the bill.

"Since there is already an enormous body of experience under those programs, we know that vaccine manufacturers will be able to purchase the required insurance," he said.

"Additionally, a strong incentive will be placed upon the manufacturer to produce the safest vaccines possible, since the cost of securing the required insurance will be a function in each case of the manufacturer's prior compensation experience," Dr. Bowen said.

Sen. Wallop predicted that the bill "would provide predictability of cost, which would provide a basis for insurance premiums."

The bill also would create a Vaccine Compensation Board to adjudicate claims for compensation that cannot be resolved by the individual and the insurer.

An identical bill, H.R. 3546, was introduced in the House in October by Rep. Norman Lent, R-N.Y.

A proposal to fund the vaccine compensation program through vaccine taxes paid by purchasers was approved by two House panels and incorporated into the House-passed budget reconciliation bill, H.R. 3545.

However, the Reagan administration opposes that funding method.

Washington

Scott will pay fine

Scott Paper Co. will pay \$475,000 in penalties to the Labor Department under a negotiated settlement over job safety and record keeping violations.

The Occupational Safety and Health Administration had proposed \$813,000 in penalties for the violations at the paper products manufacturer's Winslow, Maine, plant (BI, Oct. 5).

Although the Philadelphia-based manufacturer did not admit any wrongdoing in the settlement, it agreed to correct injury and illness records at all Scott facilities dating back to January 1986.

Electrical equipment

Employers would have to follow new safety procedures and train workers who have not received extensive electrical equipment training

under a proposed rule by the Occupational Safety and Health Administration.

Under the proposed rule, employers would have to be able to lock electrical equipment in an "off" mode, if possible.

In addition, the proposed rule would require employers to instruct workers to turn off the power of electrical equipment before working on it, if possible.

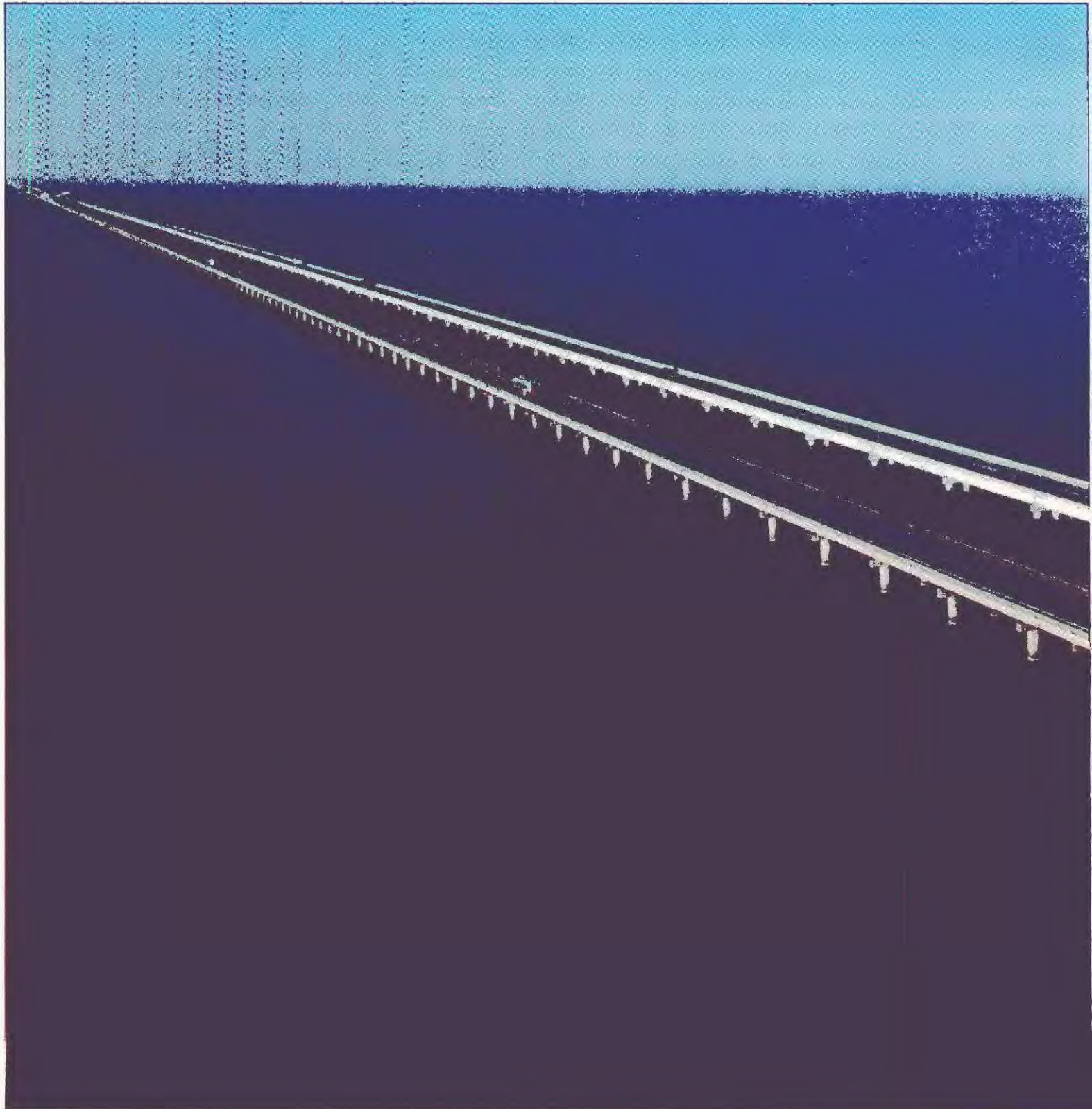
And, employers must post signs, use barricades or station an attendant near an electrical hazard to alert workers to the potential danger.

If the power for overhead lines cannot be turned off, the lines must be grounded or another protective measure must be taken, the proposed rule says.

The proposed rule, which was published in the Federal Register on Nov. 30, could prevent more than 100 deaths and 1,500 injuries each year, according to OSHA.

Comments and hearing requests should be sent by Feb. 29, 1988, in quadruplicate to The OSHA Docket Office, Docket S-110, Room N3670, 200 Constitution Ave., N.W., Washington, D.C., 20210. ■

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Eight join new Florida municipal pool

NORTH FORT MYERS, Fla.—The Southwest Florida Intergovernmental Risk Management Assn., a new insurance pool, is offering cities and counties in Florida \$1 million in liability coverages and replacement-cost protection for property risks.

Four cities and four counties are members of the insurance pool formed for public entities in southwest Florida, according to Executive Director James L. Hicks.

Mr. Hicks, who also is SFIRMA's risk manager, said the pool, which has \$2.5 million of capital and surplus, has been offering coverage

Around the states

to its eight members since October.

Apart from \$1 million in general liability, automobile liability and professional liability coverages, pool members have \$2 million in workers compensation coverage.

The pool maintains a \$100,000 per occurrence retention on all coverages except workers comp. The retention is \$150,000 for workers comp. Stop-loss coverage purchased from Lloyd's of London will pay claims that exceed mem-

bers' retentions and pool annual losses exceeding \$3.5 million.

Cities and counties pay varying assessments to join the pool based on such factors as population and annual payroll, Mr. Hicks explained. He said SFIRMA's members paid an average of around \$2,500 to join.

He said a member's premiums are calculated according to past loss experience and current exposure. "We're developing a cost-of-

risk allocation system that would be experience sensitive," he added.

Charter members of SFIRMA each received a 21% discount on amounts they were paying for coverage in the commercial market, according to Mr. Hicks. He said some of SFIRMA's members had gotten renewal statements and would have had to pay higher prices if coverage were renewed with the commercial insurers. "The savings over renewal premiums were even higher," he said.

He said new members will have to be approved by the association's board and whether those policy-

holders will receive premium discounts will be determined when they are accepted.

Mr. Hicks and Arthur J. Gallagher & Co.'s Miami office will provide members with loss prevention expertise and claims administration services.

Gallagher also provides brokerage services for members that want to buy higher limits of coverage than the association provides.

Current SFIRMA members are Lee, DeSoto, Hendry, and Glades counties and the cities of Cape Coral, LaBelle, North Port and Long Boat Key.

—By Michael Bradford

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Work comp pool

NEW HAVEN, Conn.—The Connecticut Interlocal Risk Management Agency's workers compensation pool covered a record 42,537 of the state's municipal employees during the 1986-87 policy year, which ended Dec. 1.

In addition, CIRMA's 1-year-old liability-automobile-property pool completed its first year of operation on Dec. 1 with a loss ratio of 48.8%, an industry low.

"Our presence in the marketplace benefited all municipalities and local public agencies," said CIRMA President Joel Cogen.

CIRMA, a service program of the Connecticut Conference of Municipalities, is a non-profit association of municipalities and public agencies that administers the work comp and LAP pools for members.

CIRMA's work comp pool covered 109—or 48%—of the insured cities and towns in Connecticut, the association reported at its annual meeting Dec. 2 in New Haven.

The work comp pool reported net premiums of \$11.7 million for the 1986-87 policy year, and has grown to 125 members with \$14.8 million in net premiums.

Loss-control work plans, including a back injury prevention program, supervisory training, accident investigation and defensive driver training, were among programs introduced during the year.

CIRMA projects losses of 45% of net premiums for 1986-87, compared with industry standards of 60% to 80%. Out of 5,236 claims reported during 1986-87, only 1,574, or 30%, remained open as of June 30, 1987.

Membership in the LAP pool stood at 27 municipalities and local public agencies as of Dec. 1. The pool reported \$5.7 million in net premiums during 1986-87.

Since Dec. 1, LAP pool membership has grown to 35 members, with \$8.2 million in net premiums.

General and automobile liability accounted for 92% of all claims paid and \$4.8 million in net premiums in the 1986-87 policy year.

—By Colin Nash

Virginia work comp

RICHMOND—The Virginia State Corporation Commission's Bureau of Insurance will hold a hearing Thursday in Richmond on new, tougher proposed rules for self-funded workers comp pools.

Under the proposed rules—scheduled to go into effect Jan. 1—each pool will be required to renew its license to operate each year. Currently, a pool only has to obtain a license before it starts operations.

In addition, the rules—among other things—would require new pools to have estimated gross contributions of \$500,000, up from the current \$250,000 requirement, to be licensed.

The hearing will begin at 10 a.m. in Richmond at the State Corporation Commission, Jefferson Building, 1220 Bank St., 13th floor.

—By Jerry Geisel

Lloyds set to begin testing underwriters

BY CAROLYN ALDRED
and STACY SHAPIRO

London

LONDON—Lloyd's of London is introducing a new examination for potential underwriters and executive directors of underwriting agents.

Proposals were approved this month by the Council of Lloyd's for the introduction of a mandatory qualification test for such individuals, according to a Lloyd's press statement.

Implementation of the examination, to be known as the Lloyd's Market Certificate, was recommended in January by the Neill Committee of Inquiry into Regulatory Arrangements at Lloyd's, a government inquiry team headed by Sir Patrick Neill.

The Council plans to consider

final details of the examination early next year following consultation with market associations, the statement said.

"By Jan. 1, 1992, all those intending to become active underwriters or executive directors of members or managing agents will be required to have passed or been exempted from the Lloyd's Market Certificate," the statement said.

Already, Lloyd's requires anyone working in the Underwriting Room—from clerks on underwriting boxes to new brokers—to take an introductory test, which became mandatory on Jan. 1, 1986. This new exam, however, is geared toward underwriters and managing

or members agents to test their skills, said a Lloyd's spokesman.

A members agency looks after the affairs of Lloyd's Names, while managing agencies manage Lloyd's syndicates.

The Chartered Insurance Institute, the professional examining body of Britain's insurance industry, will help administer the examination together with Lloyd's Training Centre.

The test will include three compulsory papers and cover:

- English law.
- Principles and practice of insurance, with special reference to the Lloyd's market.
- Lloyd's market procedures

and regulation.

The first exam will be held in April 1990. However, there will be exemptions for those who have worked in the market for a certain period of time, probably about five years, said Lloyd's Chairman Peter Miller.

Cook suspended

Lloyd's of London has suspended Brian William Jack Cook from brokering at Lloyd's from Dec. 2 to Dec. 31 for discreditable conduct.

Lloyd's charged that in 1984, while a director of broker Wigham Poland Marine Ltd., Mr. Cook informed Hong-Kong based insurance broker Wheelock, Marden & Stewart Ltd. that he had placed 48% of the coverage for the Tai Chong Cheang fleets when only

10.25% of the coverage had been confirmed.

Mr. Cook pleaded guilty to that charge and two similar charges, according to a Lloyd's disciplinary report.

Lloyd's board game

Brokers and underwriters in the London insurance market may be seen plying their trade on Christmas day this year after eating their fill of turkey, plum pudding, mince pies and the usual British Christmas fare.

The reason is not an unusually hectic renewal season in London, but rather the introduction of a new board game titled "Underwriter—the Names Game."

The game is based on the Lloyd's of London market and was invented by three New Zealand farmers, two of whom are names at Lloyd's.

The game is played by two to four people, each of whom assumes the role of an underwriter and manages a syndicate portfolio board, across which risks are spread. Ensuing international events have a direct bearing upon each portfolio and the players' profit or loss.

"The choice of subject was a natural, given that public interest in Lloyd's is at an all-time high," said co-inventor Selby Palmer.

The game is available for 29.95 pounds (\$53.78) at Colmore Stationers, 20 Cullum St. London EC3 or by mail from Financial Games Ltd., 20b Jewry St., Winchester, Hants SO23 8RZ.

Financial Games also will accept credit card orders from the United States for 45 pounds (\$80.80), which includes delivery but not U.S. Customs Tax.

In addition, "Underwriter" can be personalized with a company logo and message embossed on both the board and rule book for an additional 5.5 pounds (\$9.80) per game with a minimum order of 50 games.

Council appointment

The Council of Lloyd's of London is reappointing Edward Walker-Arnott as a nominated member of the Council for one year. Mr. Walker-Arnott is a partner with the law firm of London-based Herbert Smith & Co. and is chairman of Lloyd's Investigations Committee and the Underwriting Agency Agreement Working Party.

His reappointment, approved by the governor of the Bank of England, necessitated a change in one of Lloyd's bylaws to allow a nominated member to be re-appointed for a term of less than three years, said Lloyd's Peter Chairman Miller.

Lloyd's also has amended a membership bylaw to allow the Council to control members' premium income on a fiscal year basis rather than on a calendar year basis starting in 1988.

In addition, the Lloyd's Council at its Dec. 2 meeting implemented two bylaws that incorporate seven additional recommendations by Neill.

The Lloyd's Members' Ombudsman Bylaw approves the appointment of a Lloyd's members' ombudsman, who will be available to all members to deal with complaints about the market.

Sir Kenneth Clucas, currently chairman of the National Assn. of Citizens Advice Bureaux, has been appointed the first members' ombudsman beginning Jan. 1, 1988.

Meanwhile, the Modified Arbitration Procedure Bylaw is "designed to provide Names with a relatively quick and inexpensive

Continued on next page

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Continued from previous page
method of arbitration where a member cannot reach agreement with his agent," according to a Lloyd's statement.

Anti-tax lobby

The Assn. of British Insurers is calling on the U.K. government to alter tax legislation that the association says puts British insurance companies at a competitive disadvantage to other U.K. financial institutions and non-U.K. insurers.

"Against the background of continuing change in the provision of financial services, it is important that the burden of tax on insurance companies should not put them at a competitive disadvantage with other providers of financial services or with non-U.K. insurance companies," the association states in its pre-1988 budget representations to government.

The ABI is calling for:

- Insured pension plans for small companies and individuals to be entitled to tax-free interest income or a statutory entitlement to regular provisional tax repayments to put individual pension plans on a par with self-administered company pension plans.

"While large companies are able to set up self-administered pension plans, smaller companies and individuals generally have to rely on insured plans. Since pension plans are exempt from tax, self-administered plans are entitled to immediate repayment of income tax and tax credits," according to ABI.

- The payment of interest by the Inland Revenue on a quarterly basis to compensate for investment income tax paid by insurance companies. The tax deducted from investment income often exceeds insurance companies' corporation tax liability by a substantial margin but only becomes repayable nine months after the fiscal year ends, said an ABI spokesman.

"This places insurance companies at a considerable disadvantage compared with other types of companies because, in effect, insurance companies are paying corporation tax in advance without any commercial restitution in the form of appropriate interest payments to compensate," ABI said.

- The abolition of stamp duty on life insurance and annuities.

Hogg results

Hogg Robinson & Gardner Mountain P.L.C., the Lloyd's of London broker recently split from Hogg Robinson Group P.L.C., announced six-month profits of 2.8 million pounds (\$4.6 million at Sept. 30 exchange rates), down from 3.1 million pounds (\$4.5 million at Sept. 30, 1986) last year.

However, brokerage and investment income for the six months ended Sept. 30 increased to 40.4 million pounds (\$65.8 million) from 38.7 million (\$56.1 million) for the same period last year.

"HRGM's direct broking is performing well, particularly in the U.K. and the U.S.A., and I am much encouraged by the acquisitions made by Republic Hogg Robinson in North America over the last 18 months," said Executive Chairman James Vaughn.

Asbestos award

A High Court award this month of 40,838 pounds (\$72,916) to a widow of a dock worker who died of cancer in 1982 may set a precedent for future asbestos litigation in Britain, according to a lawyer involved in the case.

The court ordered the Port of London to pay the damages to Blanche Parkes, whose husband died of cancer at the age of 57 after working 20 years in London's ports. Although Mr. Parkes died from lung cancer and not asbestosis, asbestos fibers were found in

his lungs.

Previously, damages have only been awarded in English courts when the victim was shown to have suffered asbestosis.

While the port authority admitted it was negligent in not protecting Mr. Parkes from the asbestos he unloaded from ships, it alleged that he had contracted lung cancer from cigarette smoking.

"This could lead to many more claims being filed by relatives of lung cancer victims who have had contact with asbestos," noted one lawyer, who did not want to be named.

The Port of London Authority refused to comment on its insurance arrangements.

Budget bill opposed

Officials at the British Treasury Department, the Inland Revenue and the Department of Trade and Industry are trying to persuade the U.S. Congress that provisions in the House-passed budget reconciliation bill dealing with the tax treatment of Lloyd's syndicates and members are inapplicable and in violation of an agreement between the Internal Revenue Service and Lloyd's.

Lloyd's of London syndicates would be taxed as any insurance company in the United States and would be forced to discard their historic three-year accounting system under two provisions in the

bill.

The proposed changes, which are not included in budget reconciliation legislation now pending in the U.S. Senate, would apply to tax years beginning Jan. 1, 1988 (BI, Nov. 9).

According to Lloyd's Chairman-elect, Murray Lawrence, three major British government departments are opposing the provisions in the House bill.

The "haggling" over the bill is likely to begin soon, Mr. Lawrence said.

The Treasury, the DTI and the Inland Revenue "are making their views strongly (felt) on the inapplicability" of the provisions and that they contradict an existing closing

agreement between the IRS and Lloyd's that exempts syndicates from corporate income tax, Mr. Lawrence said.

Injury award

A passenger injured in a 1983 car crash allegedly caused by a faulty tire manufactured by Dunlop Ltd. was awarded 90,788 pounds (\$162,102) in London's High Court last week.

The award was paid by Commercial Union P.L.C., Dunlop's liability insurer at the time of the accident, a Dunlop spokesman said.

The coverage was placed by Lloyd's broker Willis Faber P.L.C., the spokesman said.

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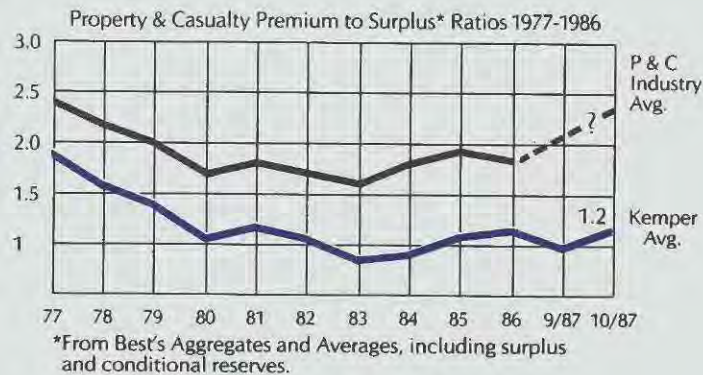
- It proved that the size of an insurance company is not the sole determinant of its financial strength.
- It pointed out the wide range and changing nature of premium to surplus ratios among insurance companies.
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75% of Lloyd's workers prefer old building: Survey

By CAROLYN ALDRED

LONDON—Putting underwriters on television screens is just one of the options being considered by Lloyd's of London Council members to overcome brokers' and underwriters' dissatisfaction with the new Lloyd's building.

A closed-circuit TV system to allow brokers to see which underwriting boxes have the shortest queues is a proposed solution to one of the problems highlighted by market users in a recent opinion poll, according to Lloyd's outgoing Chairman Peter Miller.

The poll, conducted by Market & Opinion Research International, showed that 75% of Lloyd's un-

derwriters and brokers still prefer the old Lloyd's building vacated by underwriters last year (*BI*, Dec. 7).

As a result, Lloyd's will appoint a new designer by January and plans to spend "significant" sums to improve the 1986 high-tech, steel and concrete building, designed by controversial architect

A closed-circuit TV system to allow brokers to see which underwriting boxes have the shortest queues is a proposed solution to one of the problems highlighted by market users in a recent opinion poll, says Lloyd's Chairman Peter Miller.

Richard Rogers.

Complaints cited by the market users include poor lighting, ventilation, air-conditioning, and access around the building, invisibility of underwriting boxes and lack of good dining or entertaining facilities.

"There are obvious dissatisfactions with the working environment as there are with any new building," said Mr. Miller at a recent press conference. However, he described the building as "exciting" and Mr. Rogers as "an architect of genius."

Now, Lloyd's plans to spend "substantial" sums improving the 950 million-pound (\$353.3 million) building as a working place, he said.

Ironically, the building, which was officially opened by Queen Elizabeth II last November, has just won the Financial Times 1987 architecture award for industrial and commercial buildings (*BI*, Dec. 7).

"The Lloyd's building has achieved an architectural excitement rare in the City of London," said a statement accompanying the 1987 Architecture at Work Award.

In addition, the building has attracted the attention of fashion photographers, advertising agencies and television studios because it is regarded as the best example of late 20th century architecture in Britain (*BI*, Aug. 31).

However, the building's users have definitely given it the thumbs down.

MORI, which polled 271 underwriters and 171 brokers in October, said that 48% of the building's users rate it "unsatisfactory" as a working environment and fully three-quarters of the respondents—75%—prefer the old building, opened in 1958, as a better place to work.

MORI described this as "a disturbing finding in the light of our experience that people are more inclined to praise than to criticize."

However, "the great majority believe that the building can potentially meet their needs, if specific difficulties can be resolved," the survey adds.

"The main areas of complaint are physical and specific: speed of elevators, eating facilities, visibility between boxes, ventilation and lighting," MORI said.

In addition, 40% of all Underwriting Room users recommend "significant expenditure" on improvements, the poll shows.

"We will appoint a new designer who is expert in the movement of people around a big building such as a designer of a shopping mall," said Mr. Miller.

Lloyd's hopes to design around the problems of lighting, ventilation and the difficulty of movement around the building. Meanwhile, the Council has ruled out any return to the old building, said Mr. Miller.

Although 52% of marine underwriters advocate returning the marine market back to the 1958 building "this is not an option we will pursue," said Mr. Miller.

"95% of the market supports the concept of a centralized market," he added.

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EC rule may spur rate hikes: Insurer

By CAROLYN ALDRED
and STACY SHAPIRO

BRUSSELS, Belgium—Product liability insurance rates in Europe may increase an average of 15% because of the European Community directive on product liability that must be adopted by all member states by next July, according to a London-based underwriter of a Swiss insurance company.

In addition, underwriters will require more underwriting information and increased emphasis on risk management and rating adjustments, said Edward Hester, assistant manager—U.K. and Ireland for Zurich Insurance Co. of Zurich, Switzerland.

The directive is likely to lead to "increased claims awareness, (which) will lead to a significant increase in the number of reported claims, and risk managers may wish to negotiate higher deductibles in order to eliminate the insurer's costs of handling small claims," he said at a seminar organized by Jardine Insurance Brokers Inc.

Furthermore, the possible increase in costs for defending claims eventually may lead to a requirement that legal costs be included within the indemnity limit, he said.

However, in some countries, other factors may halt any trend to increase rates, Mr. Hester admitted to *Business Insurance* last week.

"All underwriters should take (the directive) into consideration in the assessment of their rates. There may, however, be other factors to take into account, too," he said.

In Ireland, for example, the government is considering a bill that would eliminate juries in civil trials. If enacted, the law could lead to lower judgments, which could lead to reduced rates even when the product liability directive is implemented, he said.

All 12 EC member countries must adopt national legislation by next July 30 that enforces the product liability directive, which imposes strict liability on manufacturers and distributors of goods (*BI*, Aug. 5, 1985).

The directive, which was passed by the European Commission July 1985, allows three options that countries can incorporate in their legislation to ease the impact of strict liability. Countries can choose to:

- Include a "development risk" defense, which is the European term for a state-of-the-art defense.
- Adopt an aggregate financial limit of 70 million European Currency Units (\$87.3 million) producer liability for death or personal injury when identical products with the same defect cause injuries.
- Exclude producers of primary agricultural products from strict liability.

The adoption of new legislation or updating current legislation to comply with the EC product liability directive has been slow, according to Mr. Hester.

So far, the United Kingdom is the only country that has incorporated the directive into national law, which becomes effective in March (*BI*, Oct. 5).

In the United Kingdom, under the Consumer Protection Act of 1987, the state-of-the-art defense will apply, and producers of primary agricultural products are excluded from strict liability. However, there is no liability limit.

The British Consumer Assn. already is challenging the wording of the act's state-of-the-art defense, and the association's criticisms

could be heard in the European Court of Justice.

EC member countries not implementing the directive correctly or on time could be sued by the EC.

"I've been complaining that progress is extremely slow" in the other countries, said Mr. Hester. "Basically, the other countries started too late. There's a lot to do in the rest of Europe before July."

Seven of the 12 EC countries are likely to include a state-of-the-art defense; only four countries are likely to cap liability limits; and eight countries are likely to exclude primary agricultural products from legislation, according to Mr. Hester.

Continued on next page

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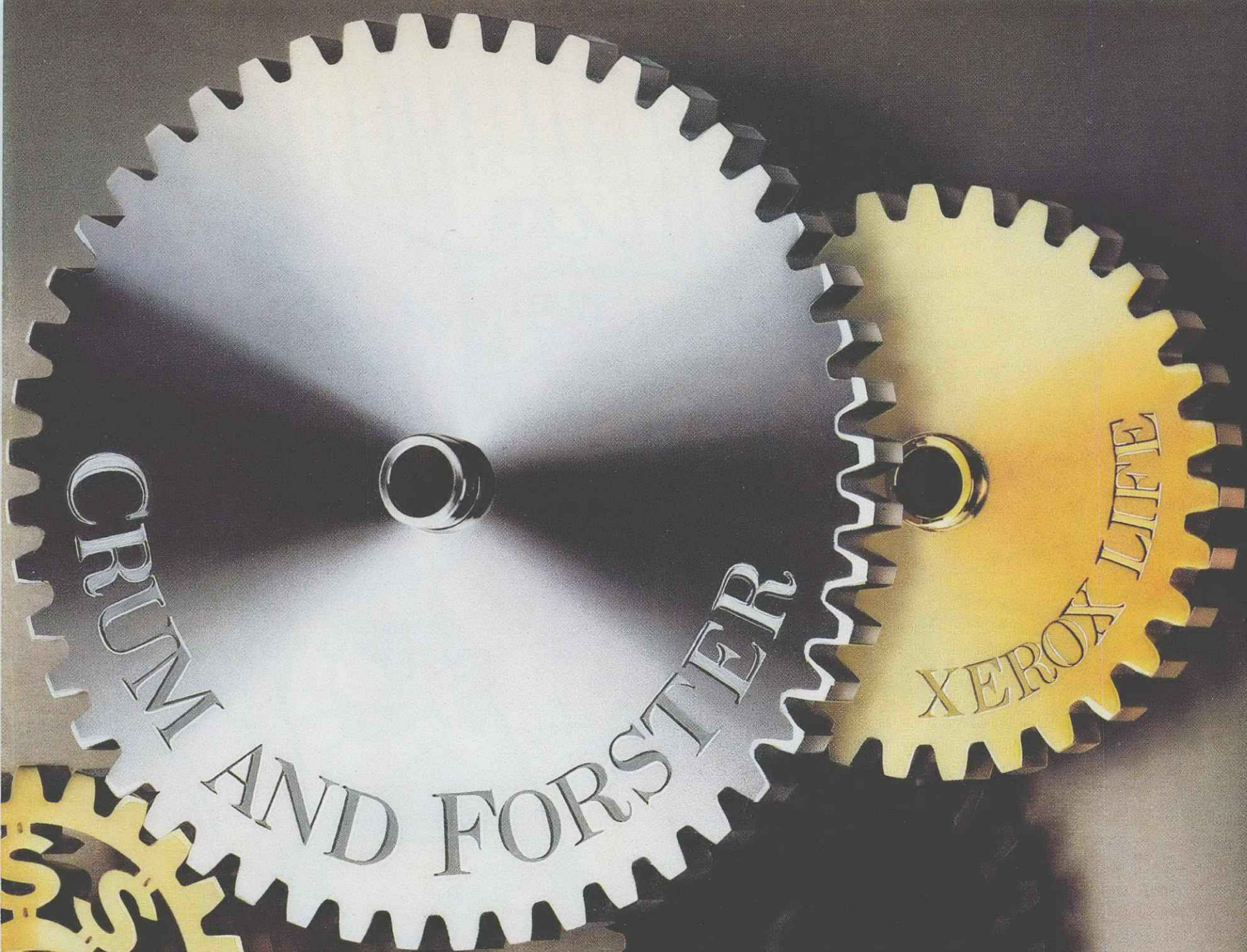
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RISK RETENTION ACT

Formative steps reduce risk group uncertainties

By James E. Tait, Thomas L. Brown and Kenneth R. Wylie

ON THE FIRST ANNIVERSARY of the passage of the Liability Risk Retention Act of 1986 on Oct. 27, there had been a noticeable tempering in the enthusiasm for risk retention groups as an alternative to traditional insurance.

To a certain extent, this diminished enthusiasm reflects the recent softening in the commercial liability insurance market.

A portion of the decline in enthusiasm, however, reflects the uncertainties associated with the formation of RRGs. This is not necessarily a negative development. We believe that a more reflective approach during the formative stage of an RRG with the early involvement of professionals can eliminate some of these uncertainties and will result in saving time and money and, most importantly, will enhance the likelihood of the group's ultimate success.

The 1986 act, in part, is a vehicle for ameliorating the recurring availability and affordability insurance crisis. It also reflects the traditional tug of war between federal and state regulatory authorities. This tug of war contributes to the uncertainties in forming an RRG.

Under the 1986 act, Congress pre-empted state insurance regulatory authority in an area particularly sensitive to risk managers, agents and brokers, insurers and others: commercial liability insurance.

In an effort to protect their regulatory turf, state insurance regulators, through the National Assn. of Insurance Commissioners, have promulgated a Model Risk Retention Act that, in one form or another, has been enacted in more than 20 states. The NAIC act aggressively seeks to limit the federal pre-emption provided by the 1986 act. The interplay, or more appropriately, tension between the 1986 act and the NAIC act compounds the uncertainty concerning the implementation provisions of the 1986 act. We fear that these uncertainties are often overlooked during the formative stage of an RRG and result in wasted time and money as well as undermining the hoped-for success of the RRG.

The 1986 act provides two ways for expanding the capacity of the commercial liability insurance market.

First, the 1986 act attempts to attract new capital from outside the traditional insurance market by authorizing similarly situated businesses to pool their commercial liability risks by organizing member-owned insurance companies called RRGs.

Secondly, the 1986 act attempts to attract additional capital from traditional insurance companies by permitting similarly situated businesses to band together as purchasing groups. By purchasing insurance on a group basis, these groups are charged lower premiums, operate more efficiently and may gain better policy terms. Significantly, purchasing groups do not carry with them the business risk associated with RRGs, because purchasing groups do not retain any insurance risk of its members.

Recently, purchasing groups have been the subject of state insurance regulatory challenges in Iowa, New York and Virginia, illustrating the tug of war between federal and state regulations.

Assuming an RRG is the route chosen, the 1986 act requires that the RRG be chartered and licensed as a liability insurance company (stock or mutual) in at least one state. The RRG must comply with all laws of its domiciliary state that regulate formation and operation, but is exempt from laws providing

Speaking out

for state guaranty fund assessments.

As a result, most RRGs are formed in states that have enacted specific captive insurance company laws exempting captives from many of the regulatory provisions otherwise applicable to liability insurance companies. The captive law provisions include lower capital and surplus requirements, the funding of the capital and surplus by letters of credit, elimination on restrictions of permissible investments and exemptions from rate and form filing requirements. To date, Colorado, Delaware, Florida, Hawaii, Illinois, Tennessee, Vermont and Virginia have enacted such captive insurance company laws.

The 1986 act imposes a homogeneous member requirement on both RRGs and purchasing groups. At first blush, this would appear to be a relatively easy requirement to meet. However, this may preclude companies in different industries from insuring a

common exposure: environmental pollution.

The 1986 act also requires a RRG to be owned by its members. This raises questions such as: Can an RRG insure the subsidiaries and affiliates of its member owners if those subsidiaries or affiliates do not have a direct ownership interest in the RRG? This issue is further complicated when the subsidiary is not wholly owned by the member owner.

The owner/policyholder requirement could also be interpreted to preclude an RRG from issuing directors and officers, errors and omission, fiduciary liability or other liability insurance covering individuals, since those individuals are not owners of the RRG.

The owner/policyholder requirement also raises a serious problem as to the treatment of stock ownership when a member withdraws from the RRG. Specifically, the RRG should not allow a withdrawing member to cash out its equity interests until the RRG's exposure under

policies issued to the withdrawing member has terminated. Yet, the 1986 act says members have to be policyholders.

These interpretive difficulties illustrate that the threshold for determining whether to form an RRG and its corporate structure involves consideration of difficult issues. If those issues are not addressed during the initial formative steps, additional costs and delay will result and potentially doom the RRG to failure.

Assuming the first two steps have been completed—creation of the corporate structure on a footing that resolves the interpretive difficulties of the 1986 act and issuance of a charter to the RRG as a captive insurance company—the next step is to secure a license to operate as an insurance company/RRG under the domiciliary state's law. This means soliciting the necessary capital. We hope the necessary capital is measured by the amount necessary to fulfill the insurance needs of member policyholders and not just by the statutory minimum capital and surplus required by the state's captive insurance company law.

To facilitate organization of RRGs, the 1986 act exempts ownership interests in RRGs from the registration requirements of federal securities laws and state Blue-Sky laws. Both the time and expense involved in registration are ostensibly saved. However, the savings are illusory because the 1986

act expressly retains the antifraud provisions of the federal securities laws. Unfortunately, some of the parties involved in forming RRGs do not understand this exposure because they are not routinely involved with securities offerings.

Consider the effect of Section 10 of the 1934 Securities Act and Rule 10b-5: In a transaction involving either the sale or purchase of a security, liability attaches to any associated party who makes a misstatement of a material fact or fails to disclose a material fact. In hindsight, after the demise of the poorly conceived or operated RRG, the fact not stated or not stated correctly will typically be material, and liability may attach with dire financial consequences. How then should a party participating in the formation of an RRG proceed,

since neither the 1986 act nor the NAIC act contain clearly defined disclosure guidelines?

We believe that some protection can be afforded to founding parties by providing potential members with the kinds of information required in a typical registered securities offering. While this approach

does not guarantee freedom from liability, it should provide the parties with comfort. Specifically, an offering document should be prepared to provide potential investors with the kinds of information material necessary to understand the investment.

Although participation in an RRG is significantly different from a typical purchase of securities, in both cases emphasis should be placed on disclosure with careful preparation of financial information.

Unfortunately, a common problem for RRGs, as with all newly formed insurance companies, is the lack of historical financial data. Nevertheless, adequate disclosure in an offering document dictates presentation of the founders' best estimates of the prospective financial results of the RRG.

In addition, the 1986 act requires that before an RRG may offer insurance in any state, it must submit to its domiciliary state a feasibility study that includes the coverages, deductibles, limits, rates, and rating classification system for each line of insurance the RRG plans to offer. The NAIC act, if enacted by the RRG's domiciliary state, requires additional information about the membership of the RRG and identity of the persons organizing, administering or otherwise influencing the control of the RRG.

Finally, before the RRG can offer insurance in any state other than its domiciliary state, it must submit a copy of the feasibility study to the insurance commissioner of that state. Unfortunately, neither the 1986 act nor the NAIC act define succinctly the nature, extent or format of the financial data to be included in the feasibility study.

At this point, an expensive and time-consuming dilemma may occur: The founders may already have

Continued on next page

If certain issues are not addressed during the formative steps, additional costs and delay will potentially doom the RRG.

A portion of the decline in enthusiasm, however, reflects the uncertainties associated with the formation of RRGs.



Mr. Tait



Mr. Brown



Mr. Wylie

James E. Tait is a partner and Thomas L. Brown is a manager in the Chicago office of Coopers & Lybrand. Kenneth R. Wylie is a partner in the Chicago law firm of Schiff Hardin & Waite. Gerald I. Lenrow, a partner in Coopers & Lybrand's Chicago office, edited this article.

Structural reviews cut losses

By Hans C. Kosel

DAMAGE TO STRUCTURES caused by severe windstorms, explosions and fires is particularly hard on risk managers, self-insurers and financial executives.

But there is a way to minimize losses: It lies in obtaining an accurate structural evaluation that assesses the significance of issues and observations influencing integrity, safety and durability of structures impaired by defects, deterioration and accidents.

A tornado roaring through Fort Gibson, Miss., struck a cooling tower under construction at the Grand Gulf Nuclear Station. During this event, a construction crane in the interior of the tower loosened and fell. The impact created a V-shaped notch approximately 78-feet deep by 150-feet wide at the top of the tower.

Should the tower be reconstructed or repaired? That was the question facing structural engineers who surveyed the damage. The wrong decision could cost the tower's owners and insurers millions of dollars.

In this case, the contractor wanted to tear down the tower and rebuild. A second opinion was sought.

Specialized engineering consultants were called in to evaluate the site and to determine whether the tower needed to be torn down.

Engineering specialists gather data regarding a structure's condition through detailed on-site inspection, rapid non-destructive testing and laboratory analysis of construction material samples. Gathered information is compiled and the significance of defects and

deterioration is analyzed. Advanced analytical techniques are used to assess structural integrity and safety of the impaired structure. Feasibility of repair is then determined.

In the tower's case, the engineering specialists recommended that the areas of the notch and two holes caused by impact of the crane be repaired. This recommendation was based on:

- ✓ Visual inspection of the tower.
- ✓ Non-destructive tests of concrete.
- ✓ Approximate measurement of tower geometry.
- ✓ Petrographic examination of concrete.

The recommendation to repair the tower saved the owner \$6 million.

In another instance, structural evaluation engineers saved insurers \$8 million because they were able to recommend that 95% of an explosion-damaged silo structure could be repaired.

The engineering specialists were hired to provide a second opinion regarding the condition of portions of a head house and grain silo structure in Texas. Visual inspection was made of the head house and silos, the trench, and the unloading and weighing facility to determine the extent of damage and surface conditions.

Based on visual inspections and findings of non-destructive sonic testing, repair recommendation were made.

Another instance in which structural evaluation paid off involved a cluster of concrete silos damaged by fire and an explosion. The 123-foot high structures, located in Louisiana, are arranged in two banks of 28 silos

each. One of the banks was destroyed, but by performing non-destructive sonic tests, engineers determined that the base of the remaining silos could be saved.

Visual inspection revealed heavy explosion and fire damage that was primarily concentrated at the east end of the structure. It was reported that after the explosion, fire burned for about 3½ months in some of the silos.

Based on visual inspection of the silos, non-destructive testing of concrete, petrographic analysis of concrete cores and testing of reinforcing bars, it was recommended that the concrete silos could be repaired.

In each of these cases and many others in which structural evaluation engineers were involved, experience and expertise provided the difference between the insurer paying for costly rebuilding vs. paying for the repair of the structure.

The expert judgment provided by these engineering specialists results from years of testing full-scale structures in the laboratory as well as from examining and testing structures in the field. They recognize true damage. This factor, plus the ability to quickly respond to calls for help and quickly evaluate the extent of damage, prevents loss of information.

It is important to record damage immediately before anything changes. Specialized engineering consultants record damage by photographs and maps of concrete as soon as they arrive at the scene of the problem.

Microseismic techniques employing low-frequency mechanical energy are used to detect, locate and

photographically record physical and mechanical discontinuities within the solids. Concrete strength and modulus as well as the presence and orientation of surface and internal cracking can be determined.

Another method employed by structural evaluation engineers consists of performing petrographic analysis of cores, or microscopic inspection of concrete. In the case of fire damage, aggregate discoloration takes place at between approximately 700 degrees Fahrenheit and 825 degrees Fahrenheit. Therefore, concrete with discolored aggregate may have undergone a strength reduction of about 50%. Based on this information, structural evaluation engineers can indicate how much of the fire-exposed concrete did not suffer significant damage.

Structural evaluation engineers typically perform work in the area of failure analysis, evaluation and restoration of a wide variety of structures built of concrete, masonry, steel or wood. Structural evaluation work includes conceptual repair recommendations, preparation of working drawings and specifications and on-site inspection of major repair installation.

Hans C. Kosel is manager-Structural Evaluation Section of Construction Technology Laboratories Inc. in Skokie, Ill. Mr. Kosel is a Registered Structural Engineer in the State of Illinois.



Formative steps ensure stable risk retention groups

Continued from previous page

commissioned the work necessary for preparation of the feasibility study that may be inadequate to comply with securities disclosure requirements.

Most will agree that the feasibility study merely requires a projection of prospective financial results, which is based solely on hypotheticals. While in the context of an offering document, a forecast that is based on assumptions that are reasonable in the circumstances must be utilized.

Further, the preparer of the feasibility study usually restricts its use to filings with insurance regulators and will not permit its publication in the offering document, while for the purpose of adding credibility to the financial presentation, founders of the RRG may request that an opinion from a certified public accountant be included in the offering document.

It is not only time consuming but also very costly to bring a projection up to the level of a forecast after initial preparation.

Like other uncertainties in the formation of an RRG, careful planning would have avoided this potential problem by having the feasibility study meet financial disclosure requirements of the offering document.

We believe that to provide the user with financial information necessary to make an informed investment decision, the financial data should be supplemented with the following assumptions that support the data:

- Cash flow projections.
- Loss ratios used to develop reserves.
- Reinsurance cessions.
- Marketing penetration information regarding

We believe that careful planning is the key to the formation of a risk retention group. Such planning will save time and money and enhance the success of a risk retention group.

expected premium volume.

An RRG can fail by missing the boat on market penetration estimates as easily as underestimating loss ratios. The disclosure should also include rate justification, which involves further assumptions on investment yields, and underwriting and administrative expenses.

In addition to financial information, an offering document should have an extensive discussion of risk factors involved in RRGs since these factors are critical to assessing the investment. Some of the risk factors are:

- Lack of liquidity and restrictions in transferability of ownership interest.
- Inexperience of the group in underwriting.
- Lack of an operating history.
- Cyclical nature of liability insurance.
- Collection of premiums, availability of reinsurance and then its collectibility.
- Regulatory uncertainty.

Other areas that should be addressed in an offering document include a detailed description of the proposed participants in the group and how the group will be operated.

Finally, the offering document should include a discussion of the competition from traditional

insurance companies and self-insurance, conflicts of interest, income tax issues, and marketing considerations.

We believe that careful planning is the key to the formation of an RRG. Such planning will save time and money and enhance the success of an RRG. We recommend that the founders include in the formative stage:

- Attorneys experienced in securities offering documents and insurance regulatory law.
- Actuaries to advise on pricing, design of the product and feasibility issues.
- Accountants.
- Persons knowledgeable in both direct insurance and reinsurance markets.
- Representatives of the group to which the insurance coverage and solicitation of ownership interest will be addressed.

Once this team of professionals is assembled, they can focus on all steps involved in the formation process and adopt a realistic time table for forming an RRG. This team will avoid the pitfalls mentioned earlier and will mitigate the risks associated with the antifraud provisions of the federal securities laws through adequate disclosure. Shortcuts and doing it "on the cheap" will most likely result in additional time and expense and, at a later stage, generate a significant risk of failure with the attendant loss of insurance for member policyholders.

If properly planned with the participation of experts, the process of formation will be accelerated and all interested parties will benefit through the cost savings and professionalism of the final product.

Richard Miller promoted to CEO at Corroon & Black

Richard M. Miller, chief operating officer and president of New York-based Corroon & Black Corp., has been promoted to chief executive officer. In addition, **John R. Lamberson**, executive vp, has been promoted to chief operating officer. Both promotions are effective Jan 1.

Mr. Miller will succeed **Robert F. Corroon**, who will continue as chairman. In addition, Mr. Corroon will succeed **Frank**

M. Hagan as chairman of C&B Executive Committee. Mr. Hagan will remain as a director.

In other broker changes:

Nick H. Xiros named president and chief executive officer of Frank B. Hall & Co. of California, Orange County, in Costa Mesa, Calif. Prior to this appointment, Mr. Xiros served as executive vp for three years in the Costa Mesa office.

William R. Schuck appointed chairman and chief executive officer of the southern division of Frank B. Hall & Co. of California in Los Angeles. Prior to his appointment, Mr. Schuck was chairman and chief executive officer of Hall's Costa Mesa, Calif., office.

Also at Hall, **H.P. Van Ingen Jr.** named senior vp of Frank B. Hall & Co. of New York Inc. in Manhattan. Mr. Van Ingen was an executive producer for seven years.

J. Ronald Ellis promoted to president and chief executive officer of Corroon & Black of Nashville Inc. Previously, Mr. Ellis was executive vp and chief operating officer of Fairfield Ellis before that firm merged to form Corroon & Black/Fairfield Ellis. **Gerald D. Hogin** succeeds Mr. Ellis as executive vp and chief operating officer.

Comings & goings: industry

Most recently, Mr. Hogin was senior vp-marketing at C&B of Nashville.



Mr. Flynn

W. Kingsley Flynn appointed manager of the Wilmington, Del., office of Johnson & Higgins. Most recently, Mr. Flynn was manager of marine/aviation/oil and gas department in the firm's Houston office.

Also at J&H, **Edmond T. Burgan** named manager of the Anchorage, Alaska, office. Most recently, Mr. Burgan was the office's employee benefits



Mr. Burgan

department manager.

Archie L. Leathers Jr. joined Rollins Burdick Hunter of Washington Inc. in Seattle as vp. Previously, Mr. Leathers was manager of the insurance department construction division at Corroon & Black Corp. in Seattle.

Perry Even named vp and managing account executive of the professional liability division of Cal-Surance in Torrance, Calif. Prior to joining Cal-Surance, Mr. Even was a field sales manager for Wausau Insurance Cos. in Los Angeles.



Mr. Even

At William Gallagher Associates Insurance Agency Inc. in Boston, **Philip J. Edmundson** appointed executive vp and **Betsey Tan** promoted to senior vp. Previously, both Mr. Edmundson and Ms. Tan were vps.

Dennis D. Gamache elected vp and general manager of T.J. Adams & Associates Inc. in Oak Brook, Ill. Previously, Mr. Gamache was agency manager.

Insurers

James F. Betts elected president and chief operating officer and a member of the board of directors of USLIFE Corp. in New York.

In addition, Mr. Betts was named president and chief executive officer and a member of the board of

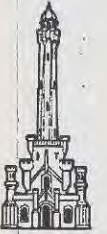
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Comings & goings: industry

Continued from previous page
directors and the executive committee of The United States Life Insurance Co. of New York, a wholly owned USLIFE subsidiary.

Previously, Mr. Betts served as president of Continental Financial Services and executive vp of Continental Group. In late 1984, Mr. Betts resigned and has since worked as a consultant to major life insurers.

Thomas C. Paton elected chairman of the board of Blue Shield of California in San Francisco. Mr. Paton, who will continue as chief executive officer, has served as president of Blue Shield since joining the organization 21 years ago. Mr. Paton succeeds **Dr. Charles M. Hair**, who continues as chairman emeritus. **Charles W. Stewart**, senior executive vp and chief operating officer, will succeed Mr. Paton as president. Mr. Stewart will con-



Mr. Betts

tinue to serve as chief operating officer.

Les Mungle appointed vp-inland marine at Fireman's Fund Insurance Cos. in Novato, Calif. Most recently, Mr. Mungle was assistant vp for property and inland marine.

Donald E. Smith appointed president and chief executive officer of the Health Care Insurance Exchange and its subsidiary, Princeton Insurance Co., both in Princeton, N.J. Previously, Mr. Smith was executive vp of the two insurers, which write professional and general liability coverage for health care providers.

Lynda Bradley named region vp of SAFECO Insurance Co. of America in Ontario. Previously, Ms. Bradley was administrative manager of the Canada region in Toronto.

Also at SAFECO, **Robert Alexander**, Seattle branch manager, and **Dennis Halsey**, Spokane, Wash., branch manager, have been named vps.

Robert A. Marra elected vp-group marketing of John Hancock Mutual Life Insurance Co. in Bos-

ton. Previously, Mr. Marra was chief operating officer at Applied Expert Systems in Cambridge, Mass.

William W. King appointed vp-marketing for Fairmont Insurance Co. in Burbank, Calif. Mr. King will be in charge of producer relations. Mr. King joined Fairmont in 1986 as field operations manager.

Stewart R. Duke elected vp of The Fidelity and Deposit Co. of Maryland in Baltimore. Mr. Duke, a 20-years veteran of the company, most recently was resident vp in the Chesapeake, Va., branch office.



Mr. Marra

Reinsurance

Dennis A. Bentley named president and chief executive officer of Reince Intermediaries Inc., a New York-based subsidiary of Bayly, Martin & Fay International, the nation's 10th-largest brokerage. In addition to his responsibilities as president of Reince, Mr. Bentley also will serve as director general of Reince International S.A. in Paris. Mr. Bentley also was named president and chief executive officer of Reince Intermediaries Ltd. in London, Reince International Ltd. in Bermuda, and Reince International Management Corp. in New York. Previously, Mr. Bentley was senior vp of Reince Intermediaries Inc.

James H. Nusbaum joined StellaRe Management Corp. as vp-



Mr. Bentley

treaty. Previously, Mr. Nusbaum was vp and underwriting manager at Aegon Re in New York.

Owen Whitby and **Heidi E. Hutter** promoted to vps-special markets/products from assistant vps at North American Reinsurance Corp. in New York.

Excess/surplus

John Zachry elected vp of excess insurance at Transamerica Insurance Group in Los Angeles. Mr. Zachry is responsible for Transamerica's excess and layered property/casualty programs. He joined Transamerica in 1985 as excess property manager.

Martha A. Watson elected vp of Richmond, Va.-based Markel Service Inc. Ms. Watson also was appointed manager of the transportation insurance division. Prior to her promotion, Ms. Watson was manager of the company's Atlanta branch office.

HMO/PPO

James W. Brittain named president and chief executive officer of the Virginia Health Network Inc., a newly formed preferred provider organization in Richmond. Mr. Brittain was formerly head of Prucare in Richmond, a health maintenance organiza-



Mr. Zachry



Mr. Brittain

nization.

Gail Damico named vp-sales of MetLife HealthAdvantage, a Phoenix, Ariz.-based health maintenance organization. Previously, Ms. Damico was director of sales for Arizona Health Plan, a Phoenix-based health maintenance organization.

Other suppliers

Suresh Malhotra, **James Lewis**, **Joseph Beeler**, **Nancy Beskin** and **Lee Resnick** have joined the health care department of William M. Mercer-Meidingers-Hansen Inc. in Deerfield, Ill.

Laurence Gordon promoted to executive vp from vp at Comprehensive Rehabilitation Services Inc. in Sierra Madre, Calif. CRS provides vocational rehabilitation and case management services.

Timothy H. Smith joined The Manhattan Group Inc., a New York-based consulting firm. Previously, Mr. Smith was administrative manager of the New York office of Russell Miller Inc., which recently closed.

Terry Coleman appointed senior vp at Kramer Risk Services in Long Beach, Calif. Previously, Mr. Coleman was the head of Risk Services of California, a claims auditor in Orange County, Calif.

The book of business formerly represented by Risk Services has been assumed by Kramer.

James V. Ebel appointed senior vp of Toplis & Harding Inc. in Chicago. Mr. Ebel, who joined the company in 1986, was previously manager of the Midwest region.



Mr. Coleman

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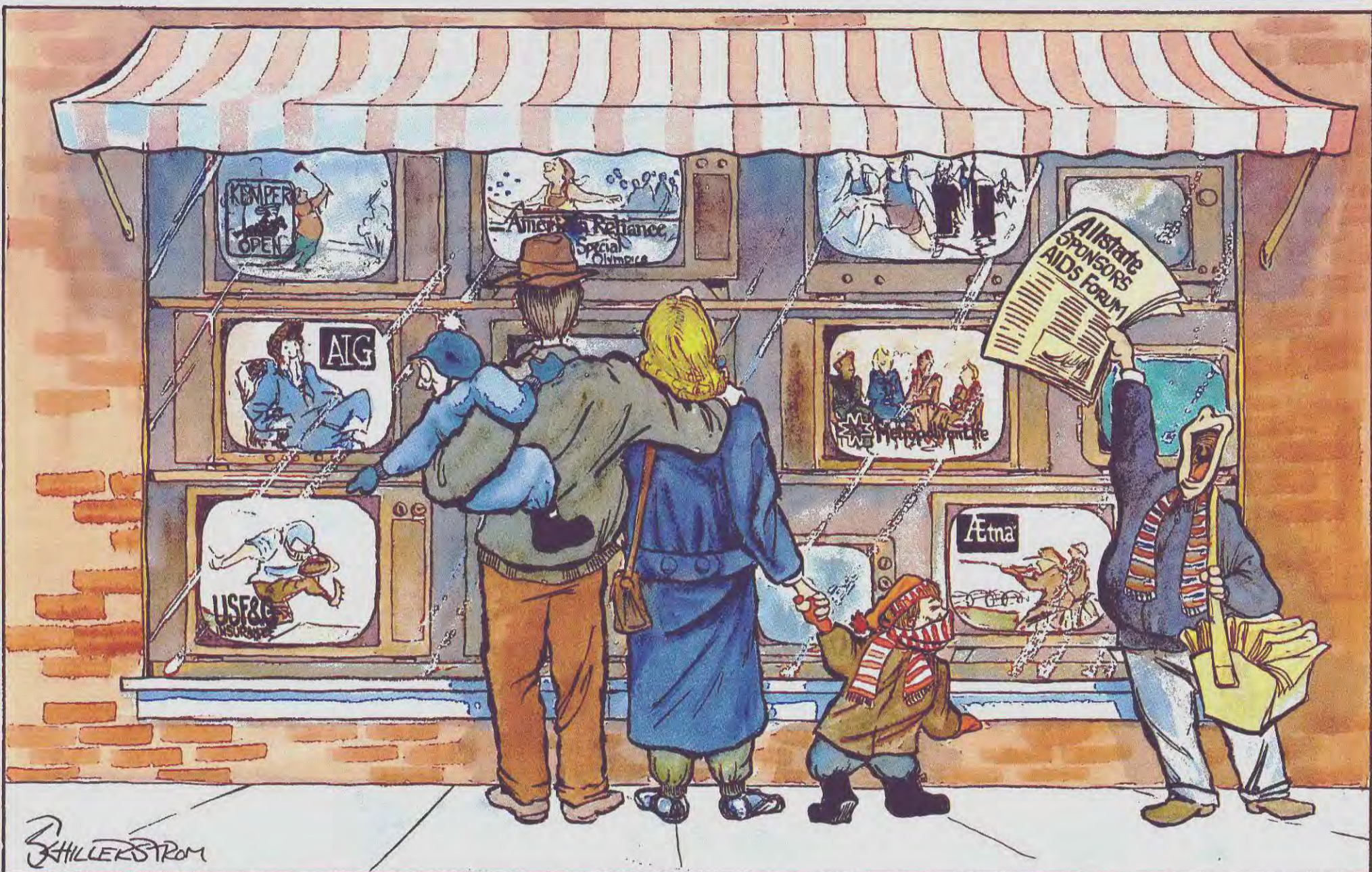
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Insurer Topics

A special editorial section sent exclusively to insurers and reinsurers



Event sponsorship

Insurers vie to get and keep their name in the public eye

By LINDA J. COLLINS and MARK A. HOFMANN

Insurers are discovering that underwriting events—and not just insurance—increases their name recognition and boosts their public images.

The extent of this recognition depends on the type of activity chosen and how closely the insurer's name is identified with it.

Today, many insurers are sponsoring or underwriting television or radio programs and sporting events; conducting public safety campaigns; recognizing scholastic, safety, medical or athletic achievements; providing direct services to different public sectors, such as the elderly or youth; and raising money, both internally and externally, for charitable or community service activities.

"Our ad strategy is centered around taking network sponsorship of high-quality (television) programs," said Robert A. Marchese, director of advertising for Aetna Life & Casualty Co. in Hartford, Conn. Aetna underwrites special programs aired on public television stations.

Philadelphia-based CIGNA Corp. sponsors radio broadcasts of the Philadelphia Philharmonic Orchestra in the United States and abroad because they "give us a very high-quality environment in which we can tell our audiences something about ourselves through

accompanying advertisements or acknowledgements of our sponsorship," said Charles H. Podowski, vp-corporate marketing.

Some insurers choose an even more visible approach by attaching their names directly to the event. From the long-running Kemper Open golf tournament to the USF&G Sugar Bowl, insurers especially like to tie their names to sports events.

Ivar Quigley, manager of sports programs for Metropolitan Life Insurance Co.'s advertising department, says his company sponsors sporting events for a simple reason: Interest in sports "cuts across the entire spectrum of people we're trying to reach," he said.

And, as Mr. Quigley and officials of several insurers make clear, perhaps the most important segment of that spectrum is the upscale customer whose major sports interest is golf. "Sponsorship of the Metropolitan Golf Assn.'s tournaments gives us a great entree to this market," he said.

But while some insurers freely admit that sponsoring or underwriting these programs is closely tied to their overall marketing efforts, others—particularly those involved in health or educational-related activities—emphasize that image-building and name awareness are not among their chief goals.

Instead, many insurers stress the public service aspects of their activities. For example, Bruce W. Her-

rick, president of American Reliance Insurance Co. in Lawrenceville, N.J., says that although his company's sponsorship of the N.J. Special Olympics is not totally altruistic, it "is a way to give something back to the community."

"What we are emphasizing is education of the general public" rather than corporate identity, said Sibyl Jacobson, president of Metropolitan Life Foundation, which was established in 1976 by Metropolitan Life. The foundation funds a wide range of health education, cultural and civic activities.

Chubb Group of Warren, N.J., began underwriting broadcasts aired on Public Broadcasting Service-affiliated television stations because the insurer views this as "a public activity worthy of support," said J.P. Madigan Jr., vp-corporate communications.

However, "We've been able to tell without elaborate research that it has created greater name recognition for us than anything we've ever done," he added.

No two insurers are alike, and no two promotional efforts are identical. Each corporate culture demands a different approach, ranging from televised one-of-a-kind events to low-key athletic competitions in the insurer's hometown.

But even if the strategies vary, the name of the game remains the same for nearly all the players: Get your name out front and keep it there. ■

Insurers angle for public eye

Sponsoring TV shows boosts name recognition

By LINDA J. COLLINS

Many insurers are taking an active role in sponsoring community or charitable activities with the goal of gaining name recognition, improving the quality of people's lives, or both.

Insurers are sponsoring on a local and nationwide basis activities ranging from cultural events to public awareness campaigns or media broadcasts on important social issues to improve public safety, health or education.

Sporting events also are extremely popular events among insurers considering sponsorship (see story below).

Both commercial and public television broadcasts, although expensive, are the most sought-after events by insurers eager to contribute money.

New York-based American International Group Inc. is now conducting its first television sponsorship—a 13-part multimedia public information series titled "The Next President," which was created jointly by its host David Frost's David Paradine Television Inc. production company and U.S. News & World Report. The series is currently airing in various time slots on 125 television stations throughout the United States, and reformatted versions will be aired later in several foreign countries.

The hourlong TV broadcasts—which carry four 30-second AIG commercials and identify the insurer as the sponsor—are designed to introduce the American public to the presidential candidates through interviews by Mr. Frost of President Ronald Reagan, former Presidents Gerald Ford and Jimmy Carter and 12 Republican and Democratic candidates currently running for president.

AIG is promoting the series by running advertisements in various consumer publications. Promotional materials and press conferences have provided the program with further exposure.

Further, the multimedia blitz—solely sponsored by AIG—includes: radio broadcast excerpts of the interviews aired over Mutual Broadcasting System affiliate stations; weekly magazine articles based on the interviews appearing in U.S. News & World Report; and a book that will be produced by U.S. News & World Report at the end of the series that will contain the interviews and a commentary by Mr. Frost.

The name recognition value of the sponsorship to AIG "lies in the fact that it is not a single shot. It is a continuous multimedia event that provides us with more consistent exposure over time," said Robert D. McCourt, AIG director of advertising and sales promotion.

He predicts that the program will "absolutely" enhance AIG's public image. "If you can find a program that has intrinsic value to the public, I think you can get more bang for your buck" in terms of name recognition, Mr. McCourt explained.

While not disclosing the expense to AIG of sponsoring the program, Mr. McCourt referred to it as a "multimillion-dollar sponsorship" and said: "We're spending more money (on sponsorships) in 1987 than ever before."

But AIG is by no means the only insurer who sees the public recognition value of television program sponsorship.

Aetna Life & Casualty Co., since 1986, has been a partial sponsor of: the "Peter the Great" nine-hour miniseries on NBC; "The Carnegie Hall 95th Anniversary Special" two-hour broadcast on CBS; a two-hour fictional drama, "A Gathering of Old Men," on CBS; and a three-hour docudrama, "Escape from Sobibor," on CBS.

Aetna compiles and examines lists of firm or potential programs looking for sponsorship "and we pick out those that



Photo: Mary Anne Fackelman-Miner/The White House

American International Group Inc. is sponsoring a 13-week television series, which features David Frost interviewing presidential candidates. "The Next President" also includes a program with President Reagan.

might be of interest to us. We then ask to see the script or clips, if it is already in production," to select which ones to sponsor, said Robert A. Marchese, director of advertising for the Hartford, Conn.-based insurer.

And recently the insurer has taken a slightly different tact, Mr. Marchese explained.

"Now we are producing a program ourselves, directed by Robert Altman. It is a remake of 'The Caine Mutiny Court-Martial,'" Mr. Marchese continued. "One of the problems we have had is that there is a shortage of high-quality programs on networks, so we decided to produce one ourselves."

Research into which programs to select, the television sponsorship and production expenses cost Aetna close to \$25 million in 1987, Mr. Marchese said.

Surveys the insurer has conducted following the broadcasts have shown that public "awareness levels of our company went up," he pointed out. Aetna is now studying the results of a survey it conducted to determine if that added awareness is having a positive effect on business. "We evaluate it as we go along each year. It does involve big dollars to play the network television game," Mr. Marchese stressed.

Warren, N.J.-based Chubb Group has been underwriting the costs of television shows aired on Public Broadcast Service affiliates for nearly 10 years.

"We started in public television because we realized it was

something worth doing. We subsequently found that there was a tremendous image return to us and we have had that in mind ever since in our selection of programs to sponsor," said J.P. Madigan Jr., vp-corporate communications.

He emphasized that it is important to select the right program to underwrite going in, because "as an underwriter, you don't have a thing to say about what goes on the show. You find out who the people are and their backgrounds and you make a judgment," Mr. Madigan stressed.

In 1978, Chubb shared underwriting costs of "The Dick Cavett Show" on PBS with another organization, then became the sole sponsor of the program for the next four years. In 1983, Chubb underwrote the first season of the "Frontline" documentary program on PBS and also underwrote a PBS special—"Vietnam: A Television History," which was aired in one-week segments for 13 consecutive weeks, explained Mr. Madigan.

Since 1984, Chubb has underwritten the "American Playhouse" series on PBS, which constitutes "50 hours per season of prime time television drama," Mr. Madigan added.

He estimates that Chubb spends more than \$1 million per year on these sponsorships, pointing out that the costs are much less to underwrite PBS programs than to sponsor programs on network television. And PBS is a good vehicle

Continued on page 32G

Companies, sports make a winning team

By MARK A. HOFMANN

Many insurers are finding that linking their names to sports is a particularly effective way to boost their image with customers and agents alike.

The people who companies most want to reach are those with an above-average income and an interest in golf, according to several insurers.

Golf tournaments have caught the attention of life and property/casualty insurers alike. Golf is not only popular with insurers' target markets, but it also has the advantage of being virtually free of scandal as well.

"Golf is probably the cleanest sport played," said Ivar Quigley, manager for sports marketing at New York-based Metropolitan Life Insurance Co.

"It's a sport that governs itself," he said. And, "the people playing it are the upscale market."

"Major corporations have seen that sponsoring golf tournament provides a total advertising vehicle. It's a natural fit," said

Whitney C. Lancaster, assistant vp and manager of advertising and public relations for Liberty Mutual Insurance Co. of Boston, which sponsors the annual Liberty Mutual Legends of Golf tournament in Austin, Texas.

One of the best-known and oldest of the golf tournaments is the Kemper Open, sponsored annually by the Long Grove, Ill.-based Kemper Group. Kemper launched the event in 1968 and has sponsored it every year since, although the tournament has been played on four different courses since then.

Kemper is the longest continuous corporate sponsor on the Professional Golf Assn. tour, said Steven J. Fine, director of advertising at Kemper.

"For Kemper, I'm sure it was a good idea at the time that just became better and better as time went on," Mr. Fine said, explaining the insurer's longtime commitment to the tournament.

"It's a name awareness vehicle for both personal and commercial lines. The Kemper Open promotes the image of being a name brand," he added.

The open consists of a three-day PGA tournament preceded by a two-day pro-am open. The money raised by selling spots in the amateur portion of the tournament—which cost \$2,500 apiece—is donated to charities. Kemper expects that the 1988 Kemper Open, to be played at the Avenel course in Potomac, Md., will raise about \$150,000 for charity—half of which will be donated to local charitable groups and half to national organizations.

Mr. Fine is blunt about the attraction of golf over other sports. "Golfers are an upscale audience. Sponsoring golf tournaments seems like a natural way to reach that audience."

Mr. Fine is equally candid about the major snag in sponsoring a major golf event. "The biggest drawback is cost. It's expensive."

The insurer has to buy advertising time on the broadcast of the tournament as well as provide the purse, Mr. Fine pointed out. The 1988 purse will be about \$800,000, added to the cost of running the tournament and buying television time—which could run Kemper's bill to as much as \$1.5 million.

"It's an expensive league to play in, but we find it's very cost-effective," he said.

Baltimore-based United States Fidelity & Guaranty Co. also has linked its fortunes to golf. W. Minor Carter, senior vp for government and industry affairs, said the insurer's association with the USF&G Classic began in 1980.

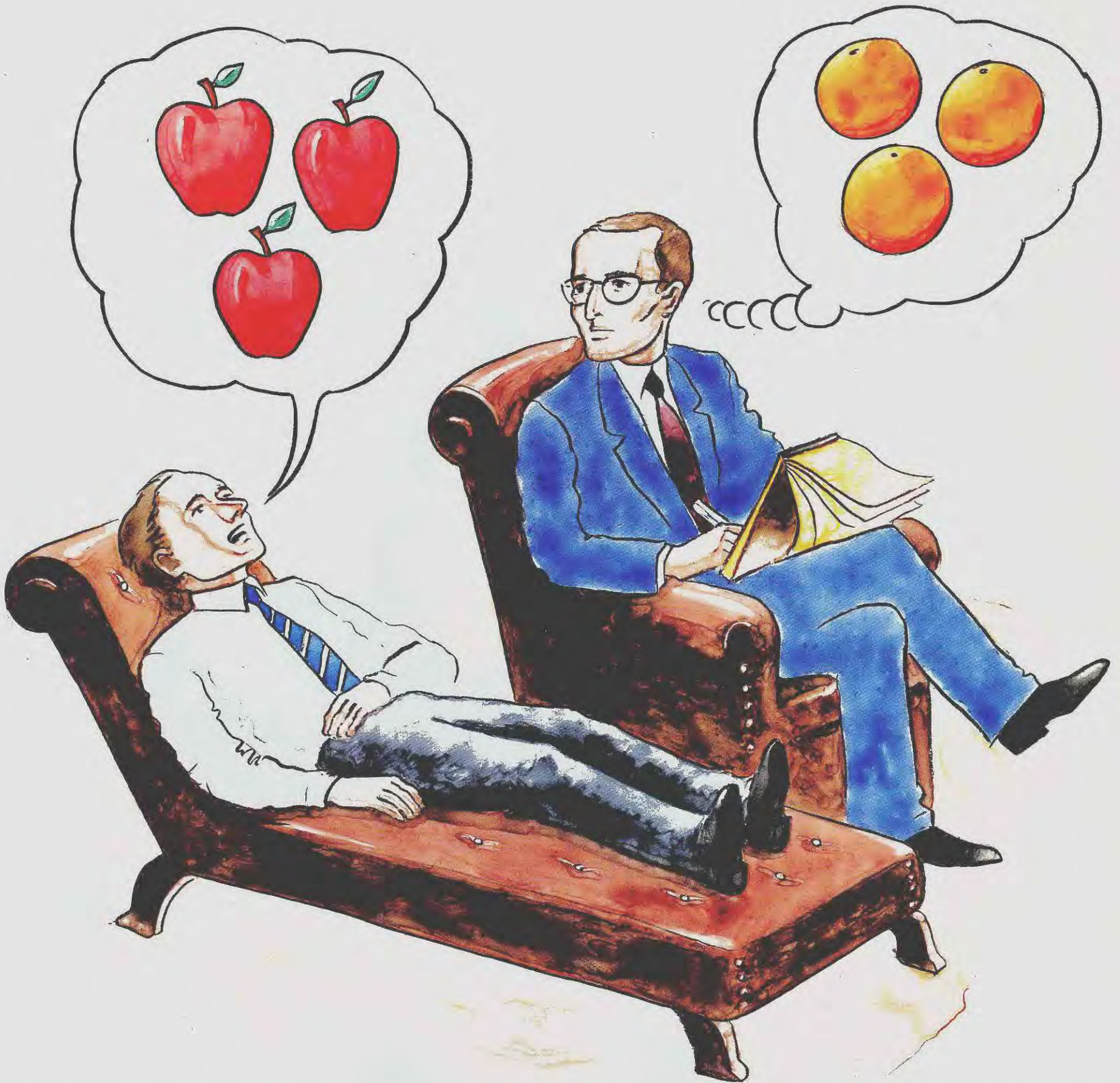
The PGA tour event is played at the Lakewood Course in New Orleans, carries a purse of \$750,000 and raises money for regional charities, Mr. Carter said. Each year, the Children's Hospital of New Orleans receives \$100,000 and other charities receive varying amounts according to gate receipts.

"We have to, to an extent, guarantee the gate receipts" as part of the sponsorship, Mr. Carter said.

Sponsoring the golf classic and the USF&G Sugar Bowl—played in New Orleans on New Year's Day—costs USF&G "in the vicinity of \$2 million combined," according to Mr. Carter. The costs vary from year to year according to the paid attendance at both events.

Continued on page 32D

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Sporting events

Continued from page 32B

But both events are well worth the cost, Mr. Carter said, noting that golf has two features that make it ideal to sponsor.

Unlike tennis, for example, golf's use of handicaps in scoring allows amateurs to play on a par with pros, Mr. Carter said. The leveling of the play promotes easier mingling among pros and amateurs.

In addition, the PGA tour is better established than any comparable sports tour, which adds an element of stability, Mr. Carter said.

The perceived effectiveness of sponsoring golf competitions will lead Hartford-based Aetna Life & Casualty Group to hop onto the corporate golf cart early next year. The insurer plans to hold the inaugural rounds of its Aetna Challenge tournament in Naples, Fla., in late February (IT, Oct. 12).

"A combination of things" led Aetna to sponsor the tournament, according to Peter Egan, assistant vp of advertising and marketing communications for Aetna, which has sponsored other special entertainment events, both sporting and otherwise.

For example, Aetna was the exclusive insurance sponsor during the odd-numbered games of the 1986 and 1987 World Series. The desire to tap other forms of promotion led Aetna to golf.

"Golf is a sport that has a great appeal to our market. Business insurance decision-makers tend to be male, slightly older and upper scale," Mr. Egan explained.

The tourney is an addition to the PGA's Senior Tour, which is open to professional golfers who are more than 50 years old.

Mr. Egan said sponsoring a senior players' event has its advantages, because "sometimes senior golfers are better known than current players." Julius Boros, Lee Elder, Arnold Palmer, Chi Chi Rodriguez and Sam Snead are among the golfers currently on the seniors circuit.

And, the atmosphere on the senior circuit is "a little more relaxed" than on the standard PGA tour, according to Mr. Egan. Senior pros are more likely to mingle easily with the amateurs who participate in the opening pro-am contest that precedes the professional rounds, he said.

He also pointed out that the purses in the seniors contests are smaller than those on the regular tour. The Aetna Challenge will carry \$300,000 in prizes—less than half those of the Kemper Open. The relative economy of staging a seniors event, plus the fact that winter golf events tend to draw a bigger television audience than tournaments held in warmer weather, makes the Naples tournament particularly attractive to Aetna, Mr. Egan said.

By selling spots on the pro-am portion of the tournament for \$2,000 each, Aetna hopes to raise between \$100,000 and \$200,000 for Naples-area charities.

However, as a first-time sponsor of a golf tournament, it is impossible for Aetna to precisely project its expenses or the charitable proceeds that will come from the event, Mr. Egan noted.

Nevertheless, the insurer is optimistic about its entry into insurer-sponsored golf. "It's not planned to be a one-time event," he said.

Liberty Mutual has sponsored the Liberty Mutual Legends of Golf tournament since 1978. The event had a total purse of \$600,000 in 1987.

Liberty Mutual's Mr. Lancaster explained that the event predates the PGA Seniors Tour. "It's like a Hall of Fame," he said. Selected sales representatives are invited to play, but the focus of the tourney remains firmly on the pros.

Although he would not specify

Unlike tennis, for example, the use of handicaps to score in golf allows amateurs to play on a par with professionals, Mr. Carter points out. The leveling of the play in golf promotes easier mingling among pros and amateurs, he adds.

how much the insurer pays to sponsor the tournament, he said: "Obviously, it's a significant amount of money."

Larry Clark, vp of corporate communications and marketing for MONY Financial Services in New York, uses almost the same words to describe the price his company pays to sponsor the MONY Tournament of Champions. "It's a significant amount; it's in seven figures."

MONY's event is the kickoff of the PGA Tour, taking place in January at the La Costa Country Club

in Carlsbad, Calif. The tournament carries a purse of between \$500,000 and \$600,000 for players on the regular tour and \$100,000 for the seniors division. Only players who have won a PGA event on the regular or seniors PGA Tour the previous year are eligible to participate.

MONY sponsors the event for two primary reasons, according to Mr. Clark.

Our primary interest is client entertainment in the sense of future business development," he said, adding that the event has

achieved this goal year after year.

"We more than pay for it in new business development. In some years, we get three dollars of business from every dollar we put into it," he pointed out.

"Secondarily, demographically, the generally upper-middle class to affluent customer base has a heavy golfing interest. The tournament directs our attention to our most important customer base," he said.

But golf is not the only game in town for insurers looking for ways to project a higher corporate profile through sports affiliation. Collegiate sports sponsorship is a popular option with companies—even those that already sponsor golf tournaments.

USF&G got into college sports in a big way by attaching its name to a college football bowl game: In 1987, the New Year's Day classic Sugar Bowl in New Orleans became the USF&G Sugar Bowl.

Mr. Carter said the company

likes to "sponsor large, unique events," and the Sugar Bowl fit the bill. "It's an opportunity that came our way and it has increased our name recognition greatly," he said.

USF&G has a five-year contract to sponsor the bowl, with an option to renew on a yearly basis, Mr. Carter said. He estimates that sponsoring the bowl costs the insurer probably a little more than \$1 million a year, but he considers the expense more than justified.

College basketball also has its attractions for insurers. Metropolitan Life, for example, has been sponsoring the four-team Met Life Classic basketball tournament at the University of San Francisco for the past three years. In return for covering most of the expenses of the three visiting teams, Metropolitan Life gets a chance to reward agents and clients as well as display its banners and logo in a cost-effective manner.

Continued on next page



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But compared to Jefferson-Pilot Life Insurance Co., USF&G and Metropolitan are newcomers in the field of collegiate athletic sponsorship. Pilot Life Insurance Co., which merged with Jefferson Standard Life Insurance Co. earlier this year, began sponsoring broadcasts of Atlantic Coast Conference basketball games 30 years ago.

The longtime sponsorship of college basketball by the Greensboro, N.C.-based company was a case of seeing an opportunity and grabbing it, said Richard Andrews, vp-corporate communications for Jefferson-Pilot, a regional life insurer.

The insurer's officials saw an opportunity to get their name across to countless potential customers after viewing the 1957 national championship game between North Carolina and Kansas, according to Mr. Andrews. "We saw the possibility in basketball when others

'I think just about everybody recognizes that corporations contribute to functions for two reasons: One, they want to give something back to the community. Two, they want to increase their name recognition,' says Bruce W. Herrick.

didn't. We have never been disappointed in it," he said.

The company's feeling is understandable: In many parts of the Southeast, ACC basketball attracts more attention than any other collegiate or professional sport.

And, the popularity of the ACC basketball broadcasts led the insurer to branch out into other conferences and other sports.

Jefferson-Pilot sponsors collegiate basketball and football broadcasts in five conferences now—ACC, Metro, South Eastern, South West and Sun Belt. The

sponsorship "has put the Jefferson-Pilot name in millions of homes. We've got it right where our agents are," Mr. Andrews observed.

"It's hard to measure the impact in dollars and cents, but in name recognition, it's been very good," he says.

For The Travelers Insurance Cos. of Hartford, Conn., the name of the sponsored game itself helps assure name recognition for the insurer. Travelers recently signed a three-year contract to sponsor the National Football League's "Man of

the Year" program.

Professional football "reaches a large demographic audience, probably broader than that of any other sport," said Mark A. DiGiorgio, a Travelers corporate communications administrator. Travelers, like Metropolitan, also is involved with golf by sponsoring the broadcast of the annual Masters Tournament in Augusta, Ga.

The NFL Man of the Year is not necessarily the league's outstanding player, but rather a player whose teammates consider to be the best example of commitment to community service, Mr. DiGiorgio explained.

A \$25,000 donation will be made to the charity of the winner's choice during a ceremony at Super Bowl XXII, Mr. DiGiorgio said. In addition, each player nominated will receive a \$1,000 donation to the charity of his choice.

Using sports to raise money for sports activities is the aim of

Northbrook, Ill.-based Allstate Insurance Co.'s Healthy American Games. Last year's games—the competition's sixth—added \$150,000 to the coffers of the U.S. Olympic Committee.

The strictly amateur events are open to the public. Individual participants and spectators pay \$4 each, while sponsoring corporations pay a \$1,400 fee. All money goes to the Olympic Committee.

The games, which include both team sports and track and field events, serve three purposes, according to Alan Benedeck, the insurer's director of community relations: They raise money, get employees involved in volunteer work and physical fitness and highlight Allstate.

While the games "have no direct marketing connection," they do build bridges to the community and serve as a cost-effective public relations tool, Mr. Benedeck said. Although he would specify how much the games cost Allstate, he said the only cost was that of equipment.

Columbus, Ohio-based Nationwide Insurance Group also encourages participatory sports through its sponsorship of the Columbus Marathon. The annual event, which drew 6,000 participants this year, is the largest single spectator sporting event in Ohio.

American Reliance Insurance Co. of Lawrenceville, N.J.—a regional property/casualty insurer that writes in seven eastern states—found an athletic event that mixes sports and altruism by sponsoring the New Jersey Special Olympics, which is part of a national athletic program for mentally handicapped children and adults.

American Reliance President Bruce W. Herrick freely admits that the company got involved in part because of pressure from its agents, particularly those who belonged to the New Jersey Assn. of Professional Insurance Agents. That state PIA chapter supports Special Olympics as its official charity.

"When we first got involved with Special Olympics, it was at the PIA's request. It didn't start out as an altruistic approach," Mr. Herrick said.

The company has sponsored four golf tournaments and several annual fund-raising foot races since it became involved with the Special Olympics program in 1984. The two events, which are run in connection with PIA, have raised about \$250,000 since that time, Mr. Herrick said. In addition, the company gives the organization an annual direct contribution of \$15,000.

Mr. Herrick does not downplay the marketing advantages of sponsoring Special Olympics. He noted that his company directs its marketing efforts to agents rather than policyholders.

"I think just about everybody recognizes that corporations contribute to functions for two reasons. One, they want to give something back to the community. Two, they want to increase their name recognition," Mr. Herrick said.

Although the insurer does not hide its commitment to the charity, it draws the line at mentioning its sponsorship in advertisements, Mr. Herrick noted. Doing so "would be a little tacky," he said.

Even without overt mention of its charitable work, American Reliance has found its sponsorship of the Special Olympics has given it a high visibility among New Jersey agents. "We have so much name recognition tied with this that we are thinking about doing the same thing in our other states," Mr. Herrick said.

The Wausau Insurance Cos., an affiliate of Nationwide, also sponsors a sports-related event. However, unlike most of the others, the

Continued on next page

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Insurers back athletics

Continued from previous page
Wausau, Wis.-based insurer goes out of its way not to mention this fact in its marketing.

For the past four years, Wausau has underwritten the cost of the scholar-athlete program of the Wisconsin Interscholastic Athletic Assn., the governing board for sports competition in the state's public high schools. This year's competition cost the insurer roughly \$14,000 to sponsor, a fact that it does not publicize.

The program was designed to "help change the public perception of prep athletes," by recognizing high school students who excel in both sports and academics, according to Roger Drayna, Wausau's director of public relations, the division that helps publicize the achievements of the scholar athletes.

Each of the state's roughly 450 public high schools may nominate one male and one female student for the award.

This year, nominees will have to maintain an academic average of at least 3.0 on a 4.0 scale and letter in at least four varsity sports.

A panel of judges with ties neither to Wausau nor the WIAA picks 12 students of each gender to receive the scholar-athlete designation. Mr. Drayna said four stu-

Wausau's program was designed to 'help change the public perception of prep athletes,' by recognizing students who excel in both sports and academics, says Roger Drayna.

dents of each sex are chosen from each of the state's high school size categories to receive the award. He added that past recipients generally have held grade point averages above 3.9 and lettered in as many as six sports.

The 24 recipients receive plaques and certificates at the insurer's headquarters on the first Sunday in May. Wausau notifies the recipients' hometown papers and then the process begins anew for the next crop of seniors.

Wausau, however, does not mention its sponsorship in any piece of promotional material or in any advertisement. "We are very careful not to do anything that would open us to charges that we were exploiting prep athletes. We do this because it is the right thing to do," Mr. Drayna said. ■

UNUM's tournament hits several hazards

By MARK A. HOFMANN

PORTLAND, Maine—UNUM Corp. found out that sponsoring a golf tournament to reward its top producers, increase its name recognition and raise funds for charity was a lot like shooting a triple-bogey.

The Union Mutual Senior Golf Classic tournament, launched in 1984, was discontinued last year when it confronted several insurmountable obstacles that arose because the Professional Golfers' Assn. did not sponsor the event, said Susan Conforti, UNUM's second vp for marketing.

UNUM rewarded producers in its group pensions, employee bene-

fits and individual disability divisions who met or surpassed sales goals set during a January-to-June contest with an all-expense-paid trip to play in the golf tournament, which featured such notable professionals as Arnold Palmer.

But, the length of the sales contest period, the time required to set up the tournament and weather constraints limited scheduling of the tourney to either the end of September or the beginning of October.

"Our situation is made particularly sticky in Maine because you can only play golf three or four months a year," Ms. Conforti added.

About 90 producers participated in the 1984 debut tournament, and the field grew to about 130 in the last year of the contest, Ms. Conforti said.

Gate proceeds went to a different Maine charity each year, with tournament-generated donations averaging about \$40,000 annually.

Because the five-day tournament, played at the Purpoodock Country Club in Cape Elizabeth, Maine, a suburb of Portland, where UNUM is based, was approved rather than sponsored by the PGA, scheduling problems arose, she explained.

PGA-sponsored tournaments are scheduled before PGA-approved contests, and the approved contests are worked in among the sponsored events, Ms. Conforti said.

But PGA sponsorship would have defeated UNUM's purpose for holding the tourney.

Adhering to PGA standards of play for a sponsored event by offering a purse of at least \$300,000 and including a minimum of 72 professional players "would have meant moving away from our goal of having a small, intimate group" of producers and pros participating in the tournament, she said.

"Our No. 1 objective was to recognize our producers," Ms. Conforti said.

The situation became even stickier when a non-insurance company decided to hold a 1987 PGA-sponsored tournament at the same time and with a much larger purse than the \$165,000 offered by UNUM. As a result, UNUM was given a choice of either May or November dates for its PGA-approved tournament.

But scheduling the event earlier in the year would have required changing the contest period, and scheduling it later could have meant playing in the snow, Ms. Conforti pointed out.

At first, the company considered creating its own PGA-sponsored event. But having 72 pros in a field that previously included only about 20 "would have been unwieldy," she said.

So UNUM scrapped its sponsorship.

But dropping the tournament does not mean that UNUM is discontinuing its charitable contributions or commitment to recognizing its outstanding producers, Ms. Conforti stresses.

The UNUM Charitable Foundation, a division within the insurer, gave \$800,000 to charity last year and intends to keep giving.

And, the insurer is slating regional golf tournaments—which no longer involve PGA pros—that eventually may be sponsored with other UNUM-sponsored activities.

The company no longer has anything as "spectacular" as the golf tournament, "but that's not to say there won't be something like that again," Ms. Conforti said. "We're constantly evaluating events." ■



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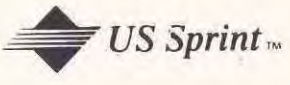
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Sponsorship

Continued from page 32B

for the insurer because—in terms of both its producer representatives and its clients and prospects—the programs reach “audiences that are important to us.”

Public television viewers generally are well educated and more affluent.

The desire to reach a particular type of audience also prompted Philadelphia-based CIGNA Corp. about six years ago to begin sponsoring national radio broadcasts of Philadelphia Philharmonic Orchestra concerts that are heard on more than 300 commercial and public radio stations throughout the United States, explained Charles H. Podowski, vp-corporate marketing.

The CIGNA-sponsored broadcasts are aired over a 39-week season, typically from late September to June, and average about two hours in length.

“The concerts are heard in virtually every market in the country,” said Mr. Podowski. And he added: “We also do media analyses to determine the type of listenership in our major markets. We’re attracting the type of listener we want and also a sizable number of listeners.”

He stressed that the feedback CIGNA has received from broadcasting the concerts “is very positive and is a valuable help in providing image.” CIGNA officials receive “thousands and thousands of letters” requesting information on the series “and in virtually every one, listeners tell us how much they appreciate our program.”

Mr. Podowski added: “We began last year to expand broadcast of our orchestra concerts internationally and now they are heard in roughly 12 countries overseas, which we’ll expand further on a systematic basis. This is also very important to us as a company with worldwide offices and clients.”

New York-based Continental Corp., through its Continental Corp. Foundation, provides financial assistance for a number of programs. For example, the foundation made a five-year, \$500,000 commitment to be the sole corporate underwriter of the Film Society of Lincoln Center in New York’s annual tribute to major cinema artists, beginning in 1987.

Sponsorship of the Lincoln Center tribute, which was held in April this year, “helps us in our efforts to be known for who we are. Continental Foundation has chosen to become more activity-oriented where we feel we can make a difference,” explained David J. Vidal, assistant vp of corporate affairs for Continental and manager of the foundation.

This year’s tribute was to actor Sir Alec Guinness and proceeds from the event were used to help support the Film Society’s programs. To promote its sponsorship of the tribute, Continental circulated posters of the event “to people in New York who are members of the business, artistic and political community,” as well as hanging large ceiling banners in its home office and in Lincoln Center, Mr. Vidal explained.

But while insurer-sponsored activities often serve to improve an insurer’s public image and name recognition, some insurers stressed that marketing value is secondary to their concern for the public’s health and welfare when selecting which activities they will undertake.

For example, Northbrook, Ill.-based Allstate Insurance Co. conducted a two-day forum on “AIDS and American Business” this October after an Allstate executive concluded that the U.S. government alone could not adequately address the crisis related to ac-

quired immune deficiency syndrome, said an Allstate spokesman.

“We decided that American business was the best way to address this problem,” the spokesman said. To draw members of the business community together, Allstate sent a mailing to the chief executive officers of Fortune 500 companies, inviting them or their designated representatives to participate in a forum to formulate a policy on AIDS.

Speakers at the forum included: Allstate Chairman Richard J. Haayen and Allstate subsidiary Allstate Life Insurance Co. Chairman Herbert E. Lister; the U.S. surgeon general; the assistant secretary of labor; the president of the American Foundation for AIDS research; and several other people from the government and private sectors. But the forum was not organized just to lecture its 285 attendees, the spokesman stressed.

The audience also was broken into six groups representing human resources, philanthropy, legal, communications, government and medical disciplines—each of which was charged with formulating an approach to the AIDS problem. These groups appointed task forces “charged with the responsibility to meet as often as necessary to hammer out suggestions” made by various members, the spokesman added.

The forum will meet again Jan. 20 to compile a report based on these suggestions, which will then be presented to the U.S. government, the spokesman explained.

“The response to the forum has been overwhelming. I don’t think anyone envisioned the support and enthusiasm we received from the business community,” said the spokesman. Rather than viewing the effort as a marketing tool for Allstate, he said that he sees the forum as “American business

working together to solve major national problems.”

New York-based Metropolitan Life Insurance Co. is involved in a wide range of public service activities, both through the corporation and through its Metropolitan Life Foundation, which was founded in 1976, explained Sibyl Jacobson, president of the foundation.

Notable among those activities was Metropolitan Life’s underwriting—as a corporate expense—of a two-hour television special: “The National AIDS Awareness Test: What Do You Know About Acquired Immune Deficiency Syndrome?” which was aired on more than 100 commercial television stations throughout the United States in September.

“It was shown commercial free as a public service on television. Metropolitan has historically been interested in health education, disease prevention and wellness and we thought that by going the com-

mercial television route we’d reach larger numbers of people,” Ms. Jacobson explained. Although no commercials were aired, Metropolitan Life paid for the commercial time.

Metropolitan Life incurred more than \$4 million in expenses for the program, which tested viewers’ understanding of the deadly disease by asking 55 questions about: the origin of the disease; how it is transmitted, prevented and treated; and the social and legal implications of AIDS. Answers were then provided based on the latest medical research.

A large number of prominent medical authorities and television and sports celebrities—including Helen Hayes, Peter Allen, Gregory Hines, Kristy McNichol and Dallas Cowboy running back Tony Dorsett—volunteered their time to participate in the broadcast. Co-anchors Steve Bell, formerly

Continued on next page

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THE INCREDIBLE BULK

Reducing the paperwork for self-administered reinsurance

By Guy F. Verney

SOME OF US in the industry call it "The Incredible Bulk": the tons of paper now shuffled between reinsurers and primary insurers choosing to administer their own reinsurance.

And The Bulk is growing... incredibly. To battle increasing operating costs and decreasing margins on new life products, more and more direct-writing companies are going the self-administration route. Ironically, this cost-cutting attempt may backfire, both on the primary insurers and their reinsurers.

The reason is because there's no common format telling insurers exactly what kind of information reinsurers need to process their self-administered business. As a result, insurers and reinsurers routinely take part in an increasingly expensive and time-consuming paper trade, searching for the necessary information.

Complicate that search with the complex breed of interest-sensitive life policies, replete with varying rates, premiums and amounts at risk. Then multiply it for insurers with more than one reinsurer.

The result: higher premiums and increased costs as reinsurers spend more people-hours to process this paper bulk and primary insurers incur staff expenses to manage their end.

Clearly, The Incredible Bulk is an

industry problem demanding an industry solution, a solution that can't be found in past or present practices.

For many years, the traditional form of reinsurance administration was individual cession business. When a ceding company sold a policy needing reinsurance, a form called a cession would notify the reinsurer. Cession data—name, date of birth, amount of policy, policy form, underwriting rating—enabled the reinsurer to process the ceding company's business, make required financial reports and, when necessary, retrocede business to another insurer.

But what has worked in the cession business hasn't worked in the self-administered business. Unfortunately, with the introduction of self-administration bulk business, most direct-writing companies have provided information insufficient for the reinsurer to meet its financial reporting requirements. Even when information has been complete, it has been rarely available in time for the reinsurer to do its annual statement processing in January.

What's more, the bulk system didn't anticipate the complexity of such interest-sensitive products as universal life and the extensive costs associated with administering such business.

Hence, The Incredible Bulk.

The Bulk has drawn the industry's attention. And well it should: More than half of new business assumed by reinsurers is now administered on a

bulk basis.

In 1986, a special committee of the Society of Actuaries developed guidelines, detailing information essential for the reinsurer to process bulk business.

At the SOA's annual meeting in October, the society's reinsurance subsection made plans to distribute the recommended common data format to its members shortly after the first of the year.

Once agreed upon, the guidelines and resulting common data format would benefit both reinsurer and primary insurer alike.

Reinsurers could efficiently process bulk business, while meeting statutory reporting requirements. Similarly, primary insurers could substantially reduce their administrative burden while managing their reinsurance program more effectively.

But the solution doesn't come without a price.

To produce desired guideline data, many primary insurers will have to make major systems revisions. Likewise, reinsurers also will have to adjust their systems. Ultimately, though, that investment will pay off in time saved, business processed more effectively and potential cost savings passed on from reinsurers to direct-writing companies.

Even more importantly, the guidelines and their format are a solution that will continue to work well into our future. That's because in future years, reinsurance will be

processed electronically between the direct-writing company and the reinsurer.

When reinsurance is required, the ceding companies' individual life processing system will be programmed to send the reinsurer the appropriate data by tape, telephone lines or satellite.

The reinsurer's system would receive the information directly, establish records for future billing and financial reporting and flag any business where reinsurance is needed.

Anticipating that future direction, several independent software vendors have built systems—in applications ranging from PC-driven to mainframe—that will provide specified data for the reinsurer.

Today, we are a long way from the ultimate process. But now is the time to move in that direction by reaching an agreement with an industry on the proposed guidelines and resulting common format. And, we must agree. The Bulk is a shared problem, requiring a shared solution.

Only then can we begin to bring The Incredible Bulk under control.

Guy F. Verney is vp of CIGNA Re's Individual Department and chairs a Society of Actuaries committee working on this issue.



Insurer sponsorship

Continued from previous page

Washington news anchor for "Good Morning America," and actress Morgan Fairchild were the only celebrities who were compensated for their appearances, Ms. Jacobson said.

Metropolitan is still distributing booklets of the presentation "that are available on request to educational groups and non-profit organizations that serve a constituency that might be at risk—young people in particular," Ms. Jacobson explained. She added that the insurer has received many letters of commendation for the broadcast.

Metropolitan Life did not broadcast the program as a marketing tool, she stressed. "Met gave up the commercial time that was allotted to it... We considered it a public service."

In addition, the Metropolitan Life Foundation has aired programs on drug abuse on PBS, provides medical research awards for outstanding research in studying Alzheimer's disease, funds a number of medical research activities, promotes wellness and educational achievement in a variety of ways and offers grants for cultural endeavors.

Hartford Conn.-based Hartford Insurance Group has sponsored a junior fire marshal program for the past 40 years. "If it's not the oldest, it is one of the oldest corporate sponsored public benefit programs around," said Claudia McEntee, senior public relations representative and supervisor of the program. She added: "We reach 2.5 million children a year."

The national program is targeted at children from kindergarten to third grade and teaches fire safety awareness. The insurer distributes safety kits with an audiotape on fire safety, coloring posters, calendars, fire helmets and fire safety brochures to schools, fire departments and civic groups. Hartford offers the materials at cost or for free, depending on the financial circumstances of the group requesting the materials.

Philadelphia-based Reliance Insurance Co. also promotes fire safety awareness to children through an ongoing program featuring fire safety report cards, fire escape technique cards and related posters and smoke detector booklets. The program began in 1979.

The report cards enable children to evaluate their own homes for fire safety characteristics.

"Any marketing considerations are secondary. My area of concern is fire prevention itself," said Howard F. Sheldon, assistant secretary—loss control services. He added that the

materials are free and: "We will also go out and talk to organizations when they ask us to."

Reliance distributes posters on the program to its branches throughout the country, which in turn distribute them to their agent forces to post in their communities.

Mr. Sheldon said that Reliance gets "a lot of inquiries from around the country around Fire Prevention Week in September," mostly from local fire departments.

The St. Paul Cos. in St. Paul, Minn., has been sponsoring a statewide driver safety awareness program since 1986 in an attempt to reduce the state's traffic fatalities. It shares sponsorship with WCCO Radio and Television, the St. Paul Pioneer Press Dispatch and Ruhr/Paragon Advertising and Public Relations.

"St. Paul got involved because we felt that the commitment by the other sponsors made the program more visible and accessible statewide. The other sponsors were from the media, which meant built in transmission" of the program, said a spokeswoman for the insurer. In addition, the campaign "fit our role as an insurance company to sponsor a loss prevention program," she said, noting that response by schools and businesses has been overwhelming.

The award-winning campaign was kicked off in April 1986 with a one-hour WCCO broadcast of "The Moore Report: Sudden Death," a documentary that interviewed the families of people killed in the state during the worst week of traffic fatalities that year. It also features billboard advertisements, public service announcements, brochures, rear-window stickers, pledge cards, lapel pins and seatbelt reminders.

While the campaign focuses on Memorial Day weekend—the beginning of vacation season in Minnesota—materials are circulated throughout the year, the spokeswoman said. Although a lot of participants volunteer time and WCCO airs the announcements free of cost, the program has cost St. Paul more than \$200,000 over the past two years.

Chicago-based CNA Insurance Cos., along with the National Society of Professional Engineers, developed and helps sponsor a program called MATHCOUNTS for junior high school students. The program, which was founded in 1983, encourages scholastic achievement in mathematics by combining a coaching program with a national math contest.

CNA's contribution to the program amounts to about one-third of the program's annual budget of over \$750,000, according to Philip L. Engel, vp of marketing.

"Name recognition is not really relevant to our involvement in the program... CNA's name takes a back seat to the

MATHCOUNTS name," he stressed, although the insurer is identified as one of the sponsors on all printed materials.

Schaumburg, Ill.-based Zurich-American Insurance Co. began sponsoring a Kid Pix/Kid Tips program in 1985 to promote child safety among families.

"Our plans were to develop a photo identification program for all elementary school students in our area and to provide them with safety literature," explained Chris D. Tasher, a senior communications specialist in charge of the program.

A representative from the insurers sets up a camera and equipment and instructs volunteers in how to produce the plastic laminated ID cards. The ID cards have a color photo of the child and a physical description, including distinguishing characteristics, age and thumbprints.

The ID card, which parents are instructed to keep in a safe place in their home, does not provide the child's name because it "could fall into the wrong person's hands," Ms. Tasher said. Parents then have the card on hand in the event a child is abducted or missing.

Accompanying literature instructs parents and children how to best protect against child abduction or molestation. While Zurich-American designed the program as a community service, publicity on the program has drawn national attention and over 10,000 copies of the brochure have currently been distributed around the country.

The program may be expanded to other geographic locations where Zurich-American has offices as early as 1988, Ms. Tasher said.

Fort Wayne, Ind.-based Lincoln National Life Insurance Co. began its "Let Happiness Ring" program in 1981 to enable senior citizens to make free phone calls to loved ones during the Christmas holiday season. "We do to community service studies all the time and found this was an unnamed need," said Robert V. Jones, coordinator of the program.

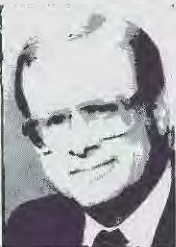
From the Fort Wayne area, the program has expanded to Green Bay, Wis., and Fort Scott, Kansas—other cities with Lincoln National affiliates. The insurer sets up phone sites in senior citizen organizations and other community locales for the 10 days preceding Christmas and volunteers supervise the sites. All telephones are equipped with sound boosters for hearing and vocally impaired people.

"It's a little bit of an image building program," Mr. Jones said, adding that the insurer spends about \$3.5 million per year on this and other community projects. The insurer will offer support to any of its other affiliates interested in conducting such a program in their communities, he said. ■

Comings & goings: buyers**YMCA Services Corp.
risk manager promoted**

H. Darwin Haines, 60, has been named vp of YMCA Services Corp., a unit of YMCA of the USA in Chicago. YMCA Services helps member associations with risk management and provides membership development for Y-Mutual Insurance Ltd., the YMCA's Bermuda captive. In this newly created position, Mr. Haines will oversee development of a risk management program for the more than 2,000 individual YMCAs. He reports both to Solon B. Cousins, national executive director of YMCA of the USA, and John Davis, president of YMCA Services Corp. Mr. Haines, who has worked with the YMCA for the past 30 years, most recently served as director of risk management services. He received a bachelor of arts degree from George Williams College in Chicago and a master's degree from Boston University. In addition, Mr. Haines is a Certified Professional Manager and a deputy member of the Risk & Insurance Management Society.

Raymond L. Mathiasen, 44, has been promoted to corporate senior vp-finance and accounting at National Medical Enterprises Inc. in Los Angeles. In this newly created position he oversees the company's insurance and employee benefits program, as well as financial management of NME's restructuring efforts.

**Mr. Mathiasen**

NME is the nation's second-largest health care services company, overseeing more than 500 hospitals and health care facilities. Mr. Mathiasen reports to Taylor Jensen, executive vp and chief financial officer. Prior to this promotion, Mr. Mathiasen served as a vp in the finance department, having joined NME in 1983. Prior to that he served with Arthur Young & Co. for 19 years, most recently as director of education for the international accounting firm's European operations in Amsterdam. He holds a bachelor of science degree in accounting from California State University at Long Beach. Mr. Mathiasen is a Certified Public Accountant and a member of the American Institute of Certified Public Accountants, the California Society of Certified Public Accountants, the Healthcare Financial Management Assn. and the National Assn. of Accountants.

Lee A. Craner, 38, has been named director of risk management for Mann Theatres Corp. of California in Los Angeles. In this newly created position, Mr. Craner oversees property/casualty insurance for the movie theater chain. He reports to Kenneth Crowe, senior vp and chief financial officer. Previously, Mr. Craner served as assistant director of administration at Mann. He holds a bachelor of science degree in finance from De Paul University in Chicago.

Bill Trask, 32, has been named workers compensation and benefits administrator at James River Corp. in Old Town, Maine. In this position, he oversees health benefits and day-to-day work comp duties, including claims handling and litigation. He reports to Alan Van Vleet, manager-human resources. Previously, Mr. Trask was a claims administrator for Gallagher-Bassett Services Inc. in Portland, Maine.

Prior to that he was a claims administrator for Liberty Mutual Insurance Co. Mr. Trask holds a bachelor of arts degree in political science from Nasson College in Springvale, Maine. He is a member of the Maine Adjusters Assn. and the Maine Council of Self-Insurers.

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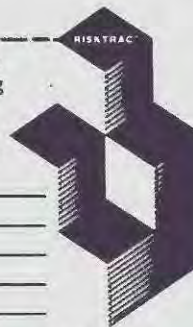
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JAN. 7-8. Seventh Annual Occupational Health Nursing Principles and Certification Review Course in New Orleans, sponsored by the Occupational Health Consulting division of Fireman's Fund Risk Management Services Inc.; \$275. Also Feb. 4-5 in Torrance, Calif.; Feb. 18-19 in Schaumburg, Ill.; March 3-4 in Arlington, Va.; and March 17-18 in Cambridge, Mass. Annette B. Haag, Director, Occupational Health Consulting, Fireman's Fund Risk Management Services Inc., 4040 Civic Center Drive, Rafael, Calif. 94912; 415-492-4708.

JAN. 13. New ISO Commercial Property and Commercial General Liability Forms seminar in Briarcliff Manor, N.Y., sponsored by the Westchester Chapter of the Society of Chartered Property & Casualty Underwriters; \$25. Jerome Trupin, 170 Hamilton Ave., White Plains, N.Y. 10601; 914-949-4810.

JAN. 13. Customer Service for Insurance course in New York City, sponsored by The College of Insurance; \$195 for college sponsors; \$245 for non-sponsors. Professional Development Programs, The College of Insurance, 1 Insurance Plaza, 101 Murray St., New York, N.Y. 10007; 212-962-4111.

JAN. 14-15. Insurance, Excess and Reinsurance Coverage Disputes seminar in New York City, sponsored by Practising Law Institute; \$450; \$45 for course handbook only. Also Jan. 28-29 in San Francisco. Practising Law Institute, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

JAN. 20. Managing and Controlling Asbestos Contamination/Exposure course in Los Angeles, sponsored by the University of Southern California's Institute of Safety and Systems Management; \$160. University of California, Institute of Safety and Systems Management, Office of Extension and In-service Programs, 3500 S. Figueroa St., Suite 202, Los Angeles, Calif. 90007; 213-743-6523.

JAN. 20. Health Care in the '80 and '90s: What Employers Want workshop in New York City, sponsored by Health Research Institute; \$495. Also March 21 in Atlanta and May 18 in Chicago. Workshop coordinator, Health Research Institute, 1600 S. Main Plaza, Suite 170, Walnut Creek, Calif. 94596; 415-676-2320.

JAN. 20-21. Second Annual Legislative Conference in Washington, D.C., sponsored by the Self-Insurance Institute of America Inc.; \$125 for SIIA members; \$175 for non-members. Kevin Shein, Self-Insurance Institute, P.O. Box 15466; Santa Ana, Calif. 92705; 714-261-2553.

JAN. 21-22. Transportation of Hazardous Materials/Waste course in Los Angeles, sponsored by the University of Southern California's Institute of Safety and Systems Management; \$265. University of California, Institute of Safety and Systems Management, Office of Extension and In-service Programs, 3500 S. Figueroa St., Suite 202, Los Angeles, Calif. 90007; 213-743-6523.

JAN. 25-26. Hawaii-The U.S. Offshore Alternative conference, sponsored by the state of Hawaii, organized by Tillinghast, a division of Towers, Perrin, Forster & Crosby; \$50 for Jan. 25 captives briefing; \$300 for conference. Conference Director, Tillinghast, 722 Post Road, Darien, Conn. 06820; 714-553-1277.

JAN. 25-29. Hazardous Materials: Handling and Disposal course in Los Angeles, sponsored by the University of Southern California's Institute of Safety and Systems Management; \$735. University of California, Institute of Safety and Systems Management, Office of Extension and In-service Programs, 3500 S. Figueroa St., Suite 202, Los Angeles, Calif. 90007; 213-743-6523.

JAN. 27. Health in the 100th Congress: The Second Session conference in Washington, co-sponsored by the Washington Business Group on Health and the National Assn. of Manufacturers in conjunction with the Women in Government Relations Health Task Force; \$40 for WBGH, NAM or WGR members; \$50 for non-members. Sherri Farris, Washington Business Group on Health, 229 1/2 Pennsylvania Ave. S.E., Washington, D.C. 20003; 202-547-6644.

JAN. 27-28. Persuasive Selling Skills for New Agents and Brokers course in New York City, sponsored by the College of Insurance; \$395 for college sponsors; \$445 for non-sponsors. Professional Development Programs, College of Insurance, 1 Insurance Plaza, 101 Murray St., New York, N.Y. 10007; 212-962-4111.

JAN. 28-29. 'Preventive Defense' and the Product Liability Case seminar in Phoenix, Ariz., sponsored by the Defense Research Institute Inc.; \$395 for DRI members; \$415 for non-members. Defense Research Institute Inc., 750 N. Lake Shore Drive, Suite 500, Chicago, Ill. 60611; 312-944-0575.

FEB. 1. Human Factors in Loss Control course in New York City, sponsored by The College of Insurance; \$195 for college sponsors; \$245 for non-sponsors. Professional Development Programs, The College of Insurance, 1 Insurance Plaza, 101 Murray St., New York, N.Y. 10007; 212-962-4111.

FEB. 1-2. Hazardous Waste Management of Small Generators course in Los Angeles, sponsored by the Institute of Safety and Systems Management, University of Southern California; \$160. Institute of Safety and Systems Management, University of Southern California, 3500 S. Figueroa St., Suite 202, Los Angeles, Calif. 90007; 213-743-6523.

FEB. 1-3. 16th Annual Professional Development Course in College Station, Texas, co-sponsored by Region III of the American Society of Safety Engineers and the Texas sections of

the American Industrial Hygiene Assn.; \$100. Ken Coughran, 512-853-0171.

FEB. 4. Brief Reinsurance course in New York City, sponsored by The College of Insurance; \$195 for college sponsors; \$245 for non-sponsors. Professional Development Programs, College of Insurance, 1 Insurance Plaza, 101 Murray St., New York, N.Y. 10007; 212-962-4111.

FEB. 11-12. Back Injury Prevention course in Los Angeles, sponsored by the Institute of Safety and Systems Management, University of Southern California; \$280. Institute of Safety and Systems Management, University of Southern California, 3500 S. Figueroa St., Suite 202, Los Angeles, Calif. 90007; 213-743-6523.

FEB. 15. Communications/Education Workshop in Los Angeles, sponsored by Health Research Institute; \$250. Workshop coordinator, Health Research Institute, 1600 S. Main Plaza, Suite 170, Walnut Creek, Calif. 94596; 415-676-2320.

FEB. 16-17. Health Care Cost Containment Workshop in Los Angeles, sponsored by Health Research Institute; \$495. Also March 22-23 in Atlanta, April 7-8 in San Francisco, April 18-19 in New York City, May 19-20 in Chicago, June 15-16 in Dallas and June 21-22 in San Antonio, Texas. Workshop coordinator, Health Research Institute, 1600 S. Main Plaza, Suite 170, Walnut Creek, Calif. 94596; 415-676-2320.

FEB. 17-18. The Fourth Annual London Market Conference in London, sponsored by the Insurance & Reinsurance Research Group Ltd.; 360 pounds plus 15% VAT (approximately \$646); 320 pounds plus 15% VAT (approximately \$574) for additional registrants from same company. Insurance & Reinsurance Research Group Ltd., Bridge House, 181 Queen Victoria St., London EC4V 4DD; 01-236-2175.

FEB. 17-19. Captive Insurance Companies workshop in London, sponsored by the Risk & Insurance Research Group Ltd.; 494.50 pounds (approximately \$888). Risk & Insurance Research Group Ltd., 4 Henrietta St., Covent Garden, London WC2E 8PS; 01-846-0614.

FEB. 18. Pollution Update-Insurance, Liability & Regulations workshop in New York City sponsored by the Society of Chartered Property & Casualty Underwriters; \$145 for Society of CPCU members; \$165 for non-members. Mari Jennings, Professional Services Coordinator, Society of CPCU, Kahler Hall, 720 Providence Road, CB#9, Malvern, Pa. 19355; 215-251-2741.

FEB. 18. Pollution Update: Insurance Liability and Regulations workshop in New York City, sponsored by the Society of Chartered Property & Casualty Underwriters; \$130 for Society of CPCU members; \$160 for non-members. Mari Jennings, Society of Chartered Property & Casualty Underwriters, Kahler Hall, 720 Providence Road, CB#9, Malvern, Pa. 19355; 215-251-2735.

FEB. 18. Advanced Cost Containment Workshop in Los Angeles, sponsored by Health Research Institute; \$250. Workshop coordinator, Health Research Institute, 1600 S. Main Plaza, Suite 170, Walnut Creek, Calif. 94596; 415-676-2320.

FEB. 18-19. Video Display Terminal Safety course in Los Angeles, sponsored by the Institute of Safety and Systems Management, University of Southern California; \$265. Institute of Safety and Systems Management, University of Southern California, 3500 S. Figueroa St., Suite 202, Los Angeles, Calif. 90007; 213-743-6523.

FEB. 18-19. Substance Abuse and the Workplace seminar in Reno, Nev., co-sponsored by the Sierra Nevada chapter of the American Society of Safety Engineers and St. Mary's Health Care Corp.; \$85 for ASSE members; \$60 for students. Randy Wasserman, American Society of Safety Engineers/Sierra Nevada Chapter, P.O. Box 21311, Reno, Nev. 89515; 702-885-4085.

FEB. 18-19. Eighth Annual Southern Securities Institute in Miami, sponsored by the American Law Institute-American Bar Assn. Committee on Continuing Professional Education; \$375; \$85 for course book only. Professional Education, Registrar, American Law Institute-American Bar Assn., 4025 Chestnut St., Philadelphia, Pa. 19104.

FEB. 19. Assessing Vendors Workshop in Los Angeles, sponsored by Health Research Institute; \$250. Workshop coordinator, Health Research Institute, 1600 S. Main Plaza, Suite 170, Walnut Creek, Calif. 94596; 415-676-2320.

FEB. 24-26. Occupational Health Nursing: Basic Theory and Update course in Los Angeles, sponsored by the Institute of Safety and Systems Management, University of Southern California; \$405. Institute of Safety and Systems Management, University of Southern California, 3500 S. Figueroa St., Suite 202, Los Angeles, Calif. 90007; 213-743-6523.

MARCH 2-4. Captive Insurance Companies conference in Brussels, Belgium, sponsored by Management Centre Europe; 64,100 Belgian francs (\$1,833) for members; 72,000 Belgian francs (\$2,059) for non-members. Management Centre Europe, Rue Caroly 15, B-1040, Brussels, Belgium 32/2/516.19.11.

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COBRA rules

Continued from page 1

a new plan year with the Sword of Damocles hanging over their heads," said Ellen Goldstein, director of public affairs and membership development for the Assn. of Private Pension and Welfare Plans in Washington.

"The confusion for employers is being prolonged," said James Klein, manager-pension and health care policy for the U.S. Chamber of Commerce in Washington.

Some benefit experts are optimistic that Congress next year will approve COBRA changes as part of a new technical corrections bill.

"While the delay is a disappointment, there will almost certainly be a technical corrections bill enacted next year," said Frederick Rumack, director of taxes and legal services at Buck Consultants Inc. in New York.

But, employers will have to keep the pressure on Congress to be sure that COBRA changes become part of a technical corrections bill or another legislative vehicle, Mr. Rumack emphasized.

It was employer pressure—in the form of more than 1,300 protest letters to the Internal Revenue Service—that led administration and congressional staffers to draft new COBRA penalties.

Under those new proposed penalties, an employer would pay an excise tax of \$100 for each day it failed to extend coverage to a beneficiary (BI, Nov. 2). However, if the COBRA violation were inadvertent and corrected within 30 days, the employer could be exempt from the tax.

But in certain situations—such as the IRS uncovering an uncorrected COBRA violation—the employer could be slapped with an excise tax of at least \$18,000 for each person to whom the employer failed to extend coverage.

The House budget reconciliation bill also would correct what some say is the most outrageous aspect of the current rules: An employer in a multiemployer health plan can lose its tax deduction if another unrelated employer or the plan administrator violated COBRA's.

Under the House legislation, an employer would not be liable for violations caused by another employer in the multiemployer plan.

And, rather than losing its tax deduction for health care expenses if another employer or plan administrator were at fault, the legislation would make the employer and plan administrator jointly and severally liable for the excise tax.

The likely delay in enacting changes to COBRA changes could give employers more time to lobby legislators and staffers.

For example, employers and consultants consider excessive a provision in the House legislation that sets a special minimum tax of \$18,000 to be levied when the IRS uncovers during a plan audit a COBRA violation that was not corrected before the employer received notice that the IRS was auditing the plan.

In that situation, the period of non-compliance will automatically be considered at least 180 days—thus making the employer liable for an \$18,000 fine per affected beneficiary—or the actual period of non-compliance if longer. ■

NYIE syndicates

Continued from page 2

the exchange's future.

- New York Supreme Court Judge Irving Kirschenbaum denied motions by three syndicates for preliminary injunctions to block the drawdown of their contributions to the security fund.

The security fund board announced Sept. 3 that it had decided to draw down \$25 million in syndicate deposits after reviewing an actuarial report showing that six of the exchange's eight insolvent syndicates may be insolvent by \$170 million.

Brougher Syndicate Inc., Syndicate of Wall Street Investors N.V. and Senate Syndicate Inc. filed two suits to block the drawdown of their contributions, claiming the security fund had not acted properly (BI, Sept. 28).

However, Judge Kirschenbaum ruled Dec. 3 that the board's decision was "an exercise of business judgment" sanctioned by the exchange constitution.

While denying the motions for preliminary injunctions, the judge also denied motions by the security fund and the exchange to dismiss the complaints, and ordered them to answer the complaints within 20 days.

Judge Kirschenbaum subsequently issued an order staying his decision until Dec. 16 to allow the

syndicates to appeal his ruling. During this time restraining orders blocking the drawdown of the three syndicates' security fund contributions are still in effect.

- The exchange board was scheduled to meet Friday and was expected to discuss, among other things, the formation of two committees to plan for the orderly runoff of syndicate members' obligations and for the future of the exchange, exchange officials say.

In an effort to cut expenses, the board also is considering a possible sale of the exchange's headquarters building in lower Manhattan, though the board has not yet decided to go ahead with a sale, according to A. William Urquhart, the exchange's vp and general counsel.

- About 37 exchange staff em-

ployees have been notified that they will be terminated by Dec. 31. The exchange board had previously announced its intention to lay off 30% of the staff in a drive to reduce its size to about 100 employees from 146 by year-end.

Though the layoffs were planned in areas related mainly to the processing of new and renewal business, attrition is reducing the ranks of the exchange staff in other areas.

Bruce Gordon, the exchange's vp-information systems, is resigning to join another corporation. President Joseph Fahys confirmed Mr. Gordon will be replaced as of Jan. 1 by Peter Bellisano, who is currently manager of systems development and who will assume the title of assistant vp-information systems. ■

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Letters

Continued from page 8

One hates to continually refer to Congress as a passel of idiots; however, they are either that or they are trying to socialize the benefit structure. I suspect both.

Thom Williams
Director, Human Resources
Greenheck Fan Corp.
Schofield, Wis.

Remark insulting to Cleveland

To the editor: It would be appropriate for you to confine your reporting to meaningful insurance

news. In your article, "Uncertainty Lingers as Renewals Near" (BI, Nov. 30), you quote an unnamed executive as saying about Maui, "Who wants to talk about insurance here?" A modestly intelligent reader fully understood the meaning. It was unnecessary to add, "It ought to be in Cleveland."

This comment was an unwarranted insult to our city. If you think it is necessary to print such comments, you could at least identify the source.

Phillip C. Bly
Risk Manager
Brush Wellman Inc.
Cleveland

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Window plans

Continued from page 3
considering filing a petition for review by the U.S. Supreme Court.

However, Mercer's Mr. Keller noted that numerous "employers for the last decade or so have chosen to implement window plans on a location-by-location basis."

"It's not unusual to find (early retirement) programs set up like the Scott Paper program was," he added.

Under Scott Paper's regular early retirement plan, which was offered to all employees, a salaried worker could retire with full benefits at age 62 or elect early retirement after reaching age 55 and receive pension benefits reduced by 5% for each year that the employee is under age 62.

Under a new early retirement program—called the Scott Highly Accelerated Retirement Program (SHARP)—that was offered only to employees of certain overstaffed Scott Paper facilities, a salaried worker could retire at age 52 with full benefits.

The plaintiffs in the case, a group of workers excluded from SHARP, noted that the terms of SHARP say it should be made available in a non-discriminatory manner. Yet, they alleged, certain workers were discriminated against by being denied SHARP.

However, the 3rd Circuit Court stated that "discrimination is the disparate treatment of those who are similarly situated." It continued that "employees at overstaffed plants and employees at 'lean' plants are not similarly situated."

The plaintiffs also contended that SHARP violated the Age Discrimination in Employment Act. The court, however, responded that "this contention is without merit."

"ADEA proscribes discrimination based on age," said the ruling. "Appellants are ineligible for SHARP because of the locations in which they work, not because of their ages."

The court added that "arguably, any early retirement incentive program gives more benefit to younger workers than to older ones."

Mr. Saveth of J&H pointed out that this statement constitutes recognition by an appeals court that the mere fact that an early retirement plan gives more benefits to younger employees than to older employees does not make the retirement plan discriminatory on the basis of age.

The plaintiffs also argued that Scott Paper's pension plan administrator violated the Employee Retirement Income Security Act by implementing SHARP.

The Scott Paper Retirement Board—as the administrator of a pension plan under ERISA—is bound by a fiduciary duty to the plan's beneficiaries, said the plaintiffs.

The retirement board breached this duty by adopting and implementing SHARP for the company's benefit and not for the benefit of the plan's beneficiaries, the plaintiffs concluded.

However, the 3rd Circuit Court also rejected this argument.

The court agreed with the defendant's reasoning that there is a difference between design and administration decisions regarding a pension plan.

"The administrators of a pension plan have a fiduciary duty to the plan's participants only with regard to administration decisions and are bound by no such duty with regard to design decisions," the court held.

The court continued: "It defies common sense to suggest that a corporation must allow a retirement board to make personnel decisions such as determining which plants need fewer employees. . . . Although the retirement board was the entity that formally amended (the early retirement

plan) to adopt SHARP, the retirement board had no fiduciary duty with respect to the adoption of SHARP."

Jerry Wunsch, an attorney with benefit consultants Hewitt Associates of Lincolnshire, Ill., commented that "the plaintiffs had a weak case under ERISA."

However, plaintiffs in an early retirement case in litigation in the U.S. District Court for the Southern District of New York are using reasoning similar to this to press their charges that some workers were unfairly excluded from an early retirement program.

In that case, the plaintiffs argue that if a pension plan fiduciary is the only party that can amend the plan, in amending the plan he must be mindful of his fiduciary responsibilities, according to plaintiffs' attorney Sarah Siskind, with the Madison, Wis., law firm of Davis, Barnhill & Galland P.C.

Ms. Siskind said there is an important distinction to be drawn

between her case, *Siskind vs. Sperry Retirement Program and UNISYS* (formerly known as the Burroughs/Sperry Corp.), and the Scott Paper case.

In the Scott Paper case, the 3rd Circuit Court did not address whether the manufacturer had reserved the right to amend the company's pension plan.

In the Sperry case, however, the right to amend the pension plan specifically was delegated to the named fiduciary of the plan and was not reserved by the corporation.

The New York district court in September denied a motion filed by the defendants to dismiss the case following the Philadelphia district court's ruling in the Scott Paper case.

The Sperry case is in discovery and a ruling is expected this spring.

The 3rd Circuit Court ruling in *Trenton vs. Scott Paper* is the latest piece of good news for employ-

ers offering early retirement incentives.

Earlier this year, two federal appellate courts issued rulings that protect employers from allegations that early retirement incentives discriminate against older workers (*BI*, June 29).

The 7th U.S. Circuit Court of Appeals upheld the validity of such plans, saying they are a benefit to employees and not presumptively discriminatory. And, the 2nd U.S. Circuit Court of Appeals withdrew portions of an earlier decision that presumed such plans were discriminatory and that made employers responsible for proving that the plans are voluntary (*BI*, May 18).

On the District Court level, a case pending in the U.S. District Court for the Western District of New York is addressing whether early retirement incentives can be offered to a select group of employees based on their age (*BI*, Nov. 23).

The Equal Employment Oppor-

tunity Commission has filed an amicus curiae brief on behalf of defendants in that case, *Cipriano vs. Board of Education of North Tonawanda*, asserting that employers can offer early retirement incentives to a select group of workers based on their age provided the employer has a "legitimate business reason" for structuring the plan in such a manner.

"Claims of discrimination in (early retirement plans) appear not to be of interest to the courts provided the basic rules of a window plan are followed," concluded Mercer's Mr. Keller.

According to Mr. Keller, those basic rules are:

- A bona fide business reason for the early retirement program must exist.
- The early retirement plan must be "indeed voluntary."
- Sufficient time and information must be given to employees to consider the early retirement offer. ■



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Tort reform

Continued from page 3

Also under S.B. 2708, no third party would have the right of recovery against an employer for an accident for which workers compensation benefits have been paid.

In cases when a third party is liable for an employee's injury or death, the right of an employee or his family to compensation from the employer or its insurer would not bar any action of the employee or his dependents against the third party, the bill states.

If an employee or his dependents recover from a third party, the employer would no longer be obligated to pay the employee workers compensation benefits, but that obligation ends only when the third party pays the judgment or settlement.

The employer involved in the personal injury or wrongful death litigation brought by an employee would be prohibited from putting a

lien on any workers compensation benefits paid to the plaintiff.

Under the third bill, S.B. 2709, a suit involving less than \$20,000 in damages would have to be settled by arbitration if all parties give written consent and the court determines that the controversy does not involve novel or unduly complex legal issues.

The arbitration court's action would have the same effect and be enforceable as a judgment in any other action, unless one of the parties petitions the court for a new trial within 30 days after the arbitration decision is filed.

If a new arbitration trial is granted, no statements, admissions or testimony made at the arbitration proceedings, nor the arbitration decision, can be used as evidence.

Another bill that was scheduled to be voted on late last week was S.B. 2703, which would eliminate joint and several liability in all tort cases, except those involving en-

'The issue of joint and several liability should be addressed,' says Robert W. Doucette.

vironmental hazards.

In Wisconsin, Sen. David Helbach, D-Stevens Point, introduced the tort reform bill, S.B. 330, at the request of the Wisconsin Coalition for Civil Justice, which represents 110 business and professional groups in the state.

If enacted in its entirety, S.B. 330 would:

- Limit the liability of each defendant in a tort case to its proportionate share of fault.

Currently under Wisconsin law, defendants are jointly and severally liable for court awards.

- Limit non-economic damages

in all civil actions to \$250,000. Current law, approved in 1986, caps non-economic damages in medical malpractice cases only.

The bill also would reduce the cap on non-economic damages in medical malpractice cases to \$250,000 from \$1 million per single incident of malpractice (*BI*, Aug. 18, 1986).

- Limit awards of punitive damages only to cases involving an intentional tort or those in which state law specifically authorizes punitive damages. Any party seeking punitive damages must prove beyond a reasonable doubt that the defendant's conduct was intentional and malicious.

- Limit attorneys' contingency fees to 10% of any amount recovered within 120 days after a lawsuit is filed. The limit would not apply to awards or settlements reached more than 120 days after a suit is filed. In addition, the law would prohibit contingency fees on amounts recovered prior to the fil-

ing of action.

And, total contingency fees would be subject to court review.

- Change the rules for recovery from a defendant when there is a collateral source of compensation and for the right of a collateral source to subrogation.

Under current law, plaintiffs in civil suits can recover all losses from the defendant regardless of whether the plaintiff has received compensation from other sources.

Under the bill, plaintiffs would have to provide the court and defendants with written notice of any collateral sources of compensation within 30 days of bringing a civil action.

Defendants would have to provide written notice of awards or settlements to all known collateral sources within 10 days of a judgment. If a collateral source has the right of subrogation, it would be allowed to recover from the defendant directly.

In addition, if the liability of a defendant is established in court, the court must hold a hearing to determine whether collateral sources of compensation exist.

Supporters and opponents of the bill—considered to be among the most comprehensive of its kind in state history—remain at odds after testifying earlier this month before the Senate committee reviewing the measure.

During testimony, Robert W. Doucette, chief executive officer of Milwaukee Mutual Insurance Co. and its subsidiaries, said the insurer would reduce its bodily injury rates by 15% immediately if the state limited the payment of non-economic damages to cases involving gross negligence or permanent disfigurement or loss of function.

If all general liability and automobile insurers in the state followed suit, Wisconsin insurance rates would drop by about \$150 million annually, he estimated.

In an interview, he also commented: "Duplicate payments enrich people and eventually cost everybody." And, "Simply on the basis of fairness, the issue of joint and several liability should be addressed," he added.

However, the new president of the Wisconsin Academy of Trial Lawyers blasted the bill as "totally objectionable."

Kenan J. Kersten, who was installed as president of the organization one day after testifying against the bill, objected in particular to the cap on non-economic damages, because pain and suffering awards are "often the only way to get a dangerous product off the market."

"To arbitrarily put a cap on awards on pain and suffering is, we believe, unconstitutional and uncalled for. There just isn't the problem a lot of people pretend there is," he said.

Mr. Kersten, who is with the Milwaukee law firm of Kersten & McKinnon, said his association was joined by labor, consumer and environmentalist organizations in objecting to the proposed changes.

In an interview following the hearing, Wisconsin Insurance Alliance President Eric Englund called the bill "extremely comprehensive." Mr. Englund, whose Madison-based association represents Wisconsin property/casualty insurance companies, said the Senate committee's inaction immediately after the hearings does not mean the bill will languish in legislative limbo forever.

"There's a reasonable chance that the Legislature will take a look at the concepts contained in the bill, such as joint and several liability," said Joe Sperstad, executive director of the Milwaukee-based Wisconsin Institute of Certified Public Accountants.

"We're expecting the hearings to lead to some dialogue with legislators and opponents of the bill." ■



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Satellites

Continued from page 3

are carefully monitoring the progress of the German TVSat satellite—owned by Bundespost, the West German telecommunications monopoly—which has failed to deploy one of its solar panels in lower orbit.

Technicians have moved the satellite, which was launched by the European launch agency Ariane-space on Nov. 20, into a geostationary orbit where they may try to release the solar panel. Technicians are still unsure what to do with the damaged orbiter.

If the solar panel fails to unfold properly, then only two of the satellite's four channels could broadcast.

Although no claim has been filed, TVSat's broker, Funk International GmbH of Hamburg, West Germany, telexed underwriters last week to inform them of the

technicians' progress.

"It cannot be said if it will be a loss, a partial loss or no loss at all. It is not black and white," said Leberecht Funk, president of the brokerage.

The satellite was insured for 180 million deutsche marks (\$108.2 million at the current exchange rate) during launch phase. The coverage dropped to 95 million deutsche marks (\$57.1 million) after the satellite was deployed.

Some 31% of the satellite's coverage is placed in Germany with Deutsche Luftpool, a pool of space insurers. Another 25% is led at Lloyd's of London by underwriter Michael Marchant. The remainder of the coverage is placed in the United States, where the coverage is led by International Technology Underwriters; in France, where the coverage is led by La Reunion Spatiale; and in other parts of Europe and Australia. Funk used brokers Crawley Warren & Co. Ltd. in

London and Corroon & Black Insurance Inc. in Washington, D.C.

Mr. Funk believes a partial or total loss would have a "negative effect" on the healing satellite insurance industry "because insurers were concerned about the (reliability) of the launch vehicle, which worked. But the satellite didn't. So now, they can point to both."

However, a loss "wouldn't affect rates," because the price is so expensive now anyway, he said.

"The effect can't be easily analyzed. But, those people who were going to give new capacity without TVSat are now more reluctant," Mr. Funk said.

Some underwriters have stopped quoting until they know the future of TVSat, according to Mr. Funk.

However, other brokers and underwriters say that a partial loss of the TVSat probably would not deter their enthusiasm for the space insurance market.

"The principle concern for underwriters was the launch vehicle, and the launch was good," said Alden Richards, vp of the Johnson & Higgins' Space Systems Group in New York.

"There would be some effect on the market if we had to pay a claim—at least rates wouldn't go down as they are doing now," said Giovanni Gobbo, vice director in charge of the aerospace division of Assicurazioni Generali S.p.A., Europe's leading satellite insurer. "But the loss would be small. It would not aggravate the worldwide situation."

Underwriters and brokers say

the satellite insurance market seems to be making a recovery following the success of three launches so far this year.

Brokers and underwriters are pleased with the successful launches of:

- A \$73 million satellite by the National Aeronautics and Space Administration on a Thor Delta rocket in March.

- Two commercial satellites with a total insured value of \$140 million by Ariane-space in September.

- The TVSat satellite last month. The Ariane rocket functioned normally during the launch, even though the satellite malfunctioned once it was deployed.

"The market is softening," said Mohammed Dhabi, head of the aviation and aerospace division of French insurance broker Faugere & Jutheau in Paris. "To me, capacity is coming back, not in a significant manner, but there is an increase. If we continue to have launches succeeding, I think by mid-1988 to the end of 1988 you will see the market coming back in a significant manner."

"The market is loosening now and is willing to quote rates for a longer period before launch," said Jerry Frick, managing director of the aviation division of Marsh & McLennan Inc. in New York.

"Rates are still at historical highs, so satellite underwriters are better off writing now for 1990, because the rates won't get any higher. It is to their advantage to write long-term policies," M&M's

Mr. Frick pointed out.

Rates are being reduced to between 20% and 24% of the insured value of the satellite from the historic high of 25% to 30%.

Generali will offer rates of around 24% and will consider lower rates, although "less than 22% is impossible, because the failure rates isn't less than that," Mr. Gobbo explained.

Satellite launch insurance rates had been rising sharply since 1984, when a string of three expensive satellite losses cost underwriters \$282.4 million in four months (see story, page 47).

Until then, rates had been as low as 5% of the insured value of the satellite.

After the losses, however, rates soared to 20% in 1985 when losses for the year reached \$369 million, according to Assicurazioni Generali.

Satellite underwriters lost total confidence in the space industry in mid-1986 after the two main commercial satellite launch programs shut down.

The Ariane-space program shut down in May 1986 after an Ariane rocket malfunctioned with an \$82 million satellite on board (BI, June 9, 1986).

The Ariane loss followed by four months the Jan. 28, 1986, Challenger shuttle explosion, which shut down the U.S. shuttle program for commercial payloads (BI, Jan. 26, 1986).

Following the May 1986 Ariane loss, total claims to underwriters since commercial launch insurance was first written in 1977 totaled \$991.2 million, resulting in a 148% loss ratio, according to Generali.

Underwriters subsequently raised rates to between 25% to 30%, which was prohibitively expensive for satellite owners. In addition, underwriters were willing to offer insurance only 90 days before a launch, which was too restrictive for satellite owners who needed insurance to secure loans to build satellites as much as three years before launch.

Now, underwriters are willing to offer launch coverage as much as 18 months in advance instead of 90 days in advance. This is the most important change for satellite owners who need to know their total costs and have backing for loans, sources agree.

For example, Generali, which was not releasing launch rate quotes more than three months in advance late last year, now will quote up to 18 months in advance if the policy wording stipulates that underwriters have a right to review the launch rates if there is a change in the launcher or the satellite, according to Mr. Gobbo.

"We will grant cover at least 12 months in advance, but the wording says that the client must inform us of a change in the risk," he said. He added that the insurer "can go up to 18 months" if, for example, the satellite owner already has had a successful satellite launch.

Capacity also is increasing to between \$120 million and \$150 million per launch from \$90 million, sources concur.

Previously, some satellite underwriters had either pulled out of the market or restricted their coverage, reducing capacity from \$250 million per launch in 1983 to between \$90 million and \$100 million per launch earlier this year.

"Capacity is growing," said Johnson & Higgins' Mr. Richards. "After Jan. 1, 1988, the capacity will be around \$150 million for launch and in-orbit insurance now that we have had two successful Ariane launches."

"Capacity has grown a little," agreed a London broker. "You can squeeze out \$120 million."

Generali in January will increase its capacity to \$20 million from \$15

Continued on page 47

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Financial:
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Secretaries, Treasurers, controllers and other Financial Personnel 5,600

Risk/Employee Benefits:
Vice-presidents, directors, managers, and other related department personnel of: insurance, risk, employee benefits, personnel, compensation, pension, safety, security, industrial relations, human resources and employee/labor relations 9,701
Sub-total 23,668

Associations 500
Government, Unions and Educational Institutions 914

Commercial Consumers
Sub-total 25,282

Insurance Agents and Brokers 10,858
Insurance Companies 7,140
Financial Institutions 989
Actuaries, Attorneys, Adjusters, Appraisers and Consultants 4,617
Others Allied to the Field 1,792
TOTAL 49,689

* Source Business/Occupational breakdown of qualified circulation, May 25, 1987 issue, as submitted to BPA for June 1987 BPA Publisher's Statement.

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MGIC

Satellite market

Continued from page 44
million for each risk, Mr. Gobbo said.

Brokers are now busier than they have been in more than a year placing coverages for next year.

Already, five of the 13 satellites scheduled to be launched next year by Arianespace are insured, according to one London broker.

One of the satellites is GTE Corp.'s Spacenet 3R, which is scheduled to be launched in February and is insured for \$50 million. GTE did not purchase re-launch coverage from Arianespace.

Sources in Europe say the GTE satellite is 50% insured in the United States, where the coverage is led by International Technology Underwriters and United States Aircraft Insurance Group; 30% insured in France, led by La Reunion Aérienne; and 20% in London, led by Lloyd's underwriter Michael Marchant.

The brokers are Marsh & McLennan Inc. in New York; Bowring Space Projects in London; and Faugere & Jutheau in Paris.

Jim Doherty, manager-corporate insurance for GTE, has noticed that underwriters are more interested in insuring satellites, but he is skeptical about the cost. "The biggest change that has occurred is that underwriters are a little more anxious to do business," he said. Placing satellite insurance "isn't difficult. But it isn't cheap either."

The lack of capacity and the stifling cost until recently inspired launch agencies, satellite owners and manufacturers to find alternatives to the conventional market.

For example, launch agencies started using insurance to persuade satellite owners to commit future launches with them, brokers and underwriters said.

Arianespace first offered insurance to satellite owners when it developed a captive company, Space Related Risks Reinsurance Co., to cover the cost of relaunch if a launch were unsuccessful because of a problem with the rocket (*BI*, Dec. 16, 1985).

China's Long March series of rockets, which were made available for international commercial use in late 1985, are supported by the People's Insurance Co. of China, according to Wang Lu, senior engineer of the China Great Wall Industry Corp.

In the Soviet Union, the Soviet Space Administration (Glavkosmos), which will offer commercial space flights in the future, can expect The Insurance Co. of the U.S.S.R. (Ingosstrakh) to offer reinsurance on foreign satellite coverage, said Deputy Chairman Mikhail Safronov.

And, in the United States, at least one of the three U.S. companies that will offer launches on expendable launch vehicles beginning in 1989 will offer a free reflight if a launch fails.

General Dynamics Corp. will self-insure the cost of a reflight, which it is offering to customers because there is limited satellite launch insurance capacity, according to Lee Scherer, director of development for commercial launch services at General Dynamics.

The company is building a block of 18 Atlas Centaur rockets for launch at Cape Canaveral plus an additional rocket in case one of the rockets fail, Mr. Scherer said.

The Atlas Centaur, which has been used by the National Aeronautics and Space Administration for many years, "has a 95% success rate, which we intend to keep. So, we will have less than one failure" on average, Mr. Scherer explained.

Satellite owners also have the option of joining the Space Mutual Insurance Co. Ltd. in Bermuda, which was started by Charles Taylor & Co. in September 1986 to write satellite launch insurance for members (*BI*, Dec. 1, 1986).

Court limits satellite makers liability

By STEPHEN TARNOFF

SANTA ANA, Calif.—Four satellite insurers will not be able to recover \$5.5 million from manufacturers of a satellite that failed in early 1984, a state court judge has ruled.

Orange County Superior Court Judge Tully H. Seymour ruled recently that the insurers cannot pursue negligence and strict liability actions against McDonnell Douglas Corp. of St. Louis, Morton Thiokol Inc. of Chicago and HITCO of Newport Beach, Calif., for the failure of the orbital delivery system of the Westar VI, a telecommunications satellite owned by Western Union Telegraph Co.

In his decision, Judge Seymour ruled that a waiver of liability included in a purchasing agreement between Western Union and McDonnell Douglas protected the manufacturers from product liability suits.

In addition, he rejected insurer arguments that the waiver provisions were unconscionable or against public policy.

McDonnell Douglas had manufactured an upper-stage rocket booster known as a Payload Assist Module (PAM) for the satellite. Morton Thiokol manufactured the solid rocket motors used in the PAM, including the STAR 48 motor, and HITCO manufactured exit cones, which are part of the motors.

Last week, Judge Seymour rejected a motion by the insurers for a new trial in their case against Morton Thiokol.

An attorney for the insurers said they were appealing Judge Seymour's decision barring the suit against the three manufacturers. He declined further comment.

McDonnell Douglas' PAM was for use in putting satellites into geosynchronous orbit around the Earth at an altitude of approxi-

mately 22,300 miles. In geosynchronous orbit, the satellite remains over the same point on the Earth's surface.

However, the Western Union satellite, along with another called the Palapa B2, failed to reach geosynchronous orbit following their launching from the space shuttle Challenger in February 1984.

Insurers paid more than \$180 million to Western Union and to the owner of the Palapa B2, the Indonesian government.

Judge Seymour's decision was handed down in the case involving the Western Union satellite, which was one of two lawsuits filed by insurers against the three defendants in early 1986 (*BI*, March 10, 1986). A second suit filed by three insurers over the failure of the Palapa B2 satellite is pending.

The insurers suing the manufacturers filed both suits to recover the more than \$11 million that they contributed to paying the losses.

Also named as "involuntary plaintiffs" in the litigation are numerous insurers and reinsurers of the two satellites. A few have been dismissed from the litigation.

The suit over the Westar VI was brought by Appalachian Insurance Co. of Johnston, R.I., a subsidiary of Allendale Mutual Insurance Co.; Commonwealth Insurance Co. of Vancouver, British Columbia, now a unit of The Home Insurance Co.; Industrial Indemnity Co. of San Francisco, a Crum & Forster unit; Mutual Marine Office Inc., an insurance underwriting manager in New York; and Northbrook Excess & Surplus Insurance Co. of Northbrook, Ill., a unit of Allstate Insurance Co.

Plaintiffs in the Palapa B2 suit are Lexington Insurance Co., a unit of American International Group Inc.; Talbot, Bird & Co. Inc., a New York-based insurance management unit

of London-based Guardian Royal Exchange P.L.C.; and Northbrook Excess & Surplus.

The suits sought recovery from the manufacturers based on alleged defects in the design and manufacture of the PAM, including the STAR 48 solid rocket motor and exit cone.

The failure of the satellites resulted in the "total loss" of the satellites, rendering them "totally useless," as telecommunications satellites, the suits said.

After the loss, Western Union made a \$105 million claim against its underwriters. That included a \$5.5 million claim against Appalachian, Commonwealth, Industrial Indemnity, Mutual Marine and Northbrook.

After the Palapa B2 loss, insurers paid a claim for \$75.4 million, including \$5.8 million by Lexington, Talbot, Bird and Northbrook.

After paying the losses, several insurers mounted a campaign to launch the first-ever space salvage effort. The insurers paid \$10.5 million for the astronauts aboard the space shuttle Discovery to rescue the wayward satellites in November 1984. The insurers ultimately sold the probes to recover some of their losses.

Attorneys for the manufacturers in the Palapa B2 suit contend that although there are contractual differences in the Palapa B2 case, there is contractual language that would free them from liability.

Mr. Westerberg called Judge Seymour's decision in the Westar VI case, "an accurate statement of the law."

"It was a fair and obvious decision given the contract language," said Mr. Kaplan. "It was clearly in the interest of McDonnell Douglas and Western Union for all liability rights to be waived in the interests of the commercialization and exploration of space."

Congress mulls launch cover limits

By STACY SHAPIRO

WASHINGTON—A proposed amendment to the Commercial Space Launch Act outlining insurance requirements and limits of liability that would be imposed on commercial space launch vehicle users and manufacturers is expected to be introduced in Congress before Christmas.

The amendment, which may cap the liability for damages caused by expendable launch vehicles and satellites, is being drawn up by the House Space, Science and Applications Subcommittee.

Without the amendment, manufacturers of expendable launch vehicles and satellite owners can be held responsible for unlimited damages resulting from a launch.

Several manufacturers of expendable launch vehicles plan to offer commercial satellite launches from the John F. Kennedy Space Center in Cape Canaveral, Fla., beginning in 1989.

However, the manufacturers do not know what limit of liability will be imposed on them or satellite owners by the Department of Transportation and the Air Force, which oversee the commercial launch vehicle programs.

The proposed amendment is based on subcommittee hearings held in September when spokesmen from the launch industry, satellite industry and government testified on the adequacy of satellite insurance for commercial launches.

One manufacturer believes that the proposed amendment will follow the lead of NASA's requirement that the space shuttle have liability insurance limits of \$500 million.

Under the NASA requirement, NASA indemnified satellite owners and manufacturers for any claims above the \$500 million limit.

Other proposals have been made to the subcommittee over the years, according to Bernard Goudge, a consultant for Satellite Insurance Services in London and a former satellite underwriter for The Orion Insurance Co. P.L.C.

Speaking at the International Bar Assn. seminar on satellite insurance in September, Mr. Goudge said that one such plan backs "the use of taxpayer dollars as insurance of last resort."

He said that one manufacturer has recommended that "the United States government... consider the creation of a space insurance program as an integral part of the program to re-establish a United States expendable launch vehicle capability."

The new space insurer "would not require subsidy of commercial space insurance nor create a permanent government presence in the insurance business," he added.

Mr. Goudge, however, opposes this proposal,

saying it would hurt space insurers that would have little chance to recoup past losses.

Commercial satellite launches have been promoted by the U.S. government since the Department of Transportation was designated in 1983 to oversee commercial space launch activities.

In October 1984, the Commercial Space Launch Act gave the department statutory responsibility for establishing levels of insurance and limits of liability for commercial space launches, but no requirements have been set.

"We are in the process of putting together regulations for commercial space launches—including levels of insurance and liability for property damage," said Joe Musarra, counsel to the Office of Commercial Space Transportation at the Transportation Department.

So far, insurance requirements for satellite launches have been set on a case-by-case basis.

For example, two years ago, when General Dynamics Corp. wanted permission for a series of six launches, "we followed the established approach by NASA, (which required) that they get the maximum third-party liability insurance available at a reasonable rate."

However, unlike NASA, the Department of Transportation does not have the authority to indemnify manufacturers or satellite owners for claims above the level of insurance obtained.

Mr. Musarra says there are a "number of moves in Congress" to address the department's lack of authority to offer indemnification for launch losses exceeding available insurance.

The explosion of the space shuttle Challenger in January 1986 (*BI*, Feb. 3, 1986) was the "key event" in reviving interest in the viability of commercial space launches, he said. "Before that, it was impossible to compete with federally subsidized launch systems."

Following an investigation, it was decided that NASA and the space shuttle would only be used for future commercial launches that required space shuttle equipment. As a result, at least three space vehicle manufacturers plan to offer commercial launches by 1989.

The possibility of unlimited liability for losses if a launcher explodes is worrying some manufacturers of expendable launch vehicles.

For example, General Dynamics now is building a block of 18 Atlas Centaur rockets to offer commercial satellite launch flights by 1989, and has agreements with NASA and the U.S. Air Force to lease the facilities and equipment at Cape Canaveral for the launches.

Under these agreements, the Air Force and NASA are responsible for safety and can blow up the rocket if it causes danger. But General Dynamics is liable for property damage and

injuries to people.

"There is insurance for property and personnel damage covered by our corporation program," said Lee Scherer, director of business development for commercial launch services.

"The part that is concerning people is the third-party liability (for) damage to people and property that are no way involved in the launch, like when a rocket hits a ship passing by."

"The maximum insurance to be obtained is in the order of \$500 million," Mr. Scherer said. "We would like to see a cap so that the company's liability never exceeds insurance."

McDonnell Douglas Astronautics Co. of Huntington Beach, Calif., is completing agreements with the Air Force and NASA to launch its Thor Delta rockets commercially in 1989, said John Rich, McDonnell Douglas' deputy chief counsel.

The agreements will address the amount of insurance and liability required of all parties. "I would like to see the U.S. government assume the risk of loss and indemnify people," he said.

Martin Marietta Commercial Inc. of Denver, which will launch Titan rockets commercially in 1989, signed an agreement with the Air Force in August to reimburse the Air Force for all direct costs incurred in connection with launching the commercial Titan rocket, said a spokeswoman.

The agreement says that Martin Marietta will buy agreed-upon amounts of insurance to protect the Air Force for property damage or third-party liability. The Air Force will not indemnify the company for any losses above insurance.

Satellite insurance underwriters also are worried that manufacturers will be liable for millions of dollars in losses to government equipment and property and third-parties, said Jim Barrett, president of International Technology Underwriters Inc. of Washington at the IBA conference.

"There are billions of dollars of government property at the Cape and tens of millions of dollars of private companies' property at the Cape. Couple that with explosions of launch vehicles and satellites and \$200 million worth of spacecraft and unlimited amount of liability for property on the Cape and this is a serious problem."

"Couple that with a critical supply of (insurance) capacity and we have a serious problem on our hands," said Mr. Barrett.

Mr. Barrett has suggested that the government agencies adopt NASA's approach of requiring manufacturers to obtain the maximum amount of liability insurance available and name the U.S. government as an insured on the policy.

"In return, we would ask the government to indemnify losses in excess of the policy," said Mr. Barrett.

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Satellite insurance rates reflect successes, failures of launches

By STACY SHAPIRO

LONDON—The satellite insurance industry has had a rocky ride since the first insured commercial payload was lost in 1977.

Losses reached \$211.3 million by November 1982, when the first commercial satellite was launched by the U.S. space shuttle.

By 1982, underwriters' cumulative loss ratio was 120%, according to one of Europe's leading satellite insurers, Assicurazioni Generali S.p.A. in Trieste, Italy.

Among the largest losses were the nearly \$77 million RCA Corp. SATCOM III, which failed in 1981 after it achieved orbit aboard a Thor Delta rocket, and the \$70.3 million Indian government's INSAT telecommunications satellite lost in April 1982.

Satellite launch rates ranged from 6% of the satellite's insured value for non-shuttle flights to 8% for shuttle flights (BI, Oct. 5, 1982; Feb. 13, 1984; July 19, 1982; Nov. 16, 1981).

But satellite owners did not have difficulty finding capacity after another five out of six satellites insured for a total of \$334 million were successfully launched between year-end 1982 and year-end 1983. Capacity was about \$260 million per launch.

However, rates varied. Because two Ariane rockets failed without commercial payloads, the European Space Agency was charged what was considered an expensive rate for the 1983 launch of the first three of its satellites.

The European Space Agency paid a premium equal to 10% of the insured value of all three satellites in the series if there were no losses,

with the premium rising to 20% if there were one loss and to 25% if there were two losses.

In comparison, owners of two of three satellites on board a shuttle flight bought launch insurance costing from 5% to 7% of the satellites' insured value (BI, June 27, 1983).

By the beginning of 1984, underwriters' cumulative loss ratio was just over 90%, the lowest loss ratio between 1977 and Sept. 30 of this year, according to Generali.

In February 1984, underwriters expected satellite launch insurance rates to skyrocket following two losses totaling \$182 million. The \$107 million Westar VI and \$75 million Palapa B2 failed to reach geosynchronous orbits 22,300 miles above the Earth because of the malfunctions of the upper-stage rocket boosters (see related story, page 47).

In November 1984 the Westar VI and the Palapa B2 were recovered during another shuttle flight and returned to Earth, where underwriters eventually sold them for a total of \$40 million, according to Generali. Underwriters paid \$10.5 million to salvage the satellites (BI, Oct. 6, 1986; Sept. 22, 1986; Nov. 19, 1984).

Total satellite insurance claims from 1977 to February 1984 soared to just more than \$400 million; however, premium income reached just more than \$200 million (BI, Oct. 6, 1986; Nov. 19, 1984; Feb. 13, 1984), and underwriters' cumulative loss ratio hit 160%, according to Generali.

Four months later, in June 1984, the loss of a \$102 million Intelsat V communications satellite on board an Atlas Centaur rocket brought the claims total to more than \$500 million. Meanwhile, underwriters' cumulative loss ratio hit 180%.

Underwriters and brokers believed rates would "at least" double (BI, June 18, 1984).

Insurers that continued to write launch coverages charged between 15% and 20% of the satellite's insured value.

The huge losses forced several underwriters, including Orion Insurance Co. P.L.C., one of the leading satellite underwriters in London, to pull out of the line by July 1984 (BI, July 2, 1984).

In 1985, another five satellites were lost, costing insurers more than \$369 million, according to Generali.

These losses included Hughes Aircraft Co.'s \$85 million Leasat satellite, which was rendered useless after its rocket engine failed to fire following deployment from the space shuttle; another \$85 million Hughes satellite that failed after reaching geosynchronous orbit;

and two satellites totaling \$168 million that were to be launched by an Ariane rocket that was destroyed (BI, Sept. 22, 1985; Sept. 16, 1985; April 22, 1985).

Along with other small players in London pulling out of the satellite insurance market, leading U.S. satellite underwriter International Technology Underwriters Inc. restricted its coverage by no longer insuring the performance of a communications satellite prior to its successful positioning and operation in orbit.

Worldwide capacity eventually dropped to between \$60 million and \$75 million per launch from \$125 million to \$150 million for superior risks (BI, Dec. 16, 1985; Sept. 22, 1985).

To solve insurance capacity problems, European satellite launch agency Arianespace set up a captive insurer, Space Related Risks Reinsurance Co., to pay for the cost of a re-launch on board an Ariane rocket (BI, Dec. 16, 1985).

Satellite underwriters lost total confidence in satellite launches in mid-1986 when the two main commercial satellite programs shut down. The Arianespace commercial satellite launch program was shut down in May 1986 after an Ariane rocket malfunctioned with an \$82 million satellite on board.

The Ariane loss came four months after the Jan. 28, 1986, explosion of the space shuttle Challenger, which suspended the program for commercial payloads (BI, June 9, 1986; Jan. 26, 1986).

Following the May 1986 Ariane loss, total claims to underwriters since commercial launch insurance began in 1977 totaled \$991.2 million, producing a 148% loss ratio, according to Generali.

As a result, underwriters raised rates 25% to 30%, which became prohibitively expensive for satellite owners.

In addition, underwriters were only willing to offer insurance 90 days before a launch, which was too restrictive for satellite owners that need insurance to secure loans to build satellites as much as three years ahead of time.

The lack of capacity and the prohibitive cost for satellite launch insurance inspired launch agencies, satellite owners and manufacturers to find alternatives to the conventional insurance market.

Losses as of September this year have totaled \$991.5 million, while losses after recoveries by underwriters have hit \$938.5 million, according to Generali.

Meanwhile, gross premiums have totaled only \$790 million, and net premiums are only \$691 million altogether, producing a 135.9% loss ratio, according to Generali. ■

California hearings

Continued from page 6

Norris Clark responded that reinsurers seem anxious to collect premiums yet reluctant to leave part of the money in California to secure their obligations.

Mr. Dowd also warned against restrictions on LOCs that would limit reinsurers' flexibility to respond to reinsurance needs. With LOCs readily at hand, reinsurers are able to expediently complete reinsurance transactions, while other more complex financial arrangements would considerably delay the process, he said.

Jonathan Bank, an attorney with the Los Angeles law firm of Buchalter, Nemer, Fields & Younger, objected to mandatory prior and periodic inspection of cedents' underwriting and accounting records.

Many reinsurance contracts are not bound until well after the effective date of coverage, and that binding would be further delayed if the state mandated that ceding insurers' records had to be inspected, he said.

And, the additional costs associated with mandated auditing would be passed on to the consumer, he said.

On the matter of offset rights, Edmond F. Rondepierre, senior vp and general counsel of General Reinsurance Corp., noted that in addition to ceding insurers, the clause is important to regulators when they attempt to rehabilitate or liquidate an insurer because an insurance department may need to offset amounts due to the reinsurers. ■

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St. Paul bids for Minet

Continued from page 1

a cash payment of 275.5 million pounds (\$495 million). The offer "represents a premium of approximately 64% to the midmarket price of 289 pence (\$5.19) per share at the close of business on Dec. 9," said the Minet statement.

If Corroon & Black accepts the offer, the sale of the 23.3 million Minet shares it owns would generate nearly \$200 million for the broker.

The Minet Group, which includes London-based Lloyd's broker J.H. Minet & Co. Ltd. and U.S.-based Bowes Holdings Inc., employs more than 3,600 people worldwide with gross revenues in 1986 of 121.9 million pounds (\$180.8 million at year-end 1986 exchange rates).

Pretax profit last year was 36.2 million pounds (\$53.7 million).

St. Paul, based in St. Paul, Minn., is the parent company of St. Paul Fire & Marine Insurance Co., U.S. wholesale broker Swett & Crawford Group and U.S. reinsurance broker RFC Intermediaries.

St. Paul Cos. wrote almost \$2.6 billion in net property/casualty premiums in 1986 and reported \$3.2 billion in consolidated revenues for the year. Its combined ratio in 1986 was 110.5%.

St. Paul and Minet "have sought Lloyd's consent to the acquisition," said a Lloyd's spokesman, who pointed out that "the ownership of Lloyd's brokers is dealt with in the consultative document on the regulation of Lloyd's brokers issued (by Lloyd's) on Nov. 19."

The document "recommends that there should be no restriction on the type of business which may be connected with the shareholding of a Lloyd's broker," he said.

Several analysts observed that St. Paul's proposal is in keeping with its previously stated intention of expanding its brokerage operations.

"To St. Paul, the acquisition could be advantageous. It will give them a London presence and there are only so many London brokers left," said Ira H. Malis, a securities analyst for Alex Brown & Sons in Baltimore, Md.

"It will probably be a strategic move for St. Paul," he commented.

The short-term "effect will be somewhat dilutive to St. Paul shares," said Udayan D. Ghose, a securities analyst with Shearson Lehman Bros. in New York.

But, "in the long run, the acquisition will be good for St. Paul," Mr. Ghose predicted.

"It gets them into the international market and it gets them more into the brokerage business. About 25% of their revenues will be brokerage revenues, and the brokerage business is more stable and less capital intensive" than underwriting, he observed.

Also last week, New York-based Alleghany Corp. filed for approval in Minnesota to increase its holdings in St. Paul to 20% from its current 8.4%. Mr. Ghose said that for the insurer, "a lot depends on what happens on Dec. 17, when Minnesota decides whether or not Alleghany can buy 20% of St. Paul. If that happens, it will be very good for St. Paul stock" values, he said.

According to Mr. Ghose, Alleghany's intended purchase of St. Paul's stock "may have changed St. Paul's timing—may have moved it up a bit."

However, he also said: "I don't think this is a big change in St. Paul's strategy. They own several (small) insurance brokerages in this country and have indicated that they wanted to increase their brokerage presence."

While St. Paul can withdraw its bid if it cannot obtain 90% of Minet's outstanding shares, making the acquisition contingent on Corroon & Black's agreement to sell its holdings in Minet, securities analysts contacted by *BI* expect that Corroon & Black will agree to the offer.

There is some speculation among analysts that Corroon & Black might use its proceeds from the sale to take the brokerage private, because it already has approximately \$75 million in cash on its balance sheet, and it would gain \$200 million from the sale of Minet shares.

"If Corroon & Black wants to remain independent, they have to do something with that cash," Mr. Malis observed. "I

don't know who's left for them to buy in the brokerage field. They might buy an employee benefits firm... or they could go as far as to take the company private," he added.

"This makes them a very inviting acquisition candidate at the moment," said Michael A. Smith, a securities analyst for Shearson Lehman Bros. in New York.

Mr. Smith noted that Corroon & Black's executives "are very good managers of their own destiny. I think they have specific intentions for the \$200 million."

"I think we will see an acquisition made (by Corroon & Black) and additional shares repurchased. There's a good chance the actions will be one and the same," Mr. Smith predicted.

"There's a good chance (Corroon & Black) could take the company private," Mr. Ghose agreed.

"Corroon & Black has two members on the Minet board. If things have gotten to this stage, we have to assume they will accept the offer," Mr. Malis explained.

"We don't know that Corroon & Black will tender their stock, but I think they will tender," said Leonard M. Wilson, managing director of L.F. Rothschild, Unterberg & Towbin in New York.

"I would expect they would probably go for this offer. It would give them a substantial amount of cash," said John E. Keefe, vp-research for Drexel Burnham Lambert Inc. in New York. He added that market activity indicates that investors also expect Corroon & Black to accept the offer.

On the day of the announcement, Corroon & Black's stock went up nearly 3.5 points to \$27.75 per share from \$23.38 per

'To St. Paul, the acquisition could be advantageous. It will give them a London presence and there are only so many London brokers left,' says analyst Ira H. Malis with Alex Brown & Sons.

share, with more than 1.2 million shares traded.

Mr. Smith observed that one thing that has held the value of Corroon & Black stock down in recent months is concern by investors that the brokerage would buy Minet, a concern which he said increased when Corroon & Black purchased the additional shares in November.

"Their earnings from Minet, relative to its carrying value on their books, was very high," Mr. Smith said, pointing out that while the brokerage carried its 25% interest in Minet on Sept. 30 (prior to the additional stock purchase) at \$40 million, the market value of its stock at that time was about \$110 million. He explained that while Corroon & Black's after-tax earnings on Minet of \$6 million in 1986 looked good against the \$40 million on which it was carried on their books, "\$6 million on \$110 million is not nearly as nice a return."

In fact, Mr. Smith said that he feels Corroon & Black, "in its heart, truly would have rather purchased Minet" itself, but "the return on their incremental investment would only be about half of the broker's normal (investment) guidelines."

Meanwhile last week, Lloyd's Chairman Miller expressed concern over the foreign acquisition of Lloyd's brokers in a speech to the Assn. of Professional Insurance Women and the New York Chapter of Chartered Property & Casualty Underwriters in New York last Thursday.

"It seems to me that a lot of our insurance institutions in the U.K. certainly, and in the U.S. possibly, are open to foreign acquisition. I have some anxieties when I see the size of some of our foreign competitors and their ability to buy either a major U.K. or U.S. broking house. How far is it prudent to allow this to happen? At Lloyd's, we may take the view that there should be no let or hindrance upon the ownership by outside interests of firms of Lloyd's brokers. I cannot pretend that I see where this is leading us or that I do not have anxieties on the matter," he said.

Mr. Miller and Lloyd's Chairman-elect Murray Lawrence

were advised personally of the acquisition plan last week, Minet Chairman Pettitt told *Business Insurance*.

However, "if you look at the whole trend of Lloyd's brokers over the last 10 to 15 years, initially there was a great deal of feeling against U.S. brokers owning U.K. brokers, but I think everyone would agree today it's been a great success and that the major U.S. broker has played a responsible role in the Lloyd's market. Following that, you had an increasing number of insurance company investments," Mr. Pettitt said. However, "the real test is the fit and proper test, and I think everyone at the top of Lloyd's and in the American insurance industry and in London would agree that St. Paul's reputation is one of the highest in the business," he said.

The move by U.S. brokers to purchase Lloyd's brokers began in 1978 when Frank B. Hall & Co. Inc. obtained a 25% interest in Leslie & Godwin Ltd.

In 1980, Marsh & McLennan Inc. followed with the purchase of Lloyd's broker C.T. Bowring & Co. Ltd.

And, late last month, Chicago-based broker Rollins Burdick Hunter Co., a subsidiary of Chicago-based insurance holding company Aon Corp., announced that it would be a minority shareholder of a new Lloyd's broker that is being established by several former key executives of Lloyd's broker Stewart Wrightson Holdings P.L.C. (*BI*, Nov. 23).

While Aon President and Chief Executive Officer Patrick G. Ryan would not discuss the size of their interest in the brokerage, London sources speculated at the time of the announcement that RBH will own between 35% to 40% of the new broker.

Douglas Leatherdale, a St. Paul executive vp, told *Business Insurance* that he saw no conflict of interest in St. Paul's acquisition of Minet.

"We already have considerable experience in owning brokers," he said, pointing out that at least 85% of Swett & Crawford's business is placed outside of St. Paul.

"It's essential that the client's interests come first, and I think it is foolish to direct brokers where to place business," he said.

Minet's existing management, including Mr. Pettitt, "will be responsible for the day-to-day operations of Minet and will continue to pursue its existing business strategy for the group's broking operations. The businesses of Minet will remain intact following the acquisition by the St. Paul and their trading identities will be preserved," the statement said.

Mr. Pettitt said Minet "has built up a great relationship with St. Paul over the last five years, and St. Paul was extremely supportive to us during our PCW crisis."

Minet was one of the 37 organizations that contributed to the 103 million-pound (\$185 million) settlement Lloyd's offered members of non-marine syndicates formerly managed by PCW Underwriting Agencies Ltd. in April (*BI*, April 13).

Minet contributed 11.65 million pounds (\$18.4 million) toward the settlement (*BI*, June 29).

Since the PCW affair was resolved earlier this year, "it's become increasingly clear that we needed some resolution of our shareholding structure. To have two significant shareholders obviously provoked questions as to what the future of the company would be, and there has been considerable dialogue as to where we should go," Mr. Pettitt said.

"The offer represents an important step in The St. Paul's continuing strategy of becoming a major participant in all areas of the world property-liability insurance market," said a joint statement issued by both companies last Friday.

Last month St. Paul announced an offer for the St. Katherine Insurance Co. P.L.C., a small U.K.-based insurance company, valuing the company at about 11 million pounds (\$19.75 million). Minets has a 24.7% stake in St. Katherine (*BI*, Nov. 16).

"Through the St. Paul's large U.S. wholesale broker network and its international reinsurance broking interests, the St. Paul already has a significant presence in insurance broking. Minet will bring to the St. Paul a major international dimension and the enlarged insurance broking operations will form a strong base for further profitable expansion in the U.S. and other major insurance markets," said the joint statement. ■

Merrett expands

Continued from page 4

will be successful. But if we can't make it, the prospect for Lloyd's to expand its base is worrying," he said. "Other (syndicates) will be watching our experiment very closely," he added.

"Lloyd's is in a very difficult position because it can only obtain its business through Lloyd's brokers, who, in turn, can place their business anywhere," noted one underwriter.

Lloyd's underwriters will have to move closer to their markets and potential markets if it is to maintain its position, some argue.

Some even suggest that the Corporation of Lloyd's should open up underwriting rooms around the world.

While the Merrett and Haven syndicates are the only two Lloyd's syndicates attempting to attract high-volume, low-premium business, "several syndicates are proposing to seek similar dispensation," said Richard Tolliday, assistant underwriter for syndicate 40, which now writes all of its private U.K. yacht risks through Haven.

Like Merrett's MIS company, Haven also acts as a service company providing all the documentation and support operations for policies written by syndicate 40, a service that usually is provided by the Lloyd's bro-

kers themselves, Mr. Tolliday said.

"Anything that is going to bring more business into Lloyd's must be a good thing. Lloyd's has got to make certain it gets shown the good business. In various classes of business, it makes sense for Lloyd's to service policies rather than a Lloyd's broker," said one director of a managing agency.

Some Lloyd's brokers agree that the present system is cumbersome and needs changing, but they say they are not to blame for the problems.

"Lloyd's underwriters have got to wake up to the fact that Lloyd's brokers throughout this country are more than willing to use Lloyd's, providing that the cumbersome system through which we have to channel business can be overcome," said Simon Arnold, chairman of Lloyd's broker Bain Clarkson Ltd.

"There should be some system whereby the regional offices of Lloyd's brokers can have more direct access to underwriters. But I hasten to add that under no circumstance do I agree that Lloyd's underwriters should be dealing with anybody or any firm that is not a Lloyd's broker," he said.

Mr. Arnold, who was chairman of Lloyd's Insurance Brokers Committee until Febru-

ary, believes brokers and underwriters should discuss "how best to channel business into Lloyd's."

"It was a suggestion I made during my term of office at the LIBC, and I hope the LIBC takes the initiative in arranging a dialogue with underwriters to resolve the problem," he said.

Robert Keville, deputy chairman of the LIBC and a director of Willis Faber P.L.C., said that "anything that can be done to bring in new business should be welcomed."

However, "at the same time, it must be done within the framework of the regulatory process presently being finalized and follow accepted channels of business into Lloyd's," he noted, referring to the broker regulations currently being drawn up by Lloyd's (*BI*, Nov. 23).

Mr. Keville does not believe Merrett's move to capture the smaller risks that are the bread-and-butter business of the major insurance companies will be imitated by others at Lloyd's.

"Mr. Merrett is an individualist and inventive and seeks premiums others in the market don't necessarily want," he said, referring to Stephen Merrett, chairman of Merrett the agency. ■

Lloyd's does not need to move away from its traditional risk taking base, Mr. Keville asserted.

"Undoubtedly, as the insurance world expands, Lloyd's will become a smaller player in a bigger field, but it is still increasing its income," he said.

Other brokers contend that Lloyd's brokers are Lloyd's most effective sales force.

"Lloyd's brokers are the best sales force Lloyd's could have in the world, but Lloyd's underwriters have got to be more conscious of the costs of doing business at Lloyd's," said Dennis Mahoney, chairman of Alexander Howden Ltd.

It costs Lloyd's brokers more to place a risk at Lloyd's than with an insurance company, brokers argue. This is partly because each risk often has to be brokered to many syndicates.

"If Lloyd's is prepared to modernize its systems, as it has indicated, the process of placing business at Lloyd's will become more competitive and efficient," Mr. Mahoney predicted.

Indeed, Lloyd's Chairman-elect Murray Lawrence has said one of his priorities is to improve Lloyd's services and systems (*BI*, Dec. 7). ■

PSA coverage

Continued from page 1
and 38 passengers, including four executives of Chevron U.S.A. and a West German space scientist. Wreckage was scattered over 20 acres of ranch land about 175 miles northwest of Los Angeles.

The pilot radioed an emergency message that he had heard gunfire in the back of the plane and there was smoke in the cockpit. Flight recordings indicated that someone had entered the cockpit just before the crash, investigators said on Wednesday.

A recently terminated USAir customer service agent, David Burke, who was aboard the PSA flight, left a recorded suicide message saying he intended to board the plane with a .44-caliber Magnum pistol and kill his former supervisor, Ray F. Thompson, who also was on the flight, and himself. A threatening note to Mr. Thompson from Mr. Burke and a pistol were found at the crash site.

Mr. Burke may have avoided airport security checks by showing some form of airline identification, according to speculation, but USAir maintains that Mr. Burke's security pass was returned and destroyed when he was fired.

The Federal Aviation Adminis-

'At the end of the day, this may be in the hands of the lawyers,' a London underwriter said.

tration has issued a reminder to airlines to "re-emphasize and strengthen the rules already in place" that require airlines to confiscate ex-employees' ID cards and alert security when personnel are terminated, said an FAA spokesman in Washington.

One U.S. aviation broker said there already has been "a significant amount of discussion" among aviation brokers and underwriters over whether the crash would be covered under USAir's hull policy or hull war risk policy.

The "standard airline insurance policy on the hull side specifically excludes war. The liability policy also excludes war, but that coverage is traditionally written back into the liability coverage" by endorsement, he explained.

The hull war exclusion under the hull policy states, in part, that "any malicious act or act of sabotage is excluded," including "hi-

jacking, any unlawful seizure or wrongful exercise of control of the aircraft or crew in flight."

"If you take the war clause literally, it could be deemed to be a war loss," the broker said.

"There could be some dispute over coverage. My guess is that underwriters would take the approach that it is a war risk," another U.S. aviation broker said.

But a third U.S. aviation broker stressed: "This would not be a war risk loss, because that would require that it was a terrorist act."

The question of whether the hull insurer or hull war risk insurer would respond is "a tricky one," said a London aviation underwriter. "There could be negligence on the part of the airline for having an employee on board with a gun. At the end of the day, this may be in the hands of the lawyers."

A spokeswoman for USAir Group said the airline "can't answer that question now because the investigation is continuing. Until the cause of the crash has been determined by investigators, there will be no decision."

The recent rash of air crashes around the world (*BI*, Dec. 7; Nov. 23) may slow rampant competition in the aviation marketplace, one aviation broker said.

"Singularly, the number of losses of life and the values of the aircraft involved have not been large, but the accumulative effect is starting to build," said A. Kent Robinson, a senior vp of Johnson & Higgins in New York.

But he added that "market softening has been running rampant and has its own momentum now," which will be hard to slow down.

"We were riding pretty high on depressed rates. In 1986 and 1987, the aviation market was doing well, but the past few months have not been good," agreed Duncan MacGillivray, assistant vp-aviation for Corroon & Black Corp. in Pasadena, Calif.

He noted that since "a tremendous amount of capacity" still exists in the aviation market, "it will be interesting to see" how the recent crashes will affect rates.

But Gerald E. Frick, managing director of Marsh & McLennan Inc. in New York, said none of the recent U.S. crashes have involved large enough dollar losses to reduce rate competition.

"In terms of profitability in the aviation marketplace, this is not a major event," he stressed. "I would not imagine that, again, the loss would be large enough to have a serious effect on the market."

The Chevron executives killed in the crash were: James Sylla, president of Chevron U.S.A. and vp and board member of its parent, Chevron Corp. in San Francisco; Owen F. Murphy, regional vp and public affairs manager in Los Angeles; Jocelyn G. Kempe, Ventura and Santa Barbara public affairs manager in Ventura, Calif.; and Allen F. Swanson, Orange County and Arizona public affairs manager in La Habra, Calif.

Chevron U.S.A. employees are covered under a company-paid on-the-job accident plan that provides compensation of up to one year's pay for death or dismemberment and up to one year's pay for injuries or death occurring during business travel, a spokesman said.

Employees also are covered under a company-paid basic life insurance plan that provides compensation of twice annual earnings, with an optional, employee-paid supplemental life plan that offers an additional one to four multiples of annual pay.

Thus, survivors of the Chevron executives would receive a minimum of four multiples of annual pay, depending on whether they purchased optional coverage.

The insurer for all three of the Chevron plans is New York-based Metropolitan Life Insurance Co. ■

Update

Report downgrades dioxin risk

Continued from page 2

Dioxin has been linked to cancer in animals and is alleged to cause cancer and other diseases in humans.

Dioxin exposure has been the basis of several major lawsuits, including those brought by soldiers exposed to the defoliant Agent Orange while in Vietnam. That litigation with seven chemical companies was settled for \$180 million (*BI*, May 14, 1984).

In litigation over the spill of a Monsanto dioxin following a train derailment in Sturgeon, Mo., a jury recently ordered St. Louis-based Monsanto Co. to pay \$16.3 million in punitive damages and slightly more than \$29,000 in compensatory damages to 65 Sturgeon residents (*BI*, Oct. 26).

Comments on the current draft document will be incorporated into another draft document that will be the subject of public hearings, possibly in January, according to the EPA spokeswoman.

Window plan ruling stands

WASHINGTON—Voluntary early retirement plans do not violate the Age Discrimination in Employment Act, according to an appellate court ruling that the U.S. Supreme Court declined to review last week.

In *Henn vs. National Geographic*, the 7th U.S. Circuit Court of Appeals affirmed a finding by the U.S. District Court in Chicago that the offer of the early retirement plans did not constitute constructive discharge—when the severity of working conditions forces an employee to quit—and therefore did not violate ADEA (*BI*, June 29).

Four former National Geographic employees had claimed that their former employer pressured them to enter early retirement plans—or window plans—thereby constituting constructive discharge.

The appellate court stated that the factors determining a plan as voluntary do not include the time employees had to make their decisions, but rather whether employees were told what the consequences of their decision to accept or reject the plan would be, whether the plan was free of fraud or misconduct and whether employees could reject the offer.

Court OKs benefit disparity

NEW YORK—A state teachers' retirement board does not have to pay female retirees for past disparities in benefits payments, according to a federal appellate court ruling.

The 2nd U.S. Circuit Court of Appeals ruled last week in *Brown vs. New York State Teachers' Retirement System* that the retirement board does not have to pay two retired female teachers and one current female teacher the difference between benefits they received based on sex-distinct mortality tables and what they would have received if unisex tables had been used.

Prior to July 31, 1983, some benefits were based on sex-distinct mortality tables, resulting in a disparity of payment between men and women. Those benefits now are based on unisex tables.

The New York State Teachers' Retirement System has 179,000 members and pays monthly benefits to about 61,000 people. The system has \$16 billion in assets.

Panel OKs product liability bill

WASHINGTON—A compromise federal product liability reform bill establishing a strict liability standard for manufacturers has been approved by the House Commerce, Consumer Protection and Competitiveness Subcommittee.

Although many business groups strongly support the bill, H.R. 1115, they also complain that the legislation neither modifies nor eliminates joint and several liability and does not establish a cap on non-economic damages (*BI*, Nov. 30).

The subcommittee adopted one amendment to the bill that makes lawsuits against manufacturers of childhood vaccines subject to the National Childhood Vaccines Injuries Compensation Act of 1986, not H.R. 1115.

Design error made bridge fall

ALBANY, N.Y.—The collapse of a bridge on the Gov. Thomas E. Dewey Thruway in April was caused by design, construction, repair and maintenance errors, the state commission investigating the incident has concluded.

"An error in the original design of the pier foundations, which was made worse by an error in the design of a subsequent repair, made the bridge susceptible to a catastrophic failure," said a memorandum to Gov. Mario M. Cuomo by Dr. David Axelrod, chairman of the Disaster Preparedness Commission.

A 330-foot section of the bridge on the thruway, 40 miles northwest of Albany, buckled and collapsed into the rain-swollen Schoharie Creek, killing 10 motorists (*BI*, April 13).

The report did not attempt to determine who was at fault for the collapse, the commission spokesman said, noting that several lawsuits have been filed in connection with the collapse.

Briefly noted

Briarcliff Manor, N.Y.-based **Frank B. Hall & Co. Inc.** has set a record date for its proposed \$50 million convertible stock offering to common stockholders (*BI*, Aug. 24). Stockholders will be issued non-transferable subscription rights to purchase the new series of preferred stock based on the number of common shares they own at the close of business on Dec. 17. . . . A California court decision that said a homeowner's insurance does not cover damages caused by **earth movement** could apply to commercial structures as well. In *State Farm Fire & Casualty Co. vs. Cox*, the U.S. District Court denied coverage to a homeowner whose floors and walls were damaged by soil settlement.

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Long-term view important in valuing brokers' stocks

By LEONARD M. WILSON
Special to Business Insurance

THE STOCK MARKET at this writing has declined almost 40% from the peak attained in August. Notwithstanding their subpar performance before the general drop got under way, insurance brokerage stocks have not escaped the carnage. There is an old adage to the effect that the stock market never discounts the same thing twice. What are stock prices currently discounting?

First, there is concern over the possibility of a recession. The forecasting role of the stock market has triggered widespread anxieties over the economic outlook. Second, the maturity of the recovery and the weak dollar have fueled inflation expectations. Third, the twin deficits, trade and budget, seem to limit the freedom of the policy makers. None of this is calculated to calm edgy investors.



Mr. Wilson

What are the implications for the insurance brokers of an unsettled outlook? Over a long time period, insurance brokerage generally has proved itself immune to economic vagaries whether in the guise of recession, inflation or government ukase. But it is worth examining anew the potential impact of possible developments on the publicly owned insurance brokers.

The stock market decline has made brokerage stock appreciably cheaper in absolute and relative terms. Lower price earnings ratios for insurance brokerage stocks have become an objective reality. Price earnings ratios on probable 1987 earnings now run about 11 to 12 times, well below the appraisals before the sell off.

On a relative basis, perhaps a better yardstick of value, the insurance brokers carry price earnings ratios modestly below the ratios of the popular averages. In good times, insurance brokers have been valued at price earnings ratios 25% to 50% greater than the popular averages.

Leonard M. Wilson, a managing director at L.F. Rothschild & Co. Inc. in New York, specializes in insurance brokerage stocks. He is a member of the New York Society of Security Analysts.

Investors, it appears, are currently less enamored of insurance brokerage stocks than usual.

This is understandable in the context of an increasingly competitive pricing environment for commercial property and casualty insurance. But concern over a recession ought to have a beneficial impact on investor regard since commercial insurance is substantially insulated from the effects of a weaker economy. Data since the end of World War II clearly indicate continuing growth in insurance premiums even in recession years. The failure of insurance brokerage stocks to pick up support as a kind of anti-recession haven is perhaps an indication of the pervasive malaise toward all equities.

Many observers would like to find a reason for a quick end to price competition in commercial lines. No doubt the stock market decline has reduced insurance capital, and consequently raised hopes in that direction. But the behavior of brokerage stocks seems to belie the quick-fix thesis. Moreover, few major insurance companies seem perturbed at the impact of lower stock prices on surplus. It is not 1974 for underwriters. Hopes of firming insurance prices are not likely to find fulfillment in the gyrations of equities, at least not yet.

Higher retentions on the part of the primary insurers have sapped demand for reinsurance and hurt the progress of reinsurance brokerage. If insurance capital were to become tight, reinsurance might be an early beneficiary. For now, there is no sign that the stock market decline has altered any strategies with respect to the level of retentions.

If the stock market is really discounting a recession, only a hypothesis at this stage, then interest rates should decline at the first signs of reduced economic activity. Falling interest rates presumably would help stabilize insurance pricing. Here again, though, the outcome is clouded because rising bond prices are usually the forerunner to higher stock prices. A boost to insurance capital would neutralize a tendency toward firmer insurance markets. We do not, as a consequence, look to a recession to do much for insurance pricing.

One byproduct of a recession might be diminished inflationary tendencies. In a period when insurance brokers face the challenge of cost containment due to single-digit commission growth, an easing in cost pressures

would be a welcome development. But there is another side to the issue of inflation. Inflation, for example, could accelerate even in an economic slowdown because of the weakness in the dollar. Nonetheless, we think a recession might, on balance, prove modestly constructive for insurance brokers in the area of costs.

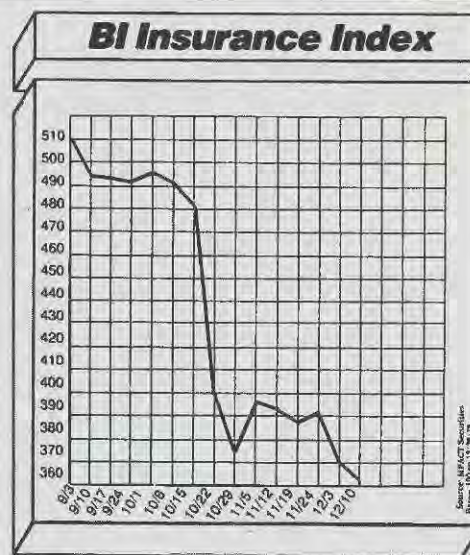
We already have indicated that aggregate insurance premiums seem to grow year in and out whatever the economic climate. At the same time, we are aware that fluctuations in inventories, employment and capital spending can diminish the demand for coverage. Possibly, the adverse effect of a cyclical downturn is spread over more than a single year, thereby smoothing the aggregate annual figures. Nonetheless, to the extent that it reduces insurance demand, a recession could prolong or deepen the soft market.

Thus far, we have dwelled on the negatives, conditioned by a fading stock market. But it is entirely within the realm of possibility that there will be no recession. A deceleration in economic growth, possibly, but no downturn. In that instance, interest rates might not budge much from the current level, still high by historical standards. This would not be particularly good news for pricing in commercial lines.

If fears over a recession abate, stock prices could regain their footing. The erosion of surplus correspondingly might be reversed, and any lingering hopes of firmer markets as a result of lower stock prices would be dispelled.

The economic portents are murky indeed, and the period of uncertainty may not recede for a while. But we conclude that the principal interim effect of the stock market sell-off may be a lower appraisal for the publicly owned insurance brokers. The insurance cycle is likely to run its course, largely undisturbed by volatile capital markets or the economy.

The publicly owned insurance brokers seem quite attractive from a longer term perspective. Yields are generous and dividends are likely to increase in 1988. Insurance brokerage remains an unusually attractive business, given long-term growth prospects and the ability to generate substantial excess cash flow. For the interim, the flight from equities probably precludes any surge of interest in an industry with waning earnings momentum despite a rationale on valuation basis.



The Business Insurance index of insurance industry stocks once again took a nose dive last week, closing at 361.8 on Dec. 10, down 7.38 points from the previous week, when the Business Insurance index tumbled to 369.2 from 391.1 on Nov. 24. Scor U.S. Corp. suffered the largest setback, falling 10.8%. Other stocks posting significant losses were: Frank B. Hall & Co. Inc., down 10.5%; Hanover Insurance Co., down 10.2%; Phoenix Re Corp., down 10.0%; Provident Life & Accident Insurance Co., down 7.8%; Zenith National Insurance Corp., down 7.7%; and Home Group Inc., down 7.7%. Belvedere Corp. led the gainers, posting a 12.5% increase last week. Other leading gainers were: Corroon & Black Corp., up 12.2%; Tokio Marine & Fire Insurance, up 8.5%; Berkley W.R. Corp., up 8.1%; SAFECO Corp., up 5.8%; Orion Capital Corp., up 4.2%; and ITT (Hartford Group), up 3.5%. The Business Insurance index trailed the major stock market indicators, falling an average of 2.0%. Meanwhile, the Dow Jones 30 Industrials average surged 4.4%, while the Standard & Poor's 500 grew by 3.7% and the New York Stock Exchange composite increased 3.2%.

British Issues

Dec. 10 Companies	Price	P/E	Div. %	Yield %	1 Week High-Low
Comm'l Union	317	12.2	17.8	5.6	325-308
Gen'l Accident	785	9.3	38.3	4.9	788-768
Gdn Royal Exch	780	10.5	46.6	6.0	783-750
Floyal	385	6.8	21.2	5.8	373-364
Sun Alliance	760	11.4	32.2	4.2	770-755

Brokers

CE Health	391	13.0	34.5	8.8	391-366
Hogg Robinson	114	7.6	9.6	8.4	114-108
JH Minet	465	17.2	12.9	2.8	465-288
Sedg Grp	193	12.1	16.4	8.5	194-188
Willis Faber	203	8.8	14.8	7.3	217-202

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

BI Industry Stock Report

DEC. 10, 1987 12/4 THRU 12/10

BROKERS

		Weekly Price	Weekly % change	Year to Date % change	Annual High	Annual Low	Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt/Bk. value
Alexander & Alexander Svcs	NYSE	17.00	0.0	-35.8	32.00	15.88	694	1.00	5.9	11.9	2.98	5.70
Baldwin & Lyons Inc.	OTC	12.00	0.0	-45.5	27.00	12.00	0	0.20	1.7	4.6	16.40	0.73
Corroon & Black Corp.	NYSE	27.50	12.2	-15.7	37.50	22.00	267	0.84	3.1	12.9	6.31	4.36
Gallagher Arthur J & Co.	OTC	16.00	0.0	-39.0	31.00	15.00	0	0.40	2.5	10.6	4.81	3.33
Hall Frank B. & Co.	NYSE	3.25	-10.5	-77.6	19.00	3.13	348	0.00	0.0	10.6	0.00	N/A
Marsh & McLennan Cos Inc.	NYSE	44.00	-6.9	-27.6	72.00	45.00	784	2.40	5.5	10.9	5.14	8.56
Poe & Assoc. Inc.	OTC	7.75	0.0	-35.4	13.25	7.75	0	0.40	5.2	7.5	0.57	13.60
BROKERS	AVERAGE		-0.7	-39.5					3.4	9.7		

CONGLOMERATES & HOLDING COMPANIES

Berkley W.R. Corp.	OTC	23.25	8.1	-11.4	37.00	18.75	563	0.28	1.2	5.8	13.72	1.69
Berkshire Hathaway Inc.	OTC	2800.00	-1.8	-0.7	-3792.00	2510.00	242	0.00	0.0	17.6	62.93	2.91
CIGNA Corp.	NYSE	42.75	-4.2	-22.3	69.50	42.13	1781	2.80	6.5	5.3	42.01	1.02
CNA Fin'l Corp.	NYSE	52.63	1.7	-2.1	66.50	47.00	249	0.00	0.0	9.4	42.71	1.23
General Re Corp.	NYSE	51.50	0.5	-7.2	68.88	46.00	1323	1.00	1.9	11.7	23.47	2.19
ITT (Hartford Group)	NYSE	44.00	3.5	-17.6	66.38	41.88	2178	1.25	2.8	8.6	44.08	1.00
Sears Roebuck & Co. (Allstate)	NYSE	31.13	2.9	-21.7	59.50	29.75	3601	2.00	6.4	7.2	32.94	0.95
Transamerica Corp.	NYSE	29.50	-1.7	-9.6	51.38	22.63	956	1.84	6.2	5.6	26.94	1.10
CONGLOMERATES	AVERAGE		1.1	-11.6					3.1	8.9		

INSURERS

Aetna Life & Cas Co.	NYSE	44.13	-0.6	-22.1	68.13	43.88	1352	2.76	6.3	6.0	44.75	0.99
American General Corp.	NYSE	28.38	0.5	-23.0	44.75	28.00	1099	1.25	4.4	7.5	27.13	1.05
Amer Heritage Life Inv't	NYSE	23.00	-2.1	-10.4	34.00	23.00	4	0.96	4.2	11.0	20.37	1.13
Amer Ind'y Fin'l Corp.	OTC	8.25	3.1	-54.2	19.00	7.75	101	0.56	6.8	11.0	20.40	0.40
American Intl Group	NYSE	55.50	0.0	-9.2	83.75	53.50	1674	0.30	0.5	10.3	29.02	1.91
Aneco Reins Ltd.	OTC	3.38	0.0	58.7	4.58	2.13	39	0.00	0.0	10.3	1.83	1.75
AON Corp.	NYSE	21.75	-6.5	-17.6	29.88	20.50	521	1.20	5.5	7.7	15.23	1.43
Argonaut Group	OTC	34.00	0.0	61.9	52.13	21.00	298	0.00	0.0	7.0	14.60	2.33
AVEMCO Corp.	NYSE	17.50	0.0	-33.3	25.25	13.25	68	0.28	1.6	10.4	6.94	2.52
Belvedere Corp.	AMEX	4.50	12.5	-47.9	9.13	4.00	15	0.04	0.9	56.3	6.71	0.67
Business Mens Assurn Co.	OTC	27.50	-7.6	-6.3	48.25	25.25	55	1.10	4.0	36.7	22.15	1.24
Chubb Corp.	NYSE	51.88	-6.5	-12.4	73.50	51.38	601	1.88	3.6	6.9	39.52	1.31
Continental Corp.	NYSE	37.50	-3.8	-16.2	54.88	30.50	750	2.60	6.9	7.0	41.62	0.90

		Weekly Price	Weekly % change	Year to Date % change	Annual High	Annual Low	Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt/Bk. value
Durham Corp.	OTC	21.00	0.0	-24.1	34.00	20.00	14	0.92	4.4	16.9	26.15	0.80
Farmers Group Inc.	OTC	40.00	-2.4	-3.2	51.25	37.75	895	1.20	3.0	11.7	19.95	2.01
Fireman's Fd Corp.	NYSE	24.50	-5.3	-30.3	42.75	24.13	619	0.40	1.6	45.4	23.55	1.04
Fremont Gen Corp.	OTC	10.50	-5.7	-34.9	20.50	7.88	137	0.60	5.7	45.4	16.75	0.63
Home Group Inc.	NYSE	10.50	-7.7	-50.0	24.88	10.50	516	0.20	1.9	1.7	16.30	0.64
Hanover Ins. Co.	OTC	23.00	-10.2	-30.7	37.25	23.25	83	0.36	1.6	4.7	21.16	1.04
Hartford Steam Boiler	OTC	20.75	-5.7	-12.0	36.63	20.25	123	1.00	4.8	8.2	10.17	2.04
Kans City Life Ins.	OTC	26.25	1.0	1.9	31.50	21.50	0	0.00	0.0	8.2	0.00	N/A
Kemper Corp.	OTC	38.75	19.25	115.9	60.00	30.00	6.1	6.1	23.48	0.85		
Liberty Corp. S. C.	NYSE	36.00	-1.4	-2.0	53.00	32.50	2	0.80	2.2	16.1	19.96	1.80
Lincoln Nat'l Corp.	NYSE	39.25	-4.0	-15.4	60.50	35.75	285	2.36	6.0	7.9	44.85	0.86
NAC Re Corp.	OTC	18.75	-2.6	-28.6	32.25	18.50	75	0.00	0.0	17.4	18.12	1.03
Nobel Ins Ltd.	OTC	7.88	-4.5	-51.5	18.50	7.88	115	0.40	5.1	37.5	9.37	0.84
Northwestern Nat'l Life	OTC	21.88	-0.5	-29.4	32.38	20.75	200	0.96	4.4	5.8	23.56	0.66
Ohio Cas Corp.	OTC	34.75	-4.8	-10.0	49.25	34.75	662	1.68	4.8	8.2	26.80	1.30
Old Rep Int'l Corp.	OTC	20.00	-1.2	-27.0	33.63	18.88	233	0.74	3.7	6.3	19.80	1.01
Orion Cap Corp.	NYSE	12.50	4.2	-53.9	31.00	11.00	93	0.76	6.1	6.3	9.39	1.33
Phoenix Re Corp.	OTC	6.75	-10.0	-48.1	14.63	5.00	127	0.00	0.0	4.7	9.43	0.72
Protective Corp.	OTC	11.75	-2.1	-34.7	21.25	11.38	168	0.70	6.0	11.1	16.51	0.71
Provident Life & Acc Ins Co.	OTC	14.75	-7.8	-40.1	28.75	14.25	505	0.84	5.7	36.9	27.00	0.55
St. Paul Cos. Inc.	OTC	44.50	-3.3	10.6	60.00	40.25	883	1.76	4.0	7.0	29.89	1.49
SAFECO Corp.	OTC	27.25	5.8	1.9	38.00	24.38	878	0.96	3.5	8.9	18.88	1.38
SCOR US Corp.	OTC	8.25	-10.8	-28.3	16.25	5.00	228	0.00	0.0	6.3	8.08	1.02
Seibels Bruce Group Inc.	OTC	11.00	-2.2	-25.4	19.00	9.75	167	0.80	7.3	6.5	11.88	0.93
Selective Ins Group Inc.	OTC	19.50	-2.5	-10.3	27.50	17.25	112	1.08	5.5	17.3	16.02	1.22
Statesman Group Inc.	OTC	3.94	-4.6	-17.1	7.06	3.38	30	0.05	1.3	17.3	5.19	0.76
Tokio Marine & Fire Ins	OTC	75.13	8.5	34.4	103.38	50.75	95	0.19	0.3	63.7	0.00	N/A
Torchmark Corp.	NYSE	23.13	2.8	-11.0	36.75	21.75	384	1.00	4.3	7.8	13.01	1.78
Travelers Corp.	NYSE	32.75	1.9	-26.6	52.63	30.75	1870	2.28	7.0	6.9	45.03	0.73
Trenwick Group Inc.	OTC	9.25	-1.4	-43.9	19.13	9.38	34	0.00	0.0	9.5	13.83	0.67
United Fire & Cas Co.	OTC	23.00	-2.1	-30.3	33.00	20.25	2	0.				



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