

# business insurance

DECEMBER 26, 1983

update

## Treasury says it won't issue benefit tax rules in 1984

WASHINGTON—The Treasury Department says it will not issue new regulations next year to clarify the tax status of benefits not covered by a specific section of the tax code.

Treasury Secretary Donald Regan said last week the department will not issue any regulations on non-statutory benefits, like free airline employee passes and employer-provided parking spaces prior to January 1985.

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Reporting weekly for corporate risk, employee benefit and financial executives/\$1.25 a copy; \$45 a year

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Great leaping lords!

Who would cover  
12 days of risks?

**'T** was the week before Christmas  
and all through the room  
Brokers were rushing amid the noisy gloom.  
And suddenly there arose such a clatter,  
"Who has the nerve to submit such a matter?"  
The young broker arose and said with a grin,  
"It's those bloody Yanks, they're at it again."  
"The lineslip is completed and nothing's amiss,  
"They want to insure the 12 days of Christmas."

Coverage details . . . Page 3

## AFIA takeover to pit CIGNA against AIG

By KATHRYN J. MCINTYRE

PHILADELPHIA—The trio of leading international property/casualty insurance networks available to U.S. multinational companies will dwindle to a duet next year if CIGNA Corp. buys AFIA Worldwide Insurance as planned.

But it could be a dueling duet as international insurance leader American International Group Inc. responds to the challenge from CIGNA International, which will be twice its current size.

The commercial insurance community was stunned last week as news leaked—and was finally confirmed—that CIGNA International had an agreement in principle to buy out the shareholders of AFIA for \$215 million in cash by Jan. 31.

With CIGNA's own subsidiary Aetna Insurance Co. entitled to 10.4% of the proceeds, or \$22.4 million, the net cost to CIGNA of acquiring AFIA is \$192.6 million—before other transaction costs.

CIGNA also has said that its 1984 earnings could be depressed 10 cents to 15 cents a share in 1984.

Although other insurers have sold their holdings in AFIA since it was founded in 1918, the current ownership had appeared stable—until CIGNA made its offer about four weeks ago.

"The news hit us like a ton of bricks. It's very surprising," said Ken Seward, a senior vp and director of broker Johnson & Higgins in New York.

"We were taken aback by it, to say the least," commented William R. Dolan, president and chief executive officer of Frank B. Hall & Co. Overseas Inc. in New York.

CIGNA's intentions to expand internationally have been well-known. Already this year it has acquired Crusader Insurance P.L.C. in London and Kemper Group's Brazilian operations.

The acquisition of AFIA will "significantly enhance our capabilities and it's a good investment," said David W. Schrempf, president of CIGNA International, who confirmed that he will be the president of the new combined operations.

AFIA President Paul Butler, who declined to comment on the sale until after he had met with CIGNA officials, is expected to remain with the company.

The combination of AFIA and CIGNA International brings together the second- and third-largest of the international insurance networks and will butt CIGNA International head-to-head with international leader AIG for insuring multinationals' risks abroad through locally licensed companies and global insurance programs.

Under a global insurance program, one master insurance policy covers a company's worldwide property and casualty insurance needs.

The combination of CIGNA International and AFIA is important not only because it alters competition for multinational accounts but also because it suggests that the

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## Only 21% of benefit managers have computers

By RHONDA L. RUNDLE

LOS ANGELES—If merry old St. Nick reins in at offices this season, many benefit managers will tell him that computer terminals top their yuletide wish lists.

Increasingly, benefit managers are viewing computers not as toys, but as powerful tools that can help them monitor, control and contain health care and other benefit costs for their companies.

This attitude appears to have crystallized into decisions to buy at many companies this year. Of 119 benefit managers who responded to a recent *Business Insurance* survey, 25 have claims information terminals in their offices. Fifteen of these were installed during 1983.

Eighteen benefit managers say they expect to have computer terminals by the end of 1984. Seven others are planning systems during 1985.

If all of these plans are carried out, 50 of the survey respondents—or 42%—will have

computer terminals for claims information in their offices by the end of 1985, compared with only 21% today.

Even so, the switch to computers in benefits department appears to be lagging at least a year behind automation in risk management departments, based on a comparison of results from this survey and another one conducted in the fall among risk managers (*BI*, Nov. 21).

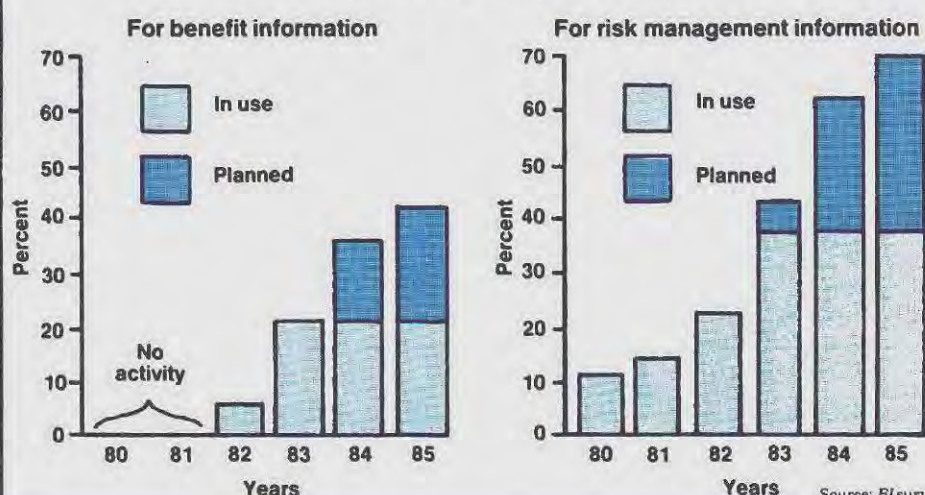
While 21% of the surveyed benefit managers have terminals today, that many of the surveyed risk managers had them in 1982, according to the earlier survey.

Furthermore, thirty-eight percent of the risk managers already had computers when they were surveyed and almost 70% of the 52 risk managers who participated in the fall survey expect to have computer terminals in their offices by year-end 1985 (see accompanying chart).

The first computer terminal appeared in the offices of both benefits and risk manage-

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### Growing use of computer terminals



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## update

## Benefit tax rules not expected

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Benefit experts had feared that the Treasury Department might issue new regulations to tax non-statutory benefits immediately after a Dec. 31 moratorium barring the issuance of such regulations expires.

Mr. Regan said the Treasury Department's decision not to issue any new regulations will reduce uncertainty caused by the expiring moratorium and will give Congress time to develop a legislative alternative to regulations.

In fact, the House Ways and Means Committee has passed legislation, H.R. 4170, that would set permanent rules on taxing non-statutory benefits. The legislation also would bar cafeteria benefit plans from offering taxable benefits, except group term life insurance and vacations, to employees (BI, Oct 10).

The Treasury Department said it expects Congress to enact benefit tax legislation early next year.

## No indictments in Hyatt collapse

KANSAS CITY, Mo.—A joint federal-state criminal investigation of the 1981 skywalk collapse at the Kansas City Hyatt Regency Hotel yields no indictments and no evidence that contractors knew a design change had fatally flawed key support mechanisms, two prosecutors say.

The determination by the two prosecutors apparently clears hotel operator Hyatt Corp. and owner Hallmark Cards Inc. of any serious threat of punitive damages in remaining civil litigation.

"The investigation did not reveal evidence that anyone had knowledge of the facts causing the skywalks to collapse at any time prior to July 17, 1981," said the statement issued jointly by U.S. Attorney Robert Ulrich and Jackson County Prosecuting Attorney Albert Riederer.

The two prosecutors said they had reviewed more than 15,000 documents and 11,000 pages of written testimony and presented witnesses before a grand jury in their probe of the disaster that killed 117 people and injured at least 200 others in the nation's worst structural building collapse.

They noted that legal requirements to prove criminal charges like manslaughter, perjury or conspiracy require proof "beyond a reasonable doubt" and that such a standard was higher than the requirement for finding tort liability in civil litigation.

## Insurer collects from Dover

NEW YORK—At least one creditor is getting claims paid from the defunct Dover Insurance Co. of Bermuda without going through court-appointed liquidators.

Dover, which underwrote medical malpractice insurance for podiatrists in New York as well as various kinds of reinsurance, was ordered into liquidation first by the New York Insurance Department and later by Bermuda regulators (BI, March 21). As part of its order, New York authorities attached a \$1.6 million trust fund at a local bank as the insurer's main local asset.

However, one reinsurance creditor, Bankers & Shippers Insurance Co. of New York, a specialty insurer based in Burlington, N.C., will receive payment from another New York trust fund that was not counted among Dover's earlier assets.

According to a recently won order from the Supreme Court of New York County, Bankers & Shippers will receive \$147,489 in claims filed late in 1982 from trust funds of more than \$400,000 placed on deposit in Republic National Bank of New York.

The trust fund, the order says, was established by Dover and funded both by reinsurance premiums from Bankers & Shippers and contributions from Dover to secure claims payment under reinsurance agreements in effect between Bankers & Shippers and Dover from 1976 to 1982.

The order excludes and exempts these funds from attachment by New York liquidators, which supported the ruling, and Bermuda liquidators, which believe that Bankers & Shippers' claims should be submitted in Bermuda.

## Travelers covers fire loss

SAN FRANCISCO—Travelers Insurance Co. supplied both primary property and liability coverage for the Cathedral Hill Hotel, where a Dec. 18 fire killed two people and injured 50 others.

A spokesman for Travelers would not reveal either the property or liability coverage limits, adding that he did not know if other insurers were also on the risk.

A spokesman for General Adjustment Bureau Business Services Inc. in San Francisco, which is adjusting the property loss, could not estimate the fire damage but said that it was greater than the \$2.5 million initially predicted.

The building is owned and operated by Sammons Enterprises Inc., a Dallas-based holding company. Sammons officials refused to comment on the fire.

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Photo: Wide World

The bomb blast, the work of the Irish Republican Army, ripped the awnings off Harrods' windows.

## Harrods covered for losses caused by terrorist bombing

By STACY SHAPIRO

LONDON—Harrods' parent company and its insurers will pay about \$3 million to repair damage to the famed London department store after a terrorist bomb exploded just outside the building on a busy Christmas shopping day.

"My guess is that the repairs to the building will be about 1 million pounds (\$1.5 million)," said Peter Winstone, managing director of insurance services for The

House of Fraser Ltd., Harrods' parent. "And 2 million pounds overall (about \$3 million) will probably cover the whole damage and business interruption costs."

"The windows alone will be expensive to replace," he explained. "They are fancy things made with mahogany. And then there is the terra cotta on the top of the building. We don't know how badly that is damaged, but that is very expensive to replace."

Harrods' property insurance, led by Legal & General Group P.L.C., will cover the damage to the building, valued at \$450 million, and any lost stock, he said. And a business interruption policy, led by Eagle Star Insurance Co. Ltd., will reimburse Harrods for sales lost after the store was forced to close after the bomb exploded on a Saturday afternoon. Most of the store was reopened the following Monday, Dec. 19.

Mr. Winstone would not divulge the limits of the policies or the deductibles.

Both policies include endorsements that cover losses from explosions and losses from malicious damage.

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## To our readers

During the past week, an insurance organization mailed an issue of a publication that resembles *Business Insurance* in its format, typography and logo. This was done without the knowledge or consent of the publishers of *BI* who in no way approve or endorse any of the statements made in the editorial or parodied advertisements.

## Robins to appeal Dalkon award

By BILL DENSMORE

MIAMI—A.H. Robins Co. Inc. says it will appeal a \$4.9 million jury verdict in a Dalkon Shield product liability suit, the largest award so far in a case not involving a lost fetus.

After a seven-day trial, a Dade County Circuit Court jury ordered the former maker of the intrauterine birth control device to pay \$500,000 in compensatory and \$4.4 million in punitive damages.

The plaintiff, 31-year-old Laureen Ford of Miami, had her ovaries surgically removed in 1981 after her doctor diagnosed an infected, grapefruit-sized tubo-ovarian abscess allegedly caused by the IUD, says her lawyer, Sidney L. Gorman of the Tallahassee, Fla., firm of Gorman & Matthew, P.A.

A Robins attorney termed the verdict a "runaway" judgment and said the company would appeal. He noted that Ms. Ford had suffered from benign fibroids

in her uterus since 1974 and had been scheduled for an hysterectomy prior to discovery of the abscess. Her IUD was inserted in 1971 and removed in May 1981, he said.

Fewer than 10% of pending Dalkon Shield court cases involve plaintiffs who allege the Dalkon Shield rendered them unable to bear children, the Robins lawyer added.

Robins withdrew the Dalkon Shield from the market in 1974 after medical reports alleged a relationship between it and uterine perforation, pelvic infections, spontaneous abortions and fetal injuries. In late 1980, it advised physicians to remove the IUD if such action was warranted in their best medical judgment.

As of Sept. 30, Robins says 6,200 claims have been settled nationwide for \$164 million—an average of \$26,452 per claim—with more than 3,800 pending.

The largest judgment so far is a \$6.8 million verdict

Continued on page 24

## \$56.1 million termination claim may be largest in PBGC history

By JERRY GEISEL

WASHINGTON—The financial troubles of a Pittsburgh machinery manufacturing company may lead to the largest pension termination claim on record.

Mesta Machine Co., which filed for protection from its creditors under Chapter 11 of the Federal Bankruptcy Act in February, has notified the Pension Benefit Guaranty Corp. that it wants to terminate two

defined benefit plans covering hourly and salaried employees.

Mesta's Dec. 13 notice of its intent to terminate the plans came just one day after the PBGC submitted papers in federal court to take over Mesta's 19-year-old pension plans.

According to initial estimates by PBGC attorneys, Mesta's pension plan for salaried employees—which has 726 participants, including 449 retirees—is short \$11.2 million needed to pay guaranteed benefits to participants.

The hourly plan is even deeper in the red, according to the PBGC. That plan—which has 1,804 participants, including 1,575 retirees—lacks assets to pay \$44.9 million in guaranteed benefits to participants.

If these tentative estimates prove accurate, the termination of the two plans together would result in a claim of \$56.1 million, the largest in the PBGC's nine-year history.

So far, the largest estimated loss resulted from the 1982 termination of pension plans sponsored by White Farm Equipment Co., which was booked at \$50.3 mil-

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## Claims specialists' directory

*Business Insurance* will publish its annual directory of property/casualty and benefit claims specialists in the Jan. 30 issue. We must have your completed questionnaire by Jan. 6 to include your company in this valuable directory.

If you have not received a questionnaire, please contact Diane Kastiel at *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611; 312-649-5398.



# Risky The Twelve Days Of Christmas

By KATHRYN J. MCINTYRE

**F**OR THE RIGHT PREMIUM and under the right conditions, underwriters at Lloyd's of London could be convinced to issue a worldwide comprehensive insurance policy covering all the risks associated with sending one's true love all the presents prescribed by the carol "The Twelve Days of Christmas."

The right premium for such a slew of gifts—which in this case were valued at \$2 million—would be gold, frankincense and myrrh—would value 50 pounds (\$75) in each commodity.

One of the right conditions would be that the policy would not attach without a personal appearance of St. Nicholas and his reindeer at the main entrance of Lloyd's prior to the

inception date on the first day of Christmas.

For that price and under those dear conditions, however, the underwriters would be assuming substantial risk, including the payment of liability claims up to \$20 million.

Most people have given up the thought of sending their true loves gifts for each of the 12 days of Christmas as listed in the carol. But, broker Arthur J. Gallagher & Co. in Rolling Meadows, Ill., was intrigued with a request to search the market on behalf of a wealthy bachelor living on the Gold Coast of Chicago who had budgeted \$2 million to buy livestock and golden rings and to hire creamery workers, dancers, stunt men and musicians all in an effort to outdo all other suitors for his love's eternal affection and gratitude.

J. Patrick Gallagher immediately recog-

*Continued on next page*



# A risk written in the spirit of Christmas

Continued from previous page  
nized that the property values alone demanded insurance against physical loss or damage, and not just for the golden rings.

Think of the 11 bagpipes and the 12 drums, not to mention the livestock consisting of a partridge, two turtledoves, three French hens, four calling birds, six geese, seven

swans and eight cows, he observed.

It was clear fertility coverage was needed for the geese laying eggs.

And, the potential liability appeared awesome.

What if the 11 pipers piping frightened the eight cows being milked by eight maids into a stampede? What if a lord leapt through

a plate glass window of the house next door?

What about pollution liability—both sudden and non-sudden?

Worse still is the prospect of a strike by the eight creamery workers. Who would milk the cows? The nine dancers, 10 stunt men or 23 musicians could go on strike, too, disappointing the young lady on

days nine through 12.

And, what kind of gift would it be if on only the third day the romantic chain of goods were broken because the three French hens were confiscated by customs authorities?

Or, what if the lady, unimpressed with this showering of gifts, were to spurn this generous young man and run off with someone else on the 13th day of Christmas?

Or, what if she hates livestock and music and refused to accept any more gifts after the five rings?

Mr. Gallagher invited respected colleagues at the Gallagher company—Robert E. Gallagher Jr., Gerry Caffrey and James T. Keough—to explore all the insurance needs at a meeting, which was attended by the editor of *Business Insurance* for a first-hand look at developing an insurance program for an unusual risk.

It was a grueling session of imagining the worst possible.

There could be crop failure and no pear tree. Riot and civil commotion could break out at the sight of all these animals, stunt men, musicians and dancers arriving on the scene.

What if instead of the performers going on strike, all transportation systems in Chicago went on strike and the presents could not be delivered? Or more likely still, what if the city were paralyzed by a classic Chicago blizzard?

The only proper coverage for all these risks was clearly one manuscript policy form utilizing a combined, specific and aggregate underwriting approach.

Liability coverage of \$20 million seemed adequate, in addition to \$2 million for physical damage. Mr. Gallagher suggested a specific per-occurrence retention of \$100,000 resulting from any combination of loss and a \$300,000 aggregate retention resulting from all specific losses.

This was clearly not the kind of risk normally brokered by Gallagher's London-based affiliate, Gallagher, Hinton & Vereker Ltd., but it was worth telexing them for a quote, the Gallagher brokers decided.

The telex requested the following:

- Property coverage including but not limited to livestock (mortality and disease), growing vegetation, jewelry and musical instruments. Coverage to include transportation exposures—ocean cargo as well as inland transportation.

- Liability for bodily injury or property damage arising out of but not limited to stampede, disease, pollution (including non-sudden and accidental), personal injury (including defamation of character or false arrest, mental anguish etc.)

- Workers compensation coverage for the 12 days. Exposures will be included in the SIRs and will include but not be limited to the following: milkmaids—eight, rated as creamery employees 2070; dancers—nine, rated as theatres NOC9156; musicians—23: 11 light (pipers) and 12 heavy (drummers), rated as theatre NOC9156; lords leaping—10, rated as executives NOC. Coverage to include statutory benefits, USL&H, Jones Act and Defense Bases Act, etc.

- Non-appearance or failure to perform resulting from but not limited to: enforcement of local ordinance; disturbing the peace; mechanical failure or breakdown; strike; illness; weather conditions; infestation, spoilage or contamination for whatever reason; absence of fertility (six geese), etc.

- Fidelity coverage to include affection guarantee and consent to accept planned shipments.

- Miscellaneous items, which must be included in overall cover-

age are travel accident for lords, etc.; AD&D including milkmaids, lords and drummers; health including blistering of lips or feet.

Of course, Gallagher Bassett Insurance Service was warranted as claims administrator and loss prevention consultant.

The staff at Gallagher, Hinton & Vereker Ltd., accustomed to unusual requests from Gallagher, nevertheless in this case wrote up a slip.

The slip requested coverage as designed by Gallagher, with a few additions: auto (sleigh) physical damage, hosts liquor law liability, employee benefits liability, sleigh ride liability and employee fidelity, including faithful performance.

Considering it to be such an important matter, Managing Director David Vereker personally brokered the risk.

Ralph Rokeby-Johnson at Sturge Syndicate agreed to lead the risk with 20%.

Following Sturge's stamp, Nick Pritchard of K.F. Alder Syndicate took 17.5%. C.E. Heath, represented by David Braham, took 15%.

G.N. Rouse Syndicate was committed to 5% by Mike Cockell. George Miller took 5% for his syndicate. Representing the Beckett syndicate for 5% was Mike Jackson. R.J. Kiln took 5% for his syndicate, and Colin Murray took 5% for C.K. Murray.

Peter Lowsley-Williams took 15% for Peter Green's syndicate. Stephen Merrett took 15% for Merrett Syndicate 418 and Robin Jackson took half a percentage point more than his chairman, taking 15.5% for Merrett Syndicate 799. Harvey Bowring took 15% for Bowrings.

The risk was oversubscribed at 127.5%.

The slip called for the manuscript wording to be agreed and the policy period as The Twelve Days of Christmas, commencing 12:01 a.m. 26 December 1983 to 12:01 a.m. 7 January 1984.

At risk for the donor was listed: All real and personal property and other perils as more fully defined in the policy wording, including but not limited to:

- 12 drummers drumming.
- 11 pipers piping.
- 10 lords a-leaping.
- Nine ladies dancing.
- Eight maids a-milking.
- Seven swans a-swimming.
- Six geese a-laying.
- Five golden rings.
- Four calling birds.
- Three French hens.
- Two turtle-doves.
- And a partridge in a pear tree.

The requested limits were listed on a worldwide basis.

The conditions listed included: Loss prevention, claims administration and servicing by Gallagher Bassett. Retroactive date inception in respect of fidelity. Institute cargo clauses. No cancellation clause. Santa Claus. Policy extended to cover loss by predator.

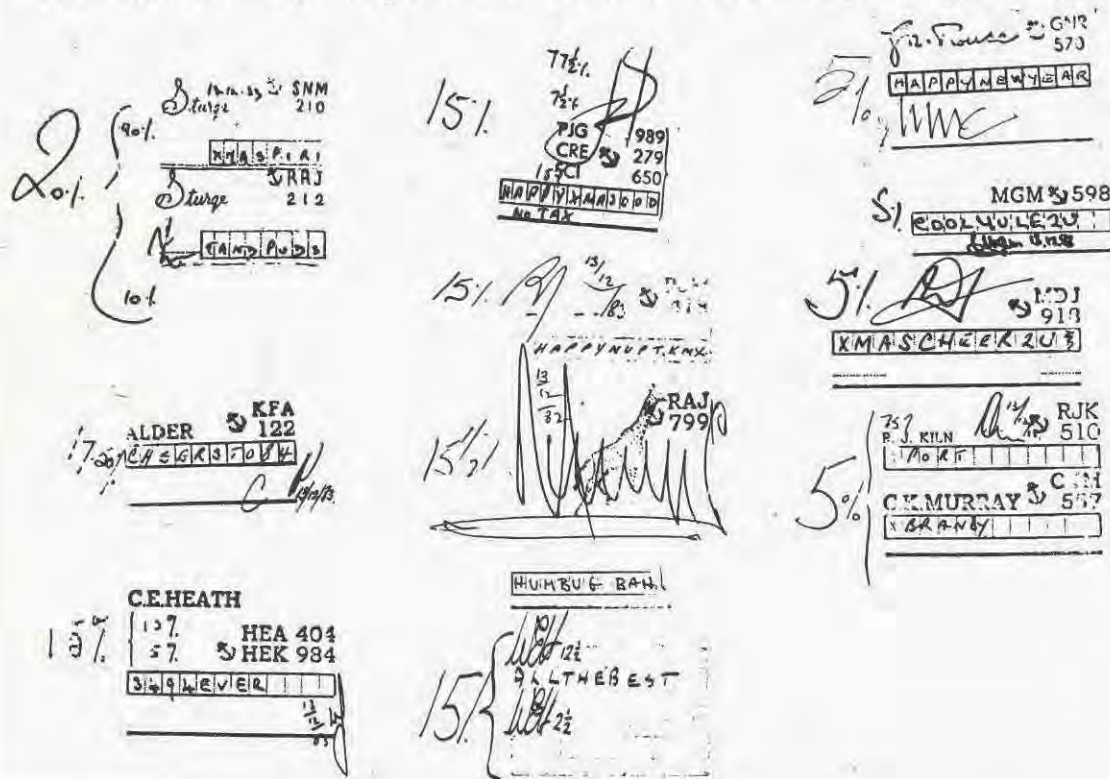
The underwriters also requested that the policyholder warrant that the lords, ladies, drummers and pipers are of sound mind and limb and that the geese and French hens are, of course, fertile at policy inception.

For all this work, the underwriters at Lloyd's agreed to pay a brokerage of Christmas Spirit—to be shared by Gallagher, Hinton & Vereker and Arthur J. Gallagher.

Now, if the lady can just get an endorsement to her homeowners policy.

*If we shadows have offended,  
Think but this, and all is mended—  
That you have but slumb'ered here  
While these visions did appear.  
And this weak and idle theme,  
No more yielding but a dream...*  
—A Midsummer Night's Dream

## The slip as stamped by the underwriters and their special greetings

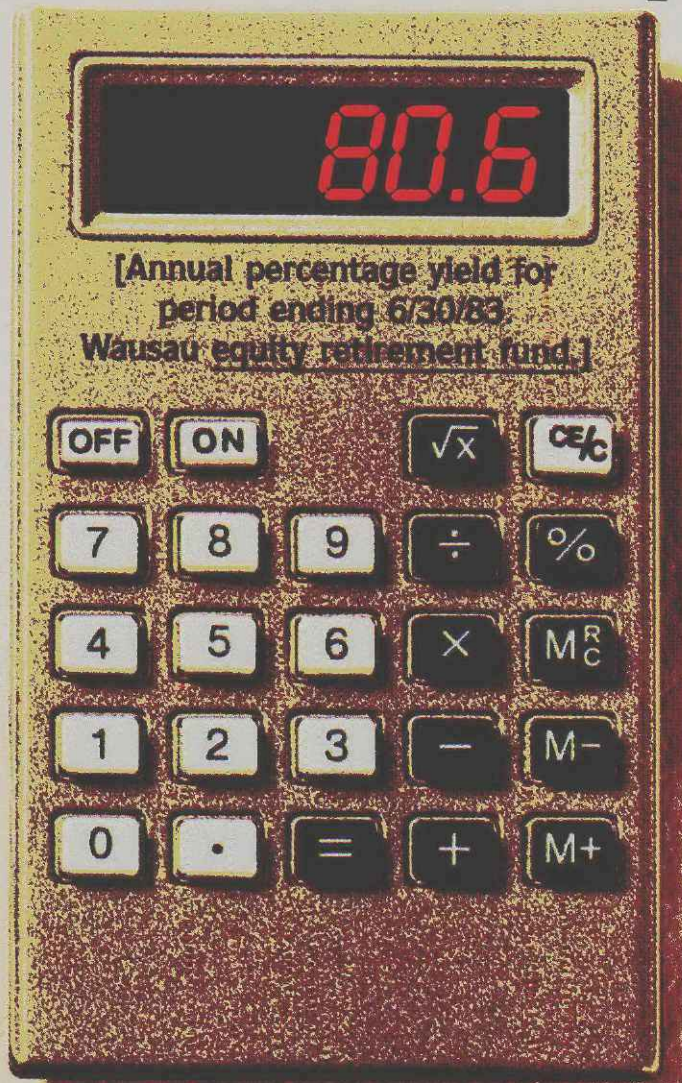


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# We've done a number on retirement fund performance.



Wausau — 80.6%! For the same period, Standard and Poors 500 has a number, too — 61.4%. And for the past *five* years, our average annual yield was 30.6% compared to the S&P 500 average of 18.1%. So, you can see, Wausau's results are worth knowing about.

Besides our equity fund, the Wausau guaranteed retirement fund was guaranteeing an 11% yield as of January, 1983. And our short term money market retirement fund achieved a yield of 8.36% during the first six months of this year.

Our retirement plans are especially designed to help firms with from two to 200 employ-

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If you have *any* responsibility for your company's retirement fund, we can do a number for you that can help make your fund's performance look good.

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## WAUSAU WORKS.™

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## opinions

# Put this at top of your list

**R**ISK MANAGERS, even if you don't believe in making New Year's resolutions, we think you should follow through on one thing in 1984.

Put your 1983 risk management department annual report on your chief financial officer's desk as soon as possible in the new year.

Let top management clearly understand what your department accomplished in 1983 and clearly spell out what you plan to accomplish in 1984.

A risk management annual report not only will let management know that you and your staff are full of ideas and plans for the new year and that your department is one to pay attention to in '84, but it also is a great exercise to force you to evaluate what you did in 1983 and to map out for yourself and your department what your priorities will be.

And, if you submitted an annual report last year, both you and top management can compare the accomplishments in this year's report with the goals in last year's to see how many objectives were met. Assuming you were on target, what better way to show your effectiveness?

While the best reason to file an annual report may be for the attention you can draw to your department and the vital role you want management to see it playing, the report also should provide some basic information management can use. It can't just be for image value.

It should open with a definition of risk management. An annual report also should include a description of the functions of the risk management department and an organizational chart that spells out lines of authority and responsibilities.

The report should explain how your department works and how much it is costing the company—or making for the company—in insurance costs and self-insured loss costs.

Claims experience should be detailed by year and line of coverage, showing changes from previous years. Losses by subsidiary by line of coverage also should be reported for quick and easy comparison. The subsidiary that hasn't implemented safety programs successfully will be obvious to all, and hopefully induce the management of that subsidiary to change the experience for 1984.

Itemize major losses, detailing cause, insurance recovery, uninsured loss costs and what loss prevention and control measures have been implemented.

In addition to listing insurance purchased, and how much it costs, list clearly what is uninsured, too. If you use a captive insurance company, its annual financial statements should be included—but don't hold up the annual report for audited financials.

Don't make this a one-man or one-woman project. Solicit input from everyone in your department, and give everyone specific assignments.

But, make sure when the report is finalized that it is written in management's language and organized in such a way that the most vital information leaps out. Don't make management search for what it needs.

Make it a report that is easy for management to get through, but informative enough that it can be used as a reference guide throughout the year.

And, don't be afraid to use some graphics to deliver pertinent information, but make sure the graphics are professionally executed.

And design the graphics and packaging of the report to fit your company's culture so your management recognizes the report as from one of its departments.

Depending on your company, you may want to circulate the report—or an abbreviated version of it—to operating units. What better way to remind them that you are there and ready to help?

## letters

# A look at a safer alternative for airlines

To the editor: The following letter was sent to the Federal Aviation Administration on Nov. 16. It is reprinted here.

The Federal Aviation Administration has seen fit to devote a large amount of research to protecting polyurethane foam cushioning from igniting. Apparently, there has been little or no research devoted to reducing or replacing the urethane foam.

I cannot fault the FAA for this, because there is an appalling amount of ignorance—even among designers—about the use of sinuous springs to achieve comfortable thin-line seating.

Most travelers will tell you that airplane seats are not only uncomfortable, but painful after a time. And the interior maintenance department of any airline will confirm that foam cushions soften rapidly in use.

The extent to which polyurethane foam has become part of the perceived norm in seating is quite astounding. Polyurethane cushions have been in existence for only about 40 years. Springs in furniture have been extant three times as long.

Sinuous springs are non-flammable, resilient, require no vertical space and are much longer lasting than polyurethane foam. In the right combination, they can weigh less and be much more comfortable and safe than polyurethane foam. They belong in aircraft.

We presume that your proposed performance standards for seat cushion assemblies will, among other characteristics, take into account the quantity of flammable material at risk. Smoke production also seems important since any cushion near the source of a fire will contribute to the "hot smoke layer in the upper part of the

cabin" that seems to cause flashover.

With the use of sinuous springs to accommodate the steep, bony topography of the human pelvis, not only can you reduce the amount of polyurethane, you can remove it altogether. You can use instead thin layers of other materials such as neoprene foam, cellulose, polyester, felted cotton padding, or combinations of these. The right combination of zigzag springs and padding will surely have a significant effect on all flammability parameters.

We would urge that the FAA examine the performance of a modest variety of thinly padded sprung airline seat designs. This would lead the way for the industry to develop their own lightweight seating.

**Daniel Krakauer**  
President  
Kay Springs Inc.  
Syosset, N.Y.

# Covering umbrella book details

To the editor: Rhonda L. Rundle's description of the editorial position of "The Umbrella Book" toward analyzing and comparing umbrella forms is the most accurate report on our work to date (BI, Dec. 12). Thank you for such an article.

We would like to point out a slightly misleading statement, however. It is not quite correct that the form offered through Anderson & Anderson "contains no restrictions at all." The Anderson form simply does not have any of the 25 most serious restrictions evaluated in our summary umbrella comparison. Also, the summary evaluation of 25 major policy features is distilled from more detailed comparison charts covering more than 120 possible differences between forms.

While we believe that the 98 umbrella forms analyzed in this year's comparison charts represent the majority of insurers

offering umbrella coverage, we are aware of other insurers (usually smaller, local or regional companies) whose forms are not yet included. However, in most cases there are close similarities between forms we have not seen and forms analyzed.

Also, the summary evaluation of insurers that accompanies the article is based on a specific edition of each insurer's umbrella form. The form numbers and edition dates accompany the comparison charts in "The Umbrella Book." Insurer categories shown can change rapidly as they issue form revisions, so readers should not use the "condensed" version of the chart alone to judge insurers.

**James A. Robertson**  
Editor  
"The Umbrella Book"  
Warren, McVeigh & Griffin Inc.  
Newport Beach, Calif.

# Which is worse?

To the editor: Concerning Jane P. Metzroth (BI, Oct. 17), I cannot think which is worse. Is it when a vp of a securities firm lies and is pleased to have done so, or is it when a vp of one of the parties to an insurance contract lies and is pleased to have done so?

Or is it when a national weekly newspaper no longer even pays lip service to the concept of honesty and terms a lie creative?

**M.R. Cartwright**  
Calgary, Alberta

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# Robert Monks to head pension office

By JERRY GEISEL

## washington

WASHINGTON—The Labor Department has a new pension administrator.

Robert A.G. Monks, the current director of the U.S. Synthetic Fuels Corp., will take over as administrator of the Office of Pension and Welfare Benefit Plans next week.

"We are extremely fortunate to obtain a person with Bob Monk's rich experience," said Secretary of Labor Raymond Donovan.

Aside from his three-year stint at the U.S. Synthetic Fuels Corp., Mr. Monks, a graduate of Harvard University and the Harvard School of Law in Cambridge, Mass., served as chairman of The Boston Co., a Boston investment firm.

Mr. Monks replaces Jeffrey Clayton, who resigned in September

as the U.S. pension administrator to join a Salt Lake City law firm. Mr. Clayton also had policy differences with other Labor Department officials.

As the U.S. pension administrator, Mr. Monks will oversee the enforcement of the Employee Retirement Income Security Act, the 1974 law that sets rules for pension and other employee benefit programs.

### Pension guarantee

The Pension Benefit Guaranty Corp. next year will boost the maximum monthly pension benefit it will guarantee participants of terminated pension plans.

For single employer plans that terminate in 1984, the new monthly maximum guarantee will be \$1,602.27, up from \$1,517.05 this year.

The PBGC pays benefits to workers whose pension plans terminate with insufficient assets to pay guaranteed vested benefits. It currently pays a monthly average of about \$129 each to participants of terminated plans.

Meanwhile, in another PBGC development, the agency announced that the interest rate it charges employers who don't pay their termination insurance premiums on time will be 11%, no change from the rate that has been in ef-

fect since July 1.

Under law, the PBGC is required to charge interest on unpaid premiums at a rate established by the Internal Revenue Service.

The Tax Equity and Fiscal Responsibility Act of 1982 stipulates that the IRS interest rate be adjusted semiannually, based on the average of the prime rate. Accordingly, the IRS announced that the interest rate for the period Jan. 1-June 30, 1984 will be 11%.

Interest on unpaid premiums accrues at the prevailing rate from the due date until it is paid. Termination insurance premiums are due by the end of the seventh month of the plan year.

### Multiemployer Act

A public policy group that liti-

gates on behalf of business has filed a brief with the Supreme Court challenging the constitutionality of a retroactive provision in the Multiemployer Pension Plan Amendments Act of 1980.

The National Chamber Litigation Center in Washington said making statutes effective prior to the date of their enactment raises serious constitutional questions.

Sound business decisions that were lawful at the time they were acted upon are now deemed unlawful by this added provision, which—if left to stand—will create serious burdens for many companies, the litigation center said.

The retroactive provision in the Multiemployer Amendments Act gives multiemployer pension plans the power to demand withdrawal liability payments from employers that left the plans during a five-month period between the law's effective date and the date it was signed.

President Carter signed the bill on Sept. 26, 1980, but Congress stipulated when it passed the measure that its effective date would be April 29, 1980.

The litigation center's amicus brief was submitted in a case challenging the constitutionality of the retroactive provision that the Supreme Court earlier agreed to review (BI, Oct. 24, 1983).

### Trucker coverage

The Transportation Department, not a federal law, should determine how much liability insurance truckers must purchase, an insurance industry trade association.

"Proper (insurance) levels... should be established through a rule-making process based on relevant information," said James Kimble, senior counsel at the American Insurance Assn.

Currently, the Motor Carrier Act of 1980 sets liability insurance limits for truckers. Under that federal law, which deregulated the trucking industry, motor carriers that haul non-hazardous cargo, like furniture, and hazardous cargo, like oil products, had to have \$500,000 of liability insurance by July 1, 1981.

Carriers of very hazardous cargo, like liquified compressed gas, had to have \$1 million of coverage by that date.

Then, by July 1, 1983, carriers of non-hazardous substances were supposed to have \$750,000 of coverage, carriers of hazardous substances were to have \$1 million and carriers of very hazardous substances were to have \$5 million.

In 1982, however, Congress gave the Transportation Department authority to delay the higher limits until Jan. 1, 1985.

The department, though, said it didn't have enough time to analyze whether an 18-month delay in the higher limits was necessary, so it only delayed the rules for 12 months to July 1, 1984 (BI, Aug. 15, 1983).

But the AIA's Mr. Kimble says the DOT needs the statutory freedom to adjust minimum insurance limits based on its expertise and investigations.

Mr. Kimble also told a Senate Commerce subcommittee that losses in excess of \$500,000 are rare.

Of the 1,908,861 commercial automobile (including trucking) losses paid between Jan. 1, 1977, and Sept. 30, 1981, only 157 involved losses of more than \$500,000, according to Insurance Services Office.

As a result, if the higher insurance limits go into effect in July, truckers will be forced to pay higher insurance premiums to cover themselves against an occurrence whose likelihood is miniscule, Mr. Kimble said.

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# Ease rules slowing PPO growth: Congressman

By STEVE TARAVELLA

SAN DIEGO—The growth of preferred provider organizations should not be choked by regulation, says Rep. Ron Wyden, D-Ore.

Rep. Wyden sees PPOs as a major tool in controlling soaring health care costs nationwide and has proposed legislation that he hopes will spur the growth of PPOs by freeing them from state laws that have become barriers to their development (BI, May 30).

PPOs are groups of health care providers that contract with employers, insurers or other third-party payers to deliver health care services to an employee group at a reduced fee.

In many states, the formation of PPOs is blocked by laws that forbid insurers to select providers or reimburse them at different levels.

Rep. Wyden explained his bill, H.R. 2956, earlier this month to attendees at the winter meeting of the National Assn. of Insurance Commissioners.

Called the Preferred Provider Health Care Act of 1983, the bill would strike down state laws that prohibit the negotiation of contracts with one or more health plan payers by hospitals and those that

bar price discrimination, which prevents insurers from varying payment to providers.

Enactment of the bill would pave the way for insurance companies to negotiate fees with physicians and hospitals nationwide, Rep. Wyden said.

The bill also would override so-called freedom-of-choice statutes that prevent insurers from influencing a patient's selection of a provider with economic incentives.

In a PPO situation, an employee is not obligated to use the preferred providers under contract with his or her company or group health insurer, but is often offered a financial incentive—like reduced deductibles or lower copayments—to do so. The employee's decision to use or not use a preferred provider is made each time the need for medical care arises.

H.R. 2956—which now sits in a House Energy and Commerce subcommittee—does not, however, establish prescriptive ground rules for PPO development, Rep. Wyden pointed out.

Insurance regulators from 48 states and Puerto Rico and 197 insurance department staff members gathered in San Diego Dec. 4-9 for the annual winter meeting of the National Assn. of Insurance Commissioners. State legislators, federal government representatives and insurers also were among the 1,200 persons attending the 68 scheduled meetings, in addition to the scores of unscheduled work sessions. A report on the meeting continues through page 20.

CHHO

He said he is not totally opposed to possible regulation of PPOs, but would like to consider the merits of PPOs first and regulate later if necessary.

"If, in fact, it appears later on that some other kinds of regulations are needed, I'd be glad to entertain them," he said. "But if we smother this thing in regulation right at the outset, before there's any real evidence that it's needed, we will have wasted everybody's time."

He points out that PPOs do not need regulation because they are contractual financial arrangements, not true risk-bearing entities.

And, he dismissed the anxieties of some attending the conference who are concerned about PPOs

operating without solvency standards.

"It seems to me that if at the outset we want to burden these new creations with all sorts of regulatory baggage—solvency standards, quality-control standards and all of that—we will not have added much to the

galaxy of health care services." Solvency issues will be better addressed in the bargaining process by the parties involved, rather than with regulation, he said.

"We ought to let this competitive set of forces go out in the marketplace and work," he said.

"There are some obvious obstacles (to PPO growth) developing around the country. It's my view that there are going to be equally as many obstacles developing in the years ahead if we don't pre-empt some of them at the federal level," Rep. Wyden said.

He noted Congress's frustrations at trying to control health care costs without establishing a system plagued with extensive regulation. This bill, he said, could be a solution and it won't cost anything be-

cause there won't be anything to administer.

The bill cites the experience of several existing PPOs as proof of their cost-saving potential in attacking health care costs, among them a Blue Cross/Blue Shield-sponsored PPO in St. Paul, Minn., that saved its subscribers an estimated \$10 million this year.

"Health care is really the new economic Pac-Man. It's just gobbling up everything in sight," Rep. Wyden said.

"PPOs can give us a chance to produce some competitive kinds of elements into the health care system—everyone can gain something from participating in a PPO," he noted.

Employers, he noted, can benefit by generating a cost savings and by offering an improved benefit package to their employees.

The PPO is a viable means of controlling health care costs on a nationwide basis, he explained, because it allows medical care to be tailored to the individual needs of each community.

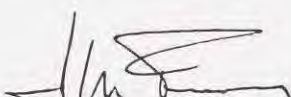
"What works in Des Moines isn't necessarily going to work in the Bronx, and what works in the Bronx isn't necessarily going to work in Portland," he said. ■

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## Life insurers want changes in reinsurance model law

By CAROL CAIN

SAN DIEGO—The National Assn. of Insurance Commissioners is still accepting input on a proposed model law to regulate reinsurance transactions.

The model law, which sets minimum standards for granting credit for reinsurance placed with authorized and unauthorized reinsurers, was expected to be adopted by the National Assn. of Insurance Commissioners at its winter meeting earlier this month. But new interest from the life insurance industry prompted the model bill's drafters to hold the proposal until the March NAIC meeting.

"We thought the model dealt only with property/casualty transactions. After we saw the report, we noticed it also included life," Daniel B. Seitz told the task force. Mr. Seitz is second vp and director of state relations for Lincoln National Corp. in Fort Wayne, Ind., an insurance holding company that includes Lincoln National Life Insurance Co.

The American Council of Life Insurance recently established a subgroup of its legislative committee to study reinsurance issues, Mr. Seitz said. He will lead a delegation of ACLI representatives who will meet with the NAIC advisory committee on this model law.

The model law covers life insurance reinsurance situations but uses property/casualty terms and concepts, Mr. Seitz explained. If the life insurance industry is going to be regulated, it would rather have a bill it could work with, he said.

Sometimes, it's better to regulate life and property/casualty separately, but this is an instance where the two should be regulated by the same law, Mr. Seitz said, explaining why the law should be redrafted to include life transactions.

"Most of the problems we were asked to deal with dealt with property/casualty," said Wes Kinder, president of Fremont Reinsurance Co. in San Francisco and chairman of an advisory committee that drafted the model law.

A request to include representatives from the life insurance industry on the advisory committee is being considered by Texas Insurance Board Chairman Lyndon Olson Jr., who also chairs the NAIC reinsurance and anti-fraud task force.

The model law on credit for authorized and unauthorized reinsurance was drafted earlier this year and presented to the NAIC in September (BI, Oct. 3).

"We believe there is no more important issue to address in the area of reinsurance," Mr. Kinder said.

In determining the financial strength of insurance companies, regulators give insurance companies credit against their surplus for reinsurance they purchase if the reinsurance meets certain requirements. There has been some concern, however, that insurers have been given credit against their surplus for reinsurance that may not be collectable; therefore, the insurer appears to be in a better financial position than it actually is.

"Written comments on the proposal are invited—urged—from the industry and regulators," said Mr. Kinder.

"Such written comments should include proposed changes in language and a redraft of the pertinent sections of the proposed law."

Comments should be sent by Jan. 20 to Frank Nutter, President, Reinsurance Assn. of America, 1025 Connecticut Ave. N.W., Suite 512, Washington D.C. 20036. Mr. Nutter is chairman of the advisory committee's subgroup.

Or, comments may be sent to Illinois Insurance Commissioner John Washburn, Illinois Department of Insurance, 320 W. Washington, Springfield, Ill. 62767. Mr. Washburn chairs the subgroup on financial conduct for the task force on reinsurance and fraud.

# Insurers helping employers contain health costs: Study

By STEVE TARAVELLA

SAN DIEGO—Benefit managers trying to control escalating health care costs may be receiving a helping hand from their health insurers.

Underwriters are taking a more active role in containing health care costs, preliminary results of a nationwide study indicate.

Insurance companies in at least 25 states are actively participating in some type of cost-containment program, reveals the study, which is being conducted by the Texas State Board of Insurance. The preliminary results were presented to the National Assn. of Insurance Commissioners at its winter meeting earlier this month.

In Illinois, the study shows, insurers challenging medical charges more vigorously than in the past. And in Indiana, insurers recently supported passage of a law requiring hospitals to report certain financial and utilization data to the state Board of Health.

And in many states, Blue Cross/Blue Shield offices are actively working with both hospitals and employers to contain costs, the study shows. In Ohio, for instance, Blue Shield has been involved in 41 different programs aimed at cutting costs.

Several states also are seeing increased interest among insurance companies in preferred provider organizations, the study says.

The study was designed to give the appropriate health care agencies in the various states information about current cost-containment experiments in other states, explains Dianne S. Longley, who conducted the study for the Texas department.

"It's possible that the state of Maine could benefit from the ideas and experience of maybe a state like Oklahoma," Ms. Longley says.

Results of the state-level study may reveal information that prior health cost studies have not, because they typically have been conducted at the federal level, she says.

The study is not expected to produce any recommendations for state or federal government action, she adds.

Ms. Longley is collecting information submitted by the 50 insurance departments and by the appropriate health agency in each state. Although the deadline for all states to submit survey forms and data was Nov. 15, the preliminary report presented to the NAIC reflects the input of only 35 states.

Other states have since responded, and Ms. Longley says the final report—which will likely include information from all 50 states—will be presented at the NAIC's spring meeting in March.

The final version also will include comparative information about state employee health insurance programs, she adds.

Although the study draws attention to insurers' efforts in controlling skyrocketing health costs, it indicates that their clamping down on costs is not always voluntary.

At least eight state insurance departments now require some kind of cost-containment effort on the part of insurance companies operating in their states, the study shows.

The Maryland Insurance Department, for instance, requires insurers to file a utilization review compliance form annually, the study shows. Among other things, the form requires information on claims cost control and underwriting guidelines that relate to cost containment.

The study also indicates that state legislatures are increasingly

active in their attempts to control health care costs.

At least 20 of the 35 states that had responded by the time the study was presented to the NAIC reported that their legislatures had within the past two years enacted some type of law attempting to control health care costs.

Arkansas, for example, now regulates hospital billing procedures through its Uniform Billing Act, and Maine has established the Health Care Finance Commission to implement a mandatory hospital payment system with specific hospital revenue limits.

And at least nine of the responding states reported that their legislatures were considering bills related to health care cost containment.

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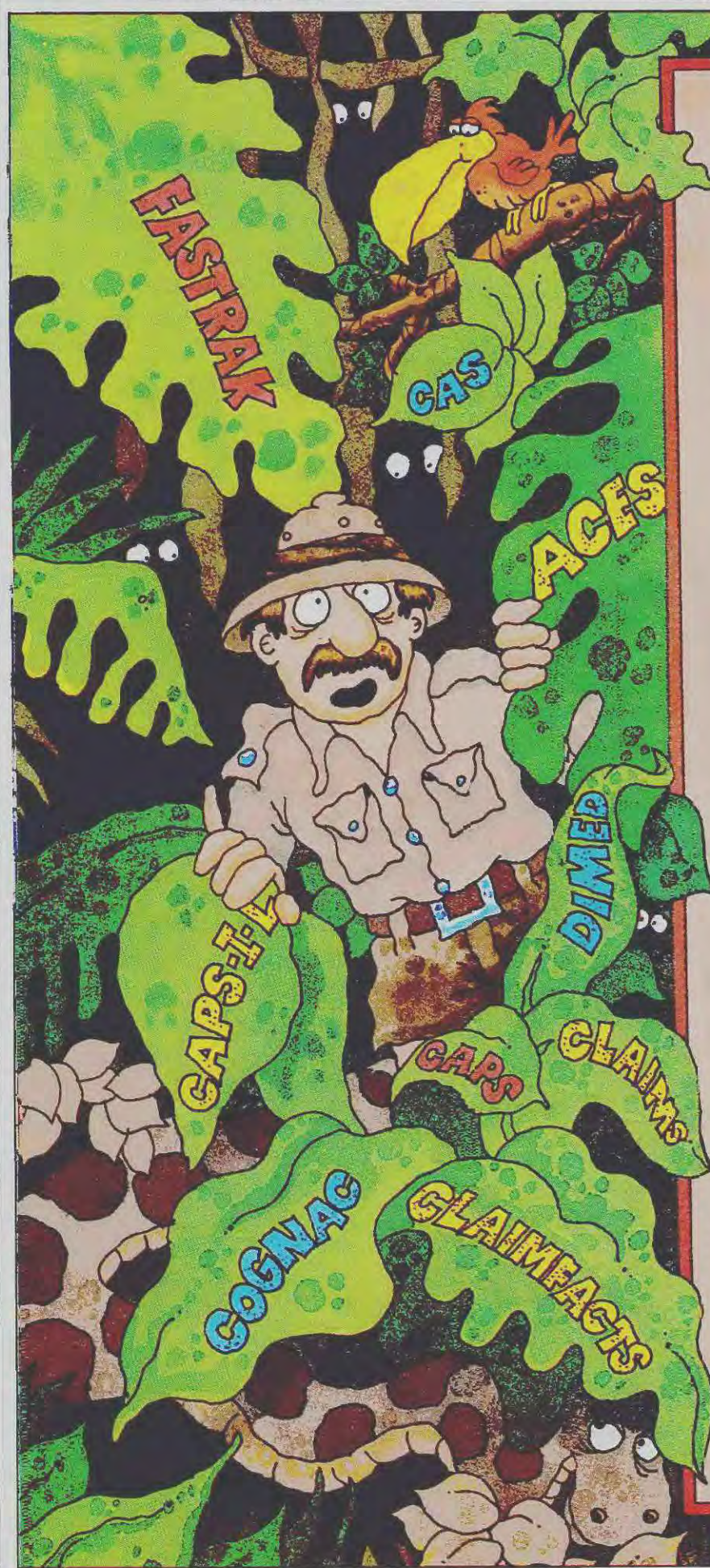
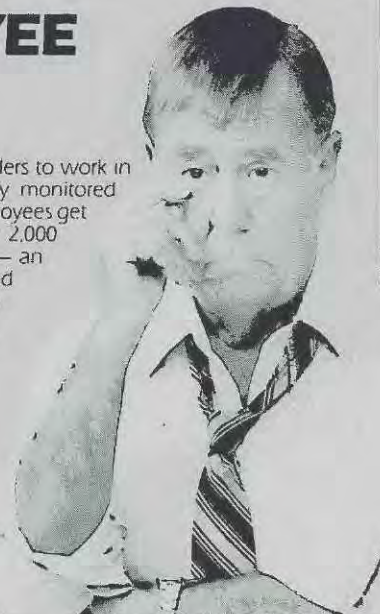


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# NAIC chief wants employer involvement

By CAROL CAIN

SAN DIEGO—Employers are going to be made to feel more welcome by the National Assn. of Insurance Commissioners.

"I think we need to build on the strength of this organization. . . . We need to enlist the business community to forge a more effective (path) across the broad state regulatory effort," said Florida Insurance Commissioner Bill Gunter, who was elected NAIC president Dec. 7.

Mr. Gunter, who took over the reins of the 112-year-old group at its annual winter meeting, plans to actively solicit not only employer representatives but others who are affected by insurance regulation. This is a continuation of the effort by the outgoing NAIC president, Utah Insurance Commissioner Roger Day.

"We want new initiatives in that whole arena: frankly, various other groups—labor, retired representatives—in order to get a broader input on policy," Mr. Gunter said.

"I feel we've missed some expertise from the business community," he said.

Membership in the NAIC includes regulators from the 50 states, the District of Columbia and four U.S. territories. They meet quarterly to share regulatory problems and solutions. Recently, the most often-discussed topic has been insurer insolvencies but one of NAIC's primary thrusts is the development of model laws that state legislatures can adopt.

To develop these model laws, the NAIC is broken down into various task forces, committees and advisory groups. In addition to insurance department staffs, these groups usually include insurance industry representatives. These are the groups to which Mr. Gunter wants to add business representatives. He asks that interested persons contact him in Florida.

"We certainly welcome it," said Jon Harkavy, director of government affairs for the Risk & Insurance Management Society in New York, who already serves on several NAIC advisory com-



Mr. Gunter

**'We need to enlist the business community to forge a more effective (path) across the broad state regulatory effort,' Mr. Gunter says.**

mittees. "We feel there are other voices to be heard besides the insurance industry."

Mr. Gunter listed four NAIC priority areas for next year:

- The regulation of insurers in receivership or those that have filed for bankruptcy and the development of procedures to recognize potentially insolvent situations before they occur.

- Financial integration, especially between banks and the insurance industry.

- The overall health care cost-containment process and its impact on rates.

- Regulation vs. deregulation and the procurement of additional funding for state insurance departments.

Iowa's Insurance Commissioner Bruce W. Foudree, the NAIC's new vp, singled out integrated financial services as the No. 1 issue.

"The two basic things that we do is regulate the financial solvency of insurance and regulate for the market conduct for the business of insurance," Mr. Foudree said. "The challenge in the integrated financial services area will be one of the toughest we've ever faced."

The NAIC's Integrated Financial Services Task Force will look closely during the next year at the controls in the Model Insurance Holding Company Act, which the NAIC adopted in the 1960s.

"It needs to be retuned. We did not contemplate the linking of banking and insurance when the model was drafted," Mr. Foudree said.

"I am not yet persuaded that banks should be allowed to acquire insurance companies and be directly engaged in underwriting," Mr. Foudree said. "I don't think it's our business to be obstructionists, but to look out for the public."

Mr. Foudree has been insurance commissioner in Iowa since February 1980. He was a practicing attorney in the state prior to his appointment as an assistant attorney general with the Iowa Department of Justice in 1976. In 1977, he was assigned as chief counsel to the Insurance Department and headed the insurance division of the state Department of Justice until his appointment as commissioner.

Mr. Gunter was elected Florida state treasurer and insurance commissioner in 1976, and was re-elected in 1978 and 1982. He previously was a congressman from Florida and a state senator from 1966 to 1972. Mr. Gunter also was a senior vp of Southland Equity Corp. and president of Southland Capitol Investors Inc. in Orlando, Fla.

Many insurance regulators are looking forward to Mr. Gunter's term as NAIC president. They described him as "able, capable, well-liked and a commissioner with a good staff."

But others say they're leery of Mr. Gunter's alleged political ambitions, either for the state governor's post or for a federal office.

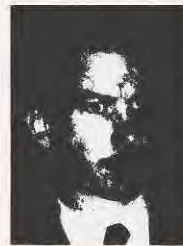
"He's political," said a number of commissioners who are concerned that the new NAIC president will hook onto issues that will be of greatest importance to his constituency.

"I represent a constituency—the NAIC," Mr. Gunter said. "I guarantee that I will be concentrating on two things in 1984: the presidency of the NAIC and my job as commissioner in Florida. I don't know what the future will hold for Bill Gunter at this time."

There will be substantial emphasis on actions in Washington that have direct impact on the state issues being dealt with by the NAIC.

"It will be high on my agenda. We're going to be there (Washington)," Mr. Gunter said. Other commissioners are encouraging the NAIC leadership to make its presence more known.

"I'm hoping for a strong national leadership for the NAIC, and Bill could give that with his background," one commissioner said.



Mr. Foudree

## Wellness plans work: Study

SAN DIEGO—Employers nationwide are successfully combating rising health care costs and high employee absenteeism with health promotion programs, a recent study indicates.

More than 500 major corporations and about 2,500 small companies now have some form of comprehensive health or exercise programs for their employees and many of the programs are at the worksite, according to a report presented at the winter meeting of the National Assn. of Insurance Commissioners.

The report was based on a survey of state governors' councils and nationwide health-related organizations by the advisory subcommittee to the NAIC task force on health promotion and chemical abuse.

To broaden the scope of their programs, some employers have incorporated such benefits as computerized health risk appraisals, biochemical assessments, exercise tolerance tests, health education classes and subsidized employee fitness program memberships.

Employees who are not in good physical condition are likely to become ill more frequently and recover more slowly than those who are fit, the report said, citing the example of one employee fitness program that reduced absenteeism by 22%.

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# NAIC Risk Retention Task Force disbanded

By CAROL CAIN

SAN DIEGO—The Risk Retention Task Force of the National Assn. of Insurance Commissioners is no more.

The group was formed last year to monitor state insurance regulators' responses after the Home Owners Warranty Corp. formed a risk retention group—HOW Insurance Co.—in Delaware.

Delaware Insurance Commissioner David Elliott refused to recognize the group because he said that, according to Delaware law, the risks the group would underwrite were not product liability risks.

However, HOW fought Elliott's decision and in October a federal judge in Wilmington, Del., ruled that federal—not state—law determines the definition of product liability that applies to risk retention groups (BI, Oct. 17).

And December 1, President Reagan signed an amendment to the Risk Retention Act of 1981 clearly stating that the federal definition of product liability risks pre-empts state definitions.

Because of these two key developments, the NAIC task force felt its job was done.

The Risk Retention Act allows businesses to band together to form captive insurance companies—or risk retention groups—to self-insure their product liability exposures.

The act permits companies that receive a charter from Bermuda, the Cayman Islands or any state to operate as risk retention groups in all states if they meet the capitalization requirements of at least one state. The licensing of risk retention groups was left to state insurance departments, according to the act.

State regulators were against the federal law from the start, but were unable to block its passage.

Shortly after the adoption of the federal act, the NAIC began working on its own model law to regulate risk retention groups. It adopted its model late last year, but so far only Texas has adopted it.

One of the provisions of the NAIC model allows states to individually define product liability.

But then Congress passed the amendment to the Risk Retention Act, clarifying the federal law. State regulators are taking that apparent defeat in stride.

They initially feared that any amendment would expand the scope of the original Risk Retention Act and invite commercial insurers to operate under the guise of risk retention groups to provide insurance coverage for lines other than product liability, said Robert H. Myers Jr., an attorney with the Washington law firm of Heron, Burchette, Ruckert & Rothwell. He is the NAIC Washington counsel.

The NAIC worked with Congress as the amendment was proceeding through committees. As a result, the discussions recorded in the

## Officers chosen

DENVER—The Rocky Mountain chapter of the Risk & Insurance Management Society Inc. has elected a new slate of officers for 1984.

The risk managers elected to officers' positions include: Phillip Kersey of Stearns-Roger Engineering Corp., president; Craig Ellis of the city of Lakewood, Colo., secretary; Patricia Jackiewicz of Manville Corp., treasurer; and Walter Curtner of Total Petroleum Inc., national society director for the chapter.

The Rocky Mountain RIMS chapter was established in 1972. ■

Federal Register indicate that the amendment is not intended to expand the scope of the exemption from state regulation included in the original act, Mr. Myers said.

The discussions also indicate that if a risk retention group provides insurance coverage other than product liability—like life, health or workers compensation—this activity would be subject to state regulation.

"We didn't get all the things we wanted, but we did get some achievements," Commissioner El-

liott said. "It was pretty much all we could expect to accomplish."

He also believes that the federal court ruling in Delaware wasn't a total defeat because HOW must still prove that it qualifies as a risk retention group under the federal act.

The judge also ruled that one part of the HOW program, in which HOW guarantees builders' warranties during the first two years after a new house is sold, is not product liability insurance because there is no spreading of the risk among member-owners of the

group.

In that provision, HOW says it will pay the policyholder for any defects that occur in the first two years, but then HOW will go back to the builder to collect the money.

The court said this was not spreading the risk.

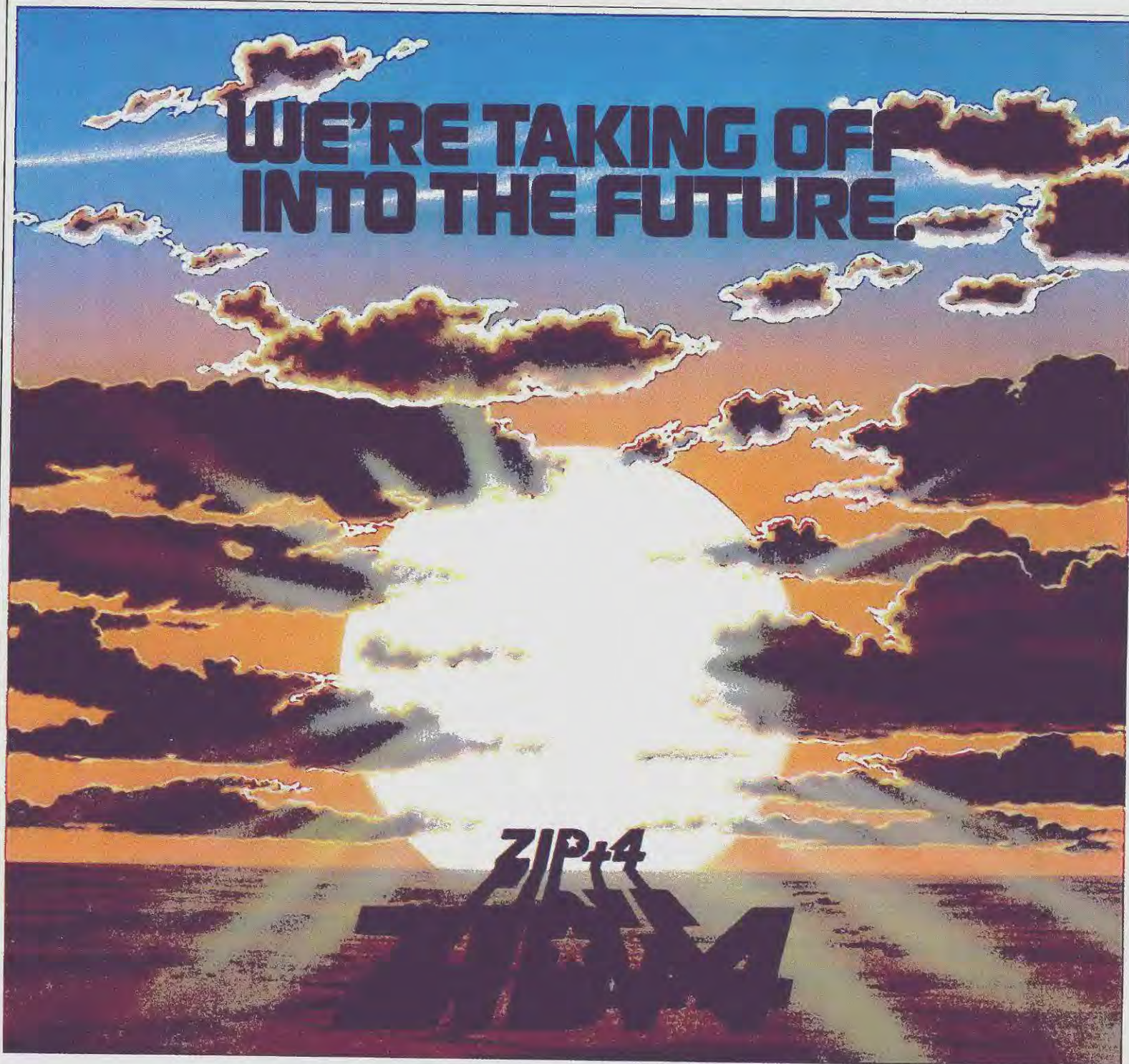
The judge also noted that under the federal act, a group qualifies as a risk retention group if its primary activity consists of assuming and spreading the product liability risks of its members.

HOW currently is filing briefs to

support its claims that it indeed is a risk retention group. Delaware also is preparing briefs, Mr. Elliott said.

Despite the court ruling and Risk Retention Act amendment, task force members believe the NAIC model law on risk retention groups is a viable tool for regulators.

Instead of amending the act and taking out reference to state product liability laws, the task force recorded in its final proceedings that when the model is in conflict with the federal act, the federal law takes precedent. ■



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# Insolvencies continue to worry regulators

By CAROL CAIN

SAN DIEGO—Insurer insolvency is still the hottest topic of conversation when state insurance regulators get together.

The growing problem of insurer failures was discussed in both open and closed-door sessions at the annual winter meeting of the National Assn. of Insurance Commissioners, held earlier this month in San Diego.

And insolvencies will continue to be a much-explored area of insur-

ance regulation during the coming year, according to Florida Insurance Commissioner Bill Gunter, the new NAIC president.

For instance, hearings will be held early next year in both Arkansas and Indiana on the rehabilitation plans for several life insurance companies owned by Baldwin-United Corp., the Cincinnati-based financial conglomerate that filed for reorganization in the fall.

Along with insolvencies, regula-

tors also are taking a closer look at state guaranty funds, especially those covering life and health insurers.

Bill Pugh, a special deputy commissioner in Delaware noted that the current NAIC model law pertaining to life/health guaranty funds contains assessment formulas that are not adequate to cover losses should a life or health insurer become insolvent.

The NAIC model law on property/casualty guaranty funds, he noted, says that members of a guar-

anty fund should be assessed only for claims made by residents of the same state.

But, according to the life/health model, the guaranty fund in the state in which an insolvent insurer is domiciled must pay claims from all states where that company did business, Mr. Pugh noted, adding that assessments cannot exceed 2% of the premium volume generated by the state's life/health insurers, limiting the amount available to pay claims.

As an example of this problem, Mr. Pugh noted the case of Tara Life Insurance Co. of America in Delaware, which was placed in receivership in March.

"Tara did business in 17 states, but there were only about 25 policyholders in Delaware," Mr. Pugh said, explaining that under the current NAIC model, Delaware insurers would have to pay the claims submitted by the other 16 states.

"The assessment system under the model law only allows for one-third of the money needed," he said.

He recommended the NAIC Rehabilitators and Liquidators Task Force amend the life/health guaranty fund model law to provide that guaranty funds cover only policyholders in their own state, as the property/casualty model does.

The task force voted to meet in February to discuss Mr. Pugh's recommendation and any others that might be made.

A wealth of other topics also crowded the agenda of the winter meeting, where 68 separate sessions were slated in addition to numer-

'Common HMO reporting standards will become important,' Mr. Gunter says.

ous unscheduled meetings.

"That's the way it always is. There are meetings going on all day and all night," said one of the 1,200 people attending the meeting.

For instance, the NAIC Blanks Task Force discussed and accepted a draft of a proposed annual statement to be submitted to regulators by health maintenance organizations.

With almost 280 HMOs operating nationwide, standardized reporting requirements are a priority item for both regulators and employers that use this type of alternative health care delivery system (BI, Dec. 19).

The proposal was put together by a joint committee of the NAIC and the National Assn. of Health Maintenance Organization Regulators. It provides for a new, standard financial reporting statement.

Final adoption of the proposal is expected at the spring NAIC meeting.

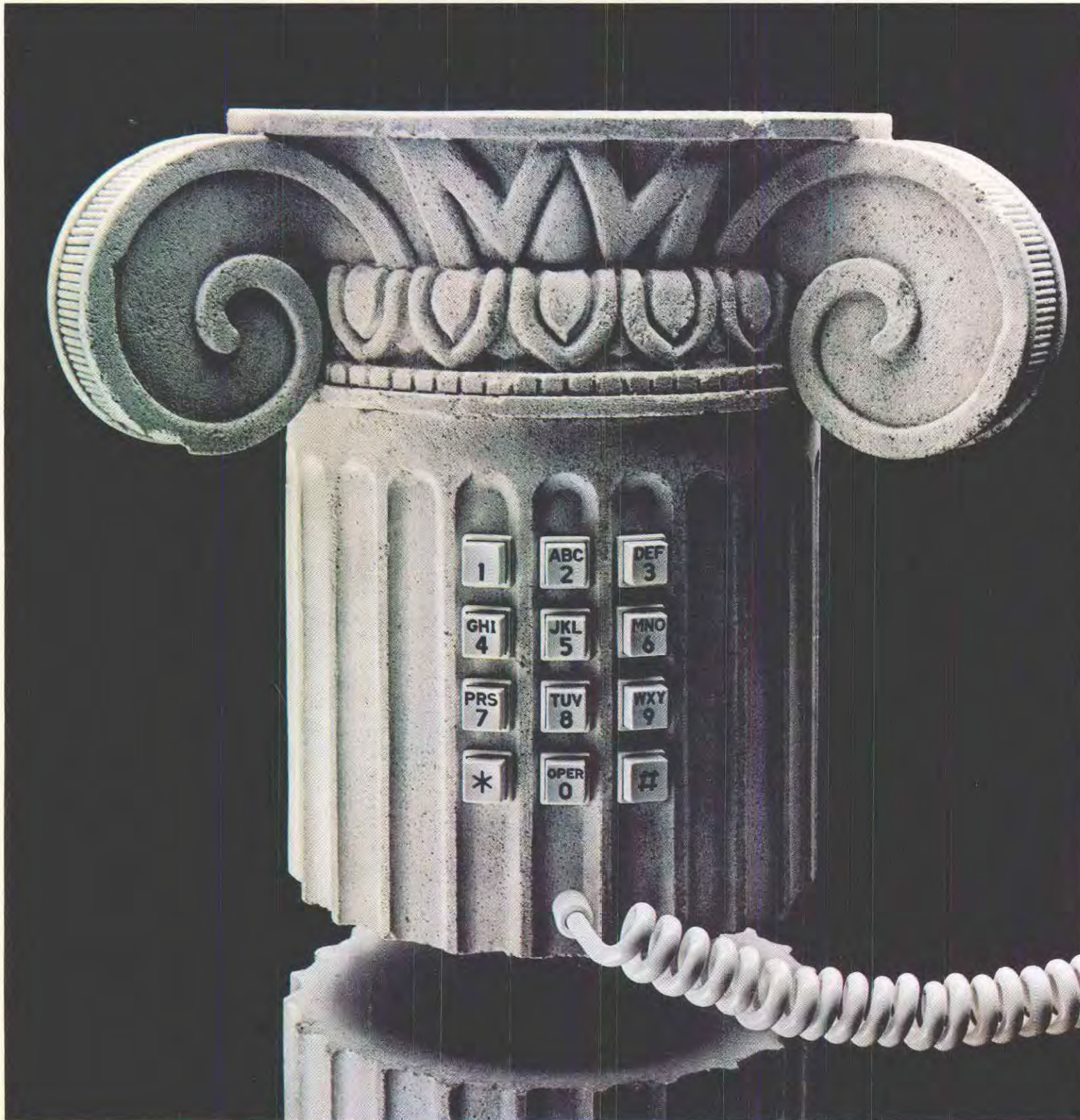
"With over 5% of the nation's population enrolled in an HMO plan, the need for effective regulation is clear," Mr. Gunter said. "As HMOs become even more popular, the need for common regulatory reporting standards will become increasingly important."

"The NAIC must constantly respond to changing market conditions, but this project has been particularly gratifying because of the splendid cooperation of so many people from so many different agencies."

The regulators also honored Colorado Insurance Commissioner J. Richard Barnes, who will retire early next year (BI, Nov. 21), and former Pennsylvania Commissioner Michael L. Browne, who left office in September to return to private law practice.

One item that was left unresolved by the regulators was a proposal to change their quarterly meeting schedule. A proposal to hold two national meetings and two zone meetings each year failed at the winter conference, as it did at the group's September meeting (BI, Oct. 3).

The proposal is expected to be brought up again in June.



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# DEFLATING HEALTH CARE COSTS

## Competition, legislation will spur a better medical services system

By Stephen D. Brink

**T**HERE SEEMS TO BE no shortage of issues in the health care field. The problem, however, is putting them into the proper framework to analyze what's going on and determine how these issues affect health plan sponsors.

We are at the beginning of a revolution in the financing and delivery of medical care, and this revolution is caused by competition. Competition will have a profound impact on health insurance and employee benefit plans. One can expect the result to be a permanent change in the employee/employer relationship in health benefit plans and in the ways employers deal with health care providers.

What has created an environment for competition? We haven't had much competition in the past, just the opposite. Hospitals and physicians that have charged more simply got paid more because there have been no controls. Prices on medical care have increased, and they have increased much faster than the costs of other goods and services.

It's not surprising then that employers are concerned about costs. In fact, cost containment is the No. 1 issue faced by employers. Their employees, of course, are the major buyers of health care.

Not too long ago, the major concern of employers was benefit amounts. Companies were expanding their medical plans and adopting dental plans, and there was even talk of adding prepaid legal and prepaid auto plans.

This talk of expansion was soon replaced by a concern to attempt to reduce the expenses of employee health plans. Remember the trend toward minimum self-insurance premium plans and third-party administration?

Today, employers are trying to take control of their health benefit plans. They're looking for ways to manage plans. The employee benefit managers I talk to are frustrated. They really can't do much in terms of managing their plans.

Nevertheless, many employers are experimenting.

Some examples of these experiments include second-opinion surgery, requiring outpatient surgery for certain procedures, auditing of hospital bills, paying bonuses to people not using medical care, preadmission testing, preauthorizing hospital stays, utilization review while in the hospital and establishing wellness programs.

So far, there have been isolated success stories but no common approaches to successfully containing medical costs have emerged.

Employees are ripe for any alternatives that can save them money. It also appears that employers are willing to shake up employees by cutting benefits and instituting cost sharing.

At the same time, employee attitudes are changing. We're now seeing an interesting mix of employee attitudes.

Major unions are unwilling to give up benefits. For example, steel workers last year agreed to a \$1.25-per-hour reduction in wages with no changes in benefits. The Teamsters last year put their entire increase,

33 cents per hour, into their health benefit fund with no wage increase.

On the other hand, a recent Harris poll indicated that 75% of the American public thinks that fundamental changes are needed in the health care system.

Two-thirds of the public indicated they're willing to accept a broad range of cost-containment activities, including those that will increase out-of-pocket costs and restrict access to health care providers. My own experience is that many employees are willing to make changes in their medical benefit programs and trade wages for somewhat reduced levels of benefits.

The federal and state governments are also stimulating competition. The federal government, of course, is the largest spender for health care through Medicare and Medicaid. However, the federal government has shifted a large proportion of the cost to private payers.

Current estimates are that Medicare reimbursements are 25% to 30% less than charges to private payers, and annual trends have increased by anywhere from 2% to 4% due to increased federal cost shifting.

The most recent cost-shifting activity is that employers are now the primary source for medical expenses for employees ages 65 to 69, taking this burden off the Medicare program.

The good news is that the government's diagnostic related groups reimbursement program for hospitals was instituted Oct. 1, 1983 (BI, Nov. 28). Under the system, the government will pay hospitals treating Medicare patients according to a schedule of established fees. Previously, hospitals were reimbursed for all costs incurred by Medicare patients.

DRGs will eventually carry over to private payers and will allow competition on the basis of service and benefits because of a uniform price.

Finally, the proposed measure, S. 640, introduced by Sen. Robert Dole, R-Kan., and now in the Senate Finance Committee, contains a tax cap. Employer contributions that exceed \$2,100 a year for family coverage and \$840 for individual coverage would be taxable income to the employee. Even with all its flaws, S. 640 may stimulate competition to a limited extent.

Enabling state legislation has been implemented for preferred provider organizations in California, Wisconsin, Virginia and Minnesota.

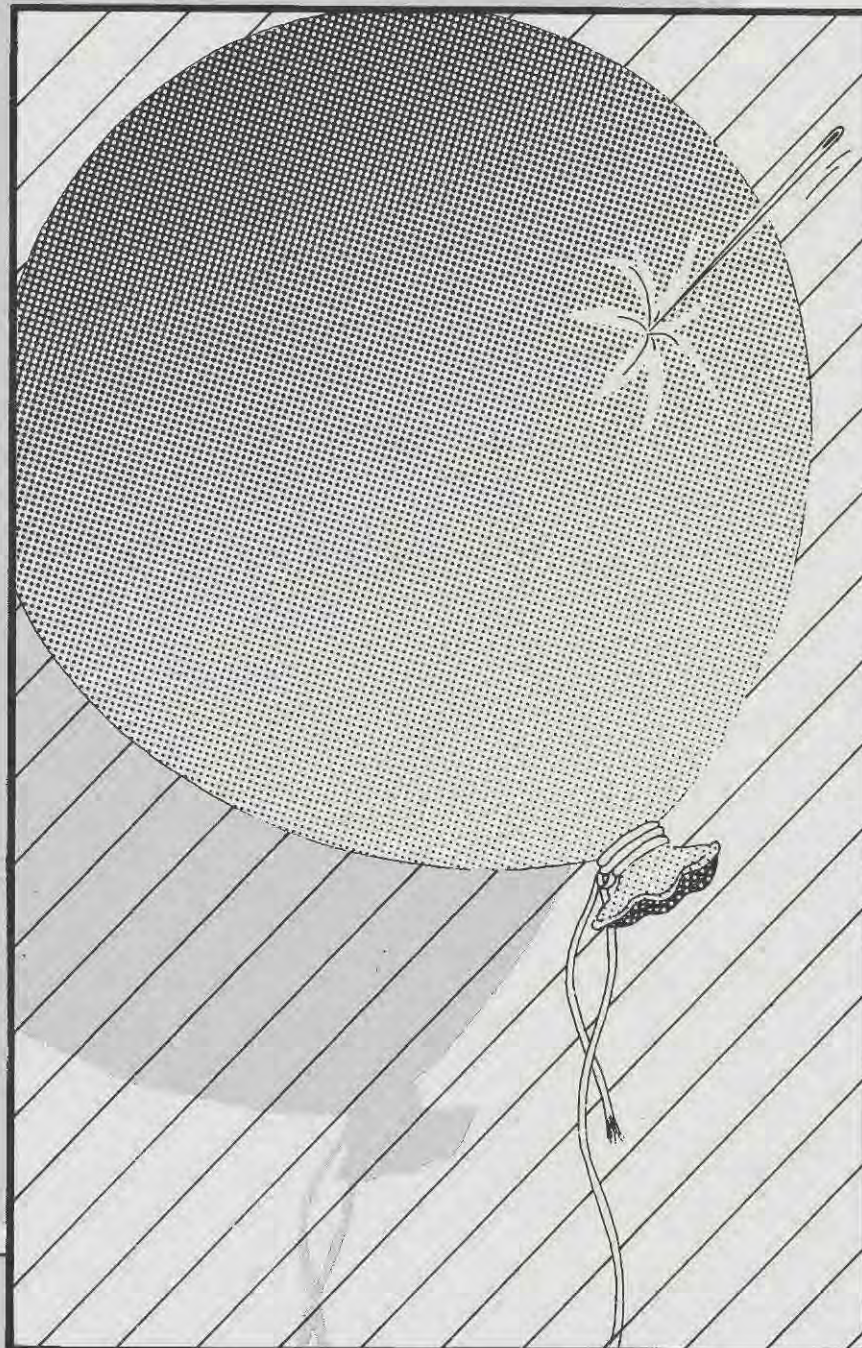
In fact, there also is pending federal legislation, H.R. 2956, the Preferred Provider Health Care Act of 1983 proposed by Rep. Ron Wyden, D-Ore., which would prohibit states from writing legislation impeding PPO development.

Several regulatory non-issues that have been largely discarded for now include national health insurance and health planning. It appears that the current administration has rightly concluded that regulation will not work in the health care industry, thereby paving the way for competition.

At the same time, medical providers are responding to competitive pressures.

Physicians in hospitals are forming HMOs and PPOs. Now, providers are looking for ways to increase patient load due to a

*Continued on next page*



# Brokers blanket bond No. 14: Worth taking a second look

By Henry Salfeld

## speaking out

THE Perspective article by Earl H. Nemser on "Magnifying the Policy Details" of brokers blanket bonds (*BI*, Oct. 3) requires comments and corrections lest a wrong impression of the coverage be created in the securities industry.

Mr. Nemser refers to standard or uniform brokers blanket bonds but there are several insurers, including Lloyd's of London, that have developed their own conditions. The majority of insurers use the brokers blanket bond No. 14 of the Surety Assn. of America, an official rating organization.

All of these bonds provide basic coverage required and approved by the New York Stock Exchange. The following remarks apply to form 14.

None of the bonds contain "fine print exclusions," which, according to Mr. Nemser, are used to justify the "offering to pay only a small portion of a loss."

As every lawyer knows, the bond is a contract and subject to interpretation like any other agreement. But if the bonds and policies are ambiguous in any respect, courts generally interpret them in favor of the insured.

I have elaborated on this in connection with restrictions adopted by underwriters in 1976 (*BI*, Oct. 18, 1976).

*The Perspective section, which is a forum for readers' opinions, is compiled and edited by Assistant Copy Editor Claudette Dampier. She can be reached at 312-649-5282.*

If a No. 14 bond, as Mr. Nemser states, actually "provides an illusion of comfort...in the belief that standard form coverage is adequate," it is amazing that the stock exchange, which carefully reviews the bond, has been unaware of this in the many years that the basic conditions have been in effect.

It may be correct that some brokers do not pay sufficient attention to the policy conditions.

It must be realized that no brokers blanket bond is arranged without an insurance broker. The broker analyzes the client's requirements, places the bond with an insurer that provides "the best product" with respect to conditions and premiums, which by the way, have been filed with the Superintendent of Insurance and cannot be changed without a new filing.

**Insurance brokers** handling the bulk of the insurance required by financial institutions are thoroughly familiar with and can advise the brokerage on the applicable conditions and exclusions and the interpretation courts have given them over the years.

The instances Mr. Nemser mentions as indications of lack of coverage are, unfortunately, without citations, so they cannot be reviewed carefully. But the first, pertaining to discovery, is based on a wrong interpretation of Section 2 of the discovery rider of December 1980, which amends Section 4 of the bond as follows:

"Discovery occurs when the Insured becomes aware of facts which would cause a reasonable person to assume that a loss

covered by the bond has been or will be incurred even though the exact amount or details of loss may not be then known. Notice to the Insured of an actual or potential claim by a third party which alleges that the Insured is liable under circumstances which, if true, would create a loss under this bond constitutes such discovery."

**Neither the bond** nor any endorsement states that discovery includes cases where "the broker actually knew nothing of the fraud" or the loss "could have been seen from a close examination of the books."

It is not correct that the broker may be "required to give notice of the loss even before it actually knows of the loss."

It is correct that the 1976 amendments have extended exclusion Section 2, Subsection (f) by eliminating coverage for violation of certain statutes unless the violation has also caused a loss to the employer through a dishonest or fraudulent act.

It would be desirable to have such coverage under the bond but, unfortunately, no bond or policy covers "everything." As a matter of law, insurance for violation of statutory provisions in many times considered to be against public policy.

No. 14 is the broadest form of insurance available to stockbrokers and it would be the most undesirable to eliminate the automatic coverage for "Offices and Equipment" (insuring agreement B (a)) as its value in many cases constitutes a substantial asset and the provisions for

insuring under any other all-risk policy would be much higher than the "nice" one mentioned by Mr. Nemser.

Besides, there is no rule that would permit exclusion of this agreement, approved by the New York Stock Exchange. A separate policy on computer equipment with its broad conditions must be carried anyhow, particularly since the definition of property under the bond (Section 1(e)) excludes all "data processing records."

The statement that the broker in the margin deficiency case "won the case" is not correct. It apparently refers to *Source Commodities Corp. vs. Aetna Casualty & Surety Co.* in the U.S. District Court in New York in which Cadwalader, Wickersham & Taft, a New York law firm, represented the plaintiff and Mr. Nemser was "of counsel."

The jury verdict was in favor of the plaintiff, but in the subsequent settlement the judgment was vacated and it may not be used as precedent.

The final suggestion to buy legal expense insurance, which "insures against the eventuality of having to pay legal fees in lawsuits to collect payment on claims," is only understandable if the conditions of this recently developed policy with some Lloyd's underwriters are disregarded.

Besides, any insured who buys a bond or policy in anticipation of a lawsuit against the underwriters is in the same position as a client who entrusts a law firm with a case and simultaneously places insurance for the cost of a malpractice suit against the lawyer.

*Henry Salfeld is a consultant with Frenkel & Co. Inc. in New York.*

## Competition will help deflate health care costs

*Continued from previous page*  
surplus of hospital drugs and, to a lesser extent, a surplus of physicians.

We're seeing medical providers hiring medical marketing staff. Many physicians are setting up their own consulting firms. Hospital chains—like Humana Inc., Hospital Corp. of America and National Medical Enterprises—are setting up their own insurance companies, HMOs and PPOs to market their services.

Insurance companies and Blue Cross/Blue Shield organizations are reacting slowly to the competitive pressures. Some of these organizations are sponsoring HMOs and exploring PPOs. Some are becoming more involved in cost containment.

Eventually, these organizations will offer new products, which may stimulate competition.

Increased competition will lead to a restriction of access to medical care. Employers will be shifting responsibilities to employees.

In a competitive environment, an employee has to make choices and has to compare benefits, evaluate the quality of service, determine who is to provide

medical care, and whether it is worth the cost. This is no small task but it is not overwhelming, either. In many ways, it's similar to using a car—you don't have to be a master mechanic to buy and drive one.

One new role of the employer in a competitive environment is selection of the choices to be presented. The employer has to evaluate new delivery systems—HMOs, PPOs and others. Such an evaluation should include financial soundness, utilization controls, services provided, community acceptance and data reports.

Employers will want to offer only the best choices, and perhaps a limited number, as these organizations proliferate. Finally, once in place, employers will have to evaluate whether these organizations are meeting the objectives. This evaluation will require data and analysis.

The second role of the employer is one of providing information on choices. This can be done through booklets and employee meetings. One employer has reserved time on a local public TV station to provide information to employees and, in particular, spouses on the choices

available to them.

Thus, the roles of the employer and the employee will produce a fundamental change. The employer and employees will need new skills and new combinations of skills to carry out their responsibilities.

What we are seeing is a blurring of traditional functions, just as in the financial industry, where everyone is a banker/broker/insurance company.

In this industry, everyone is a provider/administrator/insurance company. In many instances, it's difficult to tell one organization from another, but who cares as long as it works.

To be sure, there will be problems in the short run. Cost shifting will continue, especially in major metropolitan areas due to the DRG reimbursement system. There are going to be some flat-out errors, some big lemons. Some providers will go out of business.

The key for employers is to insulate themselves in the process. This insulation can take two forms:

- Offer only prepaid plans: in fact, this is what the state of Wisconsin recently adopted.
- Offer only the lowest-cost option

available, which will provide a tremendous incentive for employees to move from high-cost plans to low-cost plans, thereby insulating the employer from rapid increases in fee-for-service costs.

In the end, competition will result in lower costs as we move from a seller's to buyer's market. However, things will not change overnight. Nor will they change at the same rate in all parts of the country.

The health delivery system we will have in five years will not be the same as we have today. It may not even be recognizable.

It is important, however, to recognize changes now taking place the new health care delivery system and to adapt to these coming changes and responsibilities.

*Stephen D. Brink is a principal and actuary at Milliman & Robertson Inc. in Milwaukee. Mr. Brink delivered this speech in October to the Central Assn. of College and University Business Officers in Milwaukee.*



# NAIC reviewing pollution coverage rules

By STEVE TARAVELLA

SAN DIEGO—The National Assn. of Insurance Commissioners is reviewing federal environmental impairment liability insurance requirements to determine if current coverage limits provide sufficient protection.

The Resource Conservation and Recovery Act requires that owners or operators of hazardous waste treatment, storage and disposal sites obtain EIL coverage or qualify as self-insurers.

For sudden and accidental occurrences, they must have coverage of at least \$1 million per occurrence and \$2 million aggregate. For non-sudden or gradual pollution, they must be insured for at least \$3 million per occurrence and \$6 million aggregate.

At the NAIC's winter conference, John R. Ingram, the North Carolina insurance commissioner and chairman of the NAIC Hazardous Waste Task Force, reported that last month the task force reviewed current requirements and found they might not be adequate in the event of a major pollution accident.

Patricia A. Borowski, chairman of the task force's advisory committee and director of administration for government and industry affairs for the National Assn. of Professional Insurance Agents, explained when financial responsibility limits are established, they are basically set for the average exposure.

"That's the reality of every financial responsibility law that's ever been set," she says. "And de-

pending on the characteristics of the individual risk, there may need to be a change."

But, she admits that it is impossible to classify which types of pollution risks may not be properly covered in the event of a major accident. Risks will have to be examined on a case-by-case basis, she explained.

Ms. Borowski noted that the coverage now required may not be an adequate amount of insurance for certain individual risks, but that "for some other risks there is no question that having a limit of \$1 million and \$6 million is probably too excessive."

"If you dispose of wastes properly and seek better technology, (the current coverage requirements) may be sufficient. But in a few years from now, we may learn that it's not," she said.

Because of the individual circumstances of EIL risks, Ms. Borowski explained, the RCRA regulations give state agencies and regional Environmental Protection Agency offices the authority to adjust required insurance limits either up or down, on an individual basis.

States may have stricter insurance requirements than those of the RCRA, but cannot have more lenient ones. Several states, in moving toward operating their own hazardous waste management programs independent of the RCRA, have already adopted stricter insurance standards than those of the federal government (BI, Nov. 29).

Massachusetts, for example, mandates sudden and accidental

coverage of \$3 million per occurrence and \$6 million aggregate, and non-sudden or gradual coverage of \$5 million per occurrence and \$10 million aggregate.

The issue of current limits is just one of several environmental issues the NAIC is addressing in its attempt to gain a clearer understanding of the environmental impairment liability marketplace.

The Hazardous Waste Task Force is currently compiling information from various sources for a comprehensive study of the EIL marketplace to see if recommendations for changes should be made, and in what areas. But because of the minimal pertinent data now available, any official action or recommendations are several years down the road, Ms. Borowski explains.

Besides coverage requirements, other areas now being examined include: the policy forms used, reinsurance arrangements, pricing, loss control, use of self-insurance, the availability of additional coverage, the level of exposures, the types of damages, the procedures being used to settle claims, and the changing judicial climate toward EIL matters.

She pointed out that when suggestions or recommendations are made without sufficient background examination, the resulting regulation is often disastrous.

"There seems to be a feeling, particularly on the part of legislators, to look to the insurance mechanism to pay for, out of hindsight, what were very poor political decisions," she notes.

She hopes a complete study of

the market and its players will prevent this.

Moving in with very specific demands often has produced "the least amount of coverage for the most amount of price to only the best clients," Ms. Borowski noted. "And that just can't be the result we get in this kind of marketplace at this time."

Much of the information that would be helpful in assessing any problems in the EIL market is difficult to obtain, she explained. The market is still relatively new, so loss experience statistics are not always available and the appropriate questions are not even obvious.

Another obstacle in obtaining information is that many underwriters, particularly reinsurers, are based overseas, she explained.

She noted that the largest hazardous waste generators and waste disposal sites are self-insured, and that the majority of EIL policyholders are handled through the excess/surplus lines market.

"Obviously, that is a market where no formalized data collection process exists. There is no statutory authority in any of the states for that type of data to be collected," she said.

In addition, the EPA has not provided much assistance in obtaining information the committee is seeking, she says.

"EPA has not the money nor the staff nor the expertise—nor is it willing—to make the budgetary request (to conduct a review of EIL policies), and they are basically coming to the NAIC on an individual state basis and saying, 'Would you do this for us?'"

"EPA keeps coming to us, meaning the insurance industry, and asking, 'Who are these people who are supposed to be insured?' I think it's the first time we've ever been asked who our marketplace is before we ever went to it," she says.

Although some state agencies and some regional EPA offices maintain lists of hazardous waste sites in their respective territories, task force members said that the federal EPA could not provide a nationwide list of such locations.

Mr. Ingram, the North Carolina commissioner, said he will contact the insurance regulator in each state to try to compile a complete list of sites.

The task force will continue its work through at least December 1984.

## System would track duplicate health claims

SAN DIEGO—The National Assn. of Insurance Commissioners will study a proposal to establish a central index that would track all health insurance claims exceeding a certain amount.

The index could reduce the number of employees who receive duplicate health care reimbursements, its proponents say.

Duplication of health insurance claims payments benefits has become an issue of increasing concern in recent years as the number of households covered by two employer-sponsored health care programs grows.

The proposal, submitted by the NAIC State and Federal Health Insurance Legislative Policy Task Force, notes that while it is difficult to estimate exactly how much money is disbursed through dupli-

cate health benefits, it is "considerable."

All health insurance claims exceeding a threshold amount would be reported to the claims index by insurers, the proposal suggests.

If more than one insurance company reported a claim arising from the same accident or illness to the index, all the insurers would be notified that a claim was pending with another underwriter.

The insurance companies would then communicate with each other to coordinate the coverage, the proposal suggests.

The proposal does not recommend the threshold amount above which claims would be reported, but suggests that it be set at a level low enough to red-flag most duplicated benefits, yet high enough to

keep the number of claims reported to a minimum.

Insurance companies would subscribe to the index service for a small fee, the proposal suggests.

Should the study conclude that such an index were a possibility, the NAIC would determine, among other things:

- Whether the reporting should be done on a national, regional or state basis.
- Whether the reporting should be voluntary or mandated by law.
- What types of health insurance coverages should be excluded.
- What the threshold amount should be.
- What the costs and anticipated savings would be.
- Whether any existing organizations are capable of establishing such a system.

## Nuclear indemnity law under review

SAN DIEGO—A task force of the National Assn. of Insurance Commissioners is assessing whether it should take part in upcoming deliberations over the renewal of a federal law that calls for federal aid to utilities in case of a nuclear accident.

The Price-Anderson Act, which was passed in 1957, requires the government to indemnify operators of nuclear power plants up to \$560 million, less the amount of insurance coverage they are legally required to carry. The act comes up for renewal in August 1987.

Some critics of the law say it has become useless, since the government now requires nuclear plants to have \$570 million in coverage, \$10 million more than the government is committed to pay (BI, Aug. 29).

The law states that nuclear plant operators are required to have financial protection equal to the maximum amount of insurance available from private sources at reasonable cost and on reasonable

terms.

Nuclear plant operators must now carry at least \$160 million in primary liability insurance—the maximum that nuclear insurance pools can provide—and participate in an industry retrospective-premium plan that would cover liability in excess of \$160 million in case of an accident.

The retrospective plan would assess the 82 plants nationwide \$5 million each, providing a capacity of \$410 million over each plant's primary liability policy, making a total of \$570 million in coverage available.

The pools that provide the primary layer are American Nuclear Insurers and Mutual Atomic Energy Liability Underwriters.

When it was written in 1957, the act was to expire in 10 years in the hope that private insurers eventually would provide required capacity. But the underwriters did not come through in time, and the act has been renewed twice—in 1967 and in 1977.

## First, the fire station caught fire...

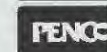
Then, the fireman drove the hook-and-ladder over the hydrant outside, flooding the dry cleaning store on the corner. The owner, naturally upset, ran screaming into the street and narrowly escaped being run over by the chief's car. The chief swerved, avoiding the irate dry cleaner, and drove through the front porch of the church across the street. The policeman directing traffic got a little too excited and charged an innocent bystander with arson. Meanwhile, the paramedic accidentally dropped the stretcher carrying the lady who lived in the house next to the fire station and who thought she was having a heart attack. It was indigestion, but she broke her arm in the fall. And, when the smoke finally cleared...

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# Bahamian regulations are responsible: Tierney

By CAROL CAIN

SAN DIEGO—The Bahamas are well on their way to enacting responsible insurance regulations, according to the president of a captive management company.

"I must confess we (the Bahamas) are rather new at our trade, but we do have the benefit of learning from the regulatory experiences of the U.K., United States, Canada and many other countries on the continent and in fact throughout the world," said Justin N. Tierney, president of British-American Management Ltd. in Nassau, Bahamas.

Mr. Tierney was one of two offshore representatives who attended the winter conference of the National Assn. of Insurance Commissioners earlier this month. Steve Butterworth, acting superintendent of the Cayman Islands, also met with the state regulators to bridge communications.

In recent years, the NAIC has been looking more closely at insurance operations in the Bahamas, Bermuda, Cayman and Barbados. Some regulators have criticized the apparent lack of regulation offshore, loose financial requirements and stringent confidentiality laws that makes it difficult to track insurers.

"As a representative from the Bahamas and the private sector, I reinitiate and strengthen open communication, which will enable all of us to work toward the elimination of fraud, insolvency and other imprudent or illegal activities that inhibit your effort to protect the citizens of your respective states and our efforts to be recognized as a stable, mature, secure part of the international insurance community," Mr. Tierney said in a report to the NAIC Reinsurance and Anti-fraud Task Force.

"In effect, we the private sector and the governments of each of these offshore countries are competing with each other in our effort to establish our respective markets as responsible and recognized members of the worldwide insurance community," he said.

"I have found in these offshore markets knowledgeable regulators, lawyers, accountants, actuaries,

managers, bankers and investors who have formed a private sector working with their respective governments to jointly maintain the reputation and integrity, the solvency and security, the reliability and services, striving to equal any market in the world," he said.

"I have the NAIC early warning criteria on our IBM-PC (computer) and we apply this test to companies we reinsure or who reinsure us."

The Insurance Act of 1969 set the stage for insurance activity in the Bahamas. "As a result of that law some 200 offshore insurance companies, captives and non-resident reinsurance companies moved to Bermuda," Mr. Tierney said.

The "onerous" restrictions in the new code included a premium tax of 1%, a requirement to publish annual reports in the newspaper and investment restrictions, he said.

"I have been informed by a lawyer who advised many of these companies to leave the Bahamas that the real concern was lack of confidence in the new Bahamian government. However, that government has been in office now for a period of 14 years. It has matured, developed and enacted many new laws impacting the international arena, all directed toward maintaining the credibility and reliability of the Bahamas in such vital areas as real estate, banking, shipping and insurance," Mr. Tierney said.

There are about 30 non-resident or external insurance companies in the Bahamas—companies domiciled on the islands but not allowed to write Bahamian business, Mr. Tierney said.

A new captive insurance company law—the Bahamas External Insurance Act of 1982—was passed by the House of Assembly of the Bahamian Parliament in November and was before the Senate for ratification earlier this month.

The new law will apply to companies that undertake a significant portion of their parent's or their parent's affiliates' business, Mr. Tierney said.

But the Bahamas' older law from 1969 "is as good a set of regulations as is found in any other jurisdiction with international insurance activity," Mr. Tierney said.

Under that law, the solvency test for captives is net assets of at least 20% of annual premiums or a ratio of 1-to-5.

"I realize the rule of thumb in the United States is a ratio of 1-to-2, a ratio arbitrarily set many years ago, but our offshore test is applied to liabilities and not to premiums. In other words from the net earned premium, we deduct all liabilities including losses and IBNR (incurred-but-not-reported losses) and apply the net equity test to the net result," he said.

"I hope I have convinced you we in the Bahamas are well on our way to enacting responsible insurance regulations even though we recognize we have a way to go," Mr. Tierney said.

Cayman's Mr. Butterworth also was on hand at the conference "to find out what's happening in the United States, the problems they're (the states) having and how they effect the Cayman Islands, and to show my face," he said.

He also spent several hours "chatting" with regulators, their staffs and other industry representatives—like Albert B. Lewis, former New York superintendent of insurance and now a consultant and partner in the New York law firm of Cole & Dietz.

Mr. Lewis recently sponsored a seminar on techniques to avoid insurance fraud (BI, Nov. 28). During

one part of the presentation, Mr. Lewis discussed the banking and insurance regulations of several Caribbean islands, including the Caymans.

"It is clear from his utterances that he has merely misinterpreted the law. I have the feeling that Mr. Lewis is basing his information on cases that occurred several years ago before the present system of regulation was introduced," Mr. Butterworth said.

Restricted banks can be set up with a share capital of \$25,500, as Mr. Lewis said, but they will not receive exemptions to allow them to issue certificates of deposit or letters of credit, Mr. Butterworth said.

Restricted banks are limited to dealing with named clients outside the Cayman Islands, he noted.

"And flimsy assets are not included as part of banks' net worth. Each bank submits an audited financial statement and if Mr. Lewis thinks that auditors will pass such an asset without a suitable qualification, I am very surprised," Mr. Butterworth said.

"In any regulatory environment, be it the United States, Cayman, Bermuda or U.K., there will be someone who gets a little greedy. How can, therefore, shaky letters of credit be avoided?"

"First, any insurance company accepting a letter of credit without

investigating the security of the issuing bank is a fool. Bad experience from U.S. banks issuing letters of credit to Cayman insurers has led us to now only approve documents issued by a U.S. bank that is a member of the Federal Reserve System or the letter of credit is confirmed by such a bank," Mr. Butterworth said.

"I would rely upon his statements," said Mr. Lewis. "I would agree with the Cayman Islands' (superintendent) as to his perception, but I won't be able to make a judgment if the regulations enforce the law," Mr. Lewis said.

Confidentiality regulations make investigation into these banks virtually impossible, Mr. Lewis had said. "And since the confidentiality requirements still remain, you still can't get any information," he said.

"I accept (Mr. Butterworth's) claim that the law is a step forward to remove this type of activity. However, I suggest to the (superintendent) that the best way to give credibility is to waive the confidentiality provisions when a request is made by a regulator investigating the licensee, either in the Cayman Islands or the state in which a captive is doing business," Mr. Lewis said.

The Bahamas' Mr. Tierney said offshore representatives want to cooperate with state regulators, adding "there are ways to get around the secrecy laws."

## datebook

**JAN. 24-25. Agent-Owned Offshore Insurance Companies** conference in Dallas, sponsored by Advanced Management Research of North America Inc.; \$625; group discounts available. Advanced Management Research of North America, 50 E. 42nd St., Room 301, New York, N.Y. 10017.

**JAN. 26. Development and Participation in a Preferred Provider Organization** seminar in Manhattan, sponsored by Health Systems Associates; \$235. John F. Reilly, Health Systems Associates, Box 404, South Salem, N.Y. 10590; 914-533-6789.

**JAN. 27-28. Toxic Tort Litigation** seminar in New York, sponsored by the Practising Law Institute; \$350. Also **Feb. 17-18** in Houston, **Mar. 16-17** in San Francisco. Practising Law Institute, Department KDC, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

**FEB. 2-5. National Fire Safety and Burn Prevention** conference in Arlington, Va., sponsored by the Federal Emergency Management Agency's National Fire Academy and U.S. Fire Administration, in cooperation with International Society of Fire Service Instructors and the National Fire Protection Assn.; \$120. International Society of Fire Service Instructors, 20 Main St., Ashland, Mass. 01721; 617-881-5800.

**FEB. 6-10. Basic Government Risk Management** seminar at the University of Arizona, Tucson, sponsored by the Public Risk & Insurance Management Assn.; \$360. Joseph Hrabosky, 3920 N. Harrison Road, Tucson, Ariz. 85749; 602-749-3137; or Natalie Wasserman, PRIMA, 1120 G St. N.W., Suite 707, Washington, D.C. 20005; 202-737-7556.

**FEB. 6-10. Reinsurance Practice** course in London, sponsored by the Risk Research Group; \$1,000. Sue Moore, Risk Research Group, Bridge House, 181 Queen Victoria St., London EC4V 4DD; 01-236-2175, ext. 22; telex 8811635.

**FEB. 13-15. International Foundation of Employee Benefit Plans 1984 Trustees and Administrators** institute in Orlando, Fla.; \$420. Also **May 14-16** in Las Vegas, Nev.; **July 23-25** in Monterey, Calif.; **Aug. 13-15** in McAfee, N.J. Public Relations Department, IFEBP, P.O. Box 69, Brookfield, Wis. 53005; 414-786-6700.

**FEB. 13-17. Loss Control Management** seminar in Atlanta, sponsored by the International Loss Control Institute; \$625. Richard Jump, International Loss Control Institute, P.O. Box 345, Loganville, Ga. 30249; 800-544-6001; 404-466-2208.

**FEB. 16. Risk Management Information** conference in Chicago, sponsored by Corporate Systems; \$50. Matt Davis, Corporate Systems, Box 31780, Amarillo, Texas 79120; 806-376-4223.

**FEB. 21-22. Compliance with the New CAL/OSHA Noise Standard and How to Establish an Effective Hearing Conservation Program** course in Los Angeles, sponsored by the University of Southern California; \$375. University of Southern California, Institute of Safety & Systems Management, Office of Extension & In-Service Programs, Los Angeles, Calif. 90089; 213-743-6523/6524.

**FEB. 22-24. Issues Facing Captives** course in London, sponsored by the Risk Research Group; \$630. Sue Moore, Risk Research Group, Bridge House, 181 Queen Victoria St., London EC4V

4DD; 01-236-2175, ext. 22; telex 8811635.

**FEB. 25-MAR. 3. Western Assn. of Insurance Brokers Third Annual Winter Conference** in Snowmass, Colo.; \$125. Sue Farber, Western Assn. of Insurance Brokers, 235 Montgomery St., Suite 962, San Francisco, Calif. 94104; 415-392-5383.

**FEB. 29-MARCH 2. Introduction to International Employee Benefits** seminar in Brussels, Belgium, sponsored by the International Benefits Information Service; \$525. Bruce F. Spencer, 222 W. Adams St., Chicago, Ill. 60606; 312-236-2615; or Vincent J. Simone, Orchard House, 7 Little Austin Road, Farnham, Surrey, England, 0252-726416.

**MARCH 1-2. Ansil Fire Protection** school in Beaumont, Texas; \$450. Also **March 5-6, March 8-9, March 12-13**. Jill Davis, Ansil Training Services, Marinette, Wis. 54143; 715-735-7411.

**MARCH 6-7. International Reinsurance** conference in London, sponsored by Kluwer Publishing Ltd.; \$475. Kluwer Publishing, 20/24 Repe-maker St., London EC2Y 9AS; 01-588-4274; telex 8811725.

**MARCH 12-14. Advanced Government Risk Management** seminar at the University of Arizona at Tucson, sponsored by the Public Risk & Insurance Management Assn.; \$325. Dr. Neston Roos, 2030 E. Broadway, No. 110, Tucson, Ariz. 85719; 602-622-5174; or Natalie Wasserman, PRIMA, 1120 G St. N.W., Suite 707, Washington, D.C. 20005; 202-737-7556.

**MARCH 12-16. Fundamentals of Modern Safety Management** seminar in Atlanta, sponsored by the International Loss Control Institute; \$625. Richard Jump, International Loss Control Institute, P.O. Box 345, Loganville, Ga. 30249; 800-544-6001; 404-466-2208.

**MARCH 13-15. Reasoning Reinsurance** seminar in Irving, Texas, sponsored by the University of Dallas; \$475. Professor Bruce Evans, Reinsurance Management Institute, University of Dallas, Irving, Texas 75061; 214-721-5360 or 214-721-5299.

**MARCH 19-21. Advanced Safety Management** seminar in Atlanta, sponsored by the International Loss Control Institute; \$350. Richard Jump, International Loss Control Institute, P.O. Box 345, Loganville, Ga. 30249; 800-544-6001 or 404-466-2208.

**MARCH 19-21. Society of Fire Protection Engineers** annual symposium in Leesburg, Va.; \$375. Marianne Casey, Society of Fire Protection Engineers, 60 Battery March St., Boston, Mass. 02110; 617-482-0686.

**MARCH 19-21. Human Resources** conference in Boston, sponsored by the American Management Assns.; \$525 for members; \$595 for non-members; group discounts available. American Management Assns., 135 W. 50th St., New York, N.Y. 10020; 518-891-1500.

**MARCH 19-23. Industrial Ventilation** course in Los Angeles, sponsored by the University of Southern California; \$650. University of Southern California, Institute of Safety and Systems Management, Office of Extension and In-Service Programs, Los Angeles, Calif. 90089; 213-743-6523/6524.

**MARCH 19-23. Fundamentals of Hygiene Monitoring** course in Long Grove, Ill., sponsored by National Loss Control Service Corp.; \$490;

group discounts available. Also **May 14-18, Sept. 10-14, Nov. 12-16** in Long Grove, Ill. John Garis, Industrial Hygiene, National Loss Control Service Corp., Long Grove, Ill. 60049; 312-540-2026.

**MARCH 26-30. Respiratory Protection** course in Los Angeles, sponsored by the University of Southern California; \$750. University of Southern California, Institute of Safety and Systems Management, Office of Extension and In-Service Programs, Los Angeles, Calif. 90089; 213-743-6523/6524.

**MAR. 30. "Right to Know": Illinois Toxic Substances Disclosure Act of 1983** conference in Chicago, sponsored by the Illinois State Chamber of Commerce; \$80 for members; \$120 for non-members. Illinois State Chamber of Commerce, Center for Business Management, 20 N. Wacker Drive, Chicago, Ill. 60606; 312-372-7373.

**APRIL 9-12. Seventh Annual Conference on Prevention, Behavior, Cleanup of Spills and Waste Sites** sponsored by the Bureau of Explosives, the Chemical Manufacturers Assn., the U.S. Coast Guard and the U.S. Environmental Protection Agency; \$200; \$150 for early registration. 1984 Hazardous Material Spills Conference, 1629 K St. N.W., Suite 700, Washington, D.C. 20006; 202-887-1209.

**APR. 9-13. Loss Control Management** seminar in Atlanta, sponsored by the International Loss Control Institute; \$625. Richard Jump, International Loss Control Institute, P.O. Box 345, Loganville, Ga. 30249; 800-544-6001; 404-466-2208.

**MAY 13-19. Fourth Third World Insurance Congress** in Casablanca, Morocco, sponsored by the Assn. of Insurers of Developing Countries; \$274 for members or delegates; \$550 for others. John D. Thomas, John David Thomas Inc., 401 E. 80th St., Suite 10F, New York, N.Y. 10021; 212-570-2338.

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## Oregon comp rule

SALEM, Ore.—Workers compensation insurers in Oregon are now required to include investment income reports with their rate filings.

Previously, some workers compensation underwriters had included investment income in their computations as justification for requesting lower premium rates, according to Richard M. McGavock, the state Insurance Division's house counsel.

Now, the state can withhold action on workers compensation insurers' rate change requests until the companies provide information on how investment income was considered in rate computations, Mr. McGavock said.

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## Bomb damage to be covered

Continued from page 2

"So even if the underwriter argues about what the loss falls under in the coverage, we have both extensions," he said. "We believe that the loss will fall under the explosion extension."

Although the losses are covered by insurance, Harrods' parent will have to pay some of the cost—besides any deductible—because its captive insurer on Guernsey reinsures a portion of the risk.

The Stag Insurance Co. Ltd. will wind up paying about 30% of the property damage claim and an undisclosed portion of the business interruption loss, Mr. Winstone said.

Hopewell International Co. Ltd. of Bermuda, also reinsures a small portion of the risk, he added.

Harrods' insurance is brokered through Fraser Insurance Services Ltd. in London, a House of Fraser subsidiary. And any of the coverage placed with Lloyd's of London syndicates is brokered through Harrods (Insurance) Ltd., a Lloyd's broker and a House of Fraser unit.

The car bomb, which was planted outside the department store by members of the Irish Republican Army, killed five people and injured nearly 70. However, no Harrods employees were hurt.

Despite the deaths and injuries, Harrods does not expect to be hit with liability claims arising from the blast.

"To be held liable, you have to prove negligence, and if anything, Harrods was the exact opposite," he said. "The store's standard operating procedures went into operation and they worked."

Senior executives set in motion the store's emergency program immediately after the terrorists called Harrods about an hour before the blast to say that a bomb had been planted in or near the store.

A coded message was broadcast over the store's intercom to alert selected staff members to begin searching for an explosive device.

Harrods also readied firefighting equipment and prepared to have the store cleared, should that have become necessary. But management decided not to evacuate the 1.3 million square-foot building, which turned out to be a wise choice.

"We had to make the decision on whether or not to evacuate the building, and we made the right decision," Mr. Winstone said. "Otherwise, we would have discharged more people onto the street where the bomb was and that would have been a different story."

"And, panic could have erupted, causing more injury," he explained.

Although Harrods believes the store is a safe place to shop, additional security guards and police were stationed inside the building when it reopened last week.

## N.J. comp rates cut

TRENTON, N.J.—Workers compensation insurance rates in New Jersey will decrease an average 11% on Jan. 1. Insurance Commissioner Joseph F. Murphy believes this could result in a net premium reduction of about \$44 million.

Favorable loss experience was cited by Mr. Murphy as the main reason for the cut. The favorable experience primarily was the result of cost-saving reforms introduced in 1980, the state economy's growth and the continuing shift of state industry to high-tech areas.

The maximum weekly benefit, set at 75% of the state's average weekly wage, will increase to \$255 from \$236 on Jan. 1, and the minimum benefit, 20% of the weekly wage, will increase to \$68 from \$63.

## Mesta plan termination could be costliest on record

Continued from page 2

lion. The second-largest loss was the termination of several pension plans operated by Braniff International Corp., an estimated \$47.7 million claim.

However, the Braniff loss does not include \$1 million in cash plus stock the PBGC expects to receive if Chicago-based Hyatt Corp. succeeds in its plan to take over Braniff and get Braniff planes back in the air by next year.

Ultimately, other employers will have to make up most of the difference between what Mesta promised its pension plan participants and what it actually contributed to its pension plans.

Under the Employee Retirement Income Security Act of 1974, the PBGC charges employers with pension plans an insurance premium to pay for workers' and re-

tirees' benefits when companies fold insufficiently funded pension programs. That annual premium is currently \$2.60 per plan participant.

But the PBGC has asked Congress to pass legislation, H.R. 3930, that would raise the premium, retroactive to Jan. 1, 1983, to \$6 per participant. The PBGC says the increase is needed because the agency is taking over more underfunded pension plans that it anticipated.

The premium was last increased in 1978 when Congress increased it to \$2.60 from \$1.

But if the PBGC continues to incur claims as large as Mesta's, it may need an even bigger premium increase, pension experts say.

It isn't clear why Mesta pension plans are so underfunded. However, a PBGC attorney noted that

the plans have been liberalized in recent years.

For example, in 1980, the hourly workers' plan was amended so that an employee could retire with a early retirement benefit at age 45 after 20 years of service. Previously, a worker had to be age 55 and put in 15 years of service to be eligible for an early retirement benefit, the PBGC attorney said.

The PBGC also said in court papers that Mesta did not meet minimum funding standards in 1981 for the two plans.

In its papers filed in the U.S. District Court for the Western District of Pennsylvania, the PBGC is seeking a June 16, 1983, termination date for the two pension plans. The PBGC noted that on that date, Mesta's West Homestead, Pa., plant was permanently closed and sold with the approval of the

bankruptcy court.

After June 16, plan participants had no reasonable expectation of accruing further rights under the plans, the agency says.

However, Mesta, in its notice filed with the PBGC of its intent to terminate the plans, wants a Jan. 31, 1984, termination date. A federal court will decide which termination date is selected.

A later termination date would increase the PBGC's liability because plan participants would have accrued additional benefits between June 16, 1983, and Jan. 31, 1984.

Currently, a retiree in Mesta's pension plan for salaried employees receives an average monthly benefit of \$461, while a retiree in the hourly plan receives an average benefit of \$238 a month, according to the PBGC.

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### Hotel cover may top \$300 million

WEEK OF AUGUST 10, 1981

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### Hyatt class action allows settlements, but will they go on?

WEEK OF MAY 3, 1982

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|--------------------|-------------------------------------------|------------------------------------|------------------------------------------------------------|-----------------------------------------------|
| JAN 2              |                                           | Dec 19, '83 M                      | JAN 2                                                      | Dec 12, '83                                   |
| JAN 9              | MARKET PREVIEW/INFO FOR BUYERS            | Dec 21                             |                                                            |                                               |
| JAN 16             |                                           | Jan 4, '84                         |                                                            |                                               |
| JAN 23             |                                           | Jan 11                             |                                                            |                                               |
| JAN 30             | SELF INSURANCE/FINANCIAL SERVICES         | Jan 17 T                           |                                                            |                                               |
| FEB 6              |                                           | Jan 25                             | FEB 6                                                      | Jan 16, '84                                   |
| FEB 13             |                                           | Feb 1                              |                                                            |                                               |
| FEB 20             | RISK MANAGEMENT SERVICES                  | Feb 7 T                            |                                                            |                                               |
| FEB 27             |                                           | Feb 14 T                           |                                                            |                                               |
| MAR 5              |                                           | Feb 22                             | MAR 5                                                      | Feb 13                                        |
| MAR 12             | EMPLOYEE BENEFITS: CONTROLLING COSTS      | Feb 28 T                           |                                                            |                                               |
| MAR 19             |                                           | Mar 7                              |                                                            |                                               |
| MAR 26             |                                           | Mar 14                             |                                                            |                                               |
| APR 2              | RIMS PREVIEW/CAPTIVES OFFSHORE            | Mar 20 T                           | APR 2                                                      | Mar 12                                        |
| APR 9              | RIMS REPORT # 1                           | Mar 27 T                           |                                                            |                                               |
| APR 16             | RIMS REPORT # 2                           | Apr 3 T                            |                                                            |                                               |
| APR 23             |                                           | Apr 11                             |                                                            |                                               |
| APR 30             |                                           | Apr 18                             |                                                            |                                               |
| MAY 7              |                                           | Apr 25                             | MAY 7                                                      | Apr 16                                        |
| MAY 14             | SPECIALTY RISKS                           | May 1 T                            |                                                            |                                               |
| MAY 21             |                                           | May 9                              |                                                            |                                               |
| MAY 28             | EMPLOYEE BENEFITS: CONFRONTING THE FUTURE | May 15 T                           |                                                            |                                               |
| JUN 4              |                                           | May 22 T                           | JUN 4                                                      | May 14                                        |
| JUN 11             |                                           | May 30                             |                                                            |                                               |
| JUN 18             |                                           | Jun 6                              |                                                            |                                               |
| JUN 25             | AGENT/BROKER PROFILES                     | Jun 12 T                           |                                                            |                                               |
| JUL 2              |                                           | Jun 20                             | JUL 2                                                      | Jun 11                                        |
| JUL 9              |                                           | Jun 26 T                           |                                                            |                                               |
| JUL 16             |                                           | Jul 3 T                            |                                                            |                                               |
| JUL 23             | MARKET REPORT/INSURANCE EXCHANGES         | Jul 10 T                           |                                                            |                                               |
| JUL 30             |                                           | Jul 18                             |                                                            |                                               |
| AUG 6              |                                           | Jul 25                             | AUG 6                                                      | Jul 16                                        |
| AUG 13             |                                           | Aug 1                              |                                                            |                                               |
| AUG 20             | EXCESS/SURPLUS                            | Aug 7 T                            |                                                            |                                               |
| AUG 27             | Distribution at Monte Carlo Rendez-Vous   | Aug 15                             |                                                            |                                               |
| SEP 3              | EMPLOYEE BENEFITS: INTERNATIONAL          | Aug 21 T                           | SEP 3                                                      | Aug 13                                        |
| SEP 10             | IIAA Convention                           | Aug 28 T                           |                                                            |                                               |
| SEP 17             | RENDEZ-VOUS REPORT                        | Sep 4 T                            |                                                            |                                               |
| SEP 24             | LOSS PREVENTION                           | Sep 11 T                           |                                                            |                                               |
| OCT 1              |                                           | Sep 19                             | OCT 1                                                      | Sep 10                                        |
| OCT 8              |                                           | Sep 26                             |                                                            |                                               |
| OCT 15             | INTERNATIONAL RISK MANAGEMENT/INSURANCE   | Oct 2 T                            |                                                            |                                               |
| OCT 22             |                                           | Oct 10                             |                                                            |                                               |
| OCT 29             |                                           | Oct 17                             |                                                            |                                               |
| NOV 5              |                                           | Oct 24                             | NOV 5                                                      | Oct 15                                        |
| NOV 12             | REINSURANCE/NAII Conference               | Oct 30 T                           |                                                            |                                               |
| NOV 19             |                                           | Nov 7                              |                                                            |                                               |
| NOV 26             |                                           | Nov 13 T                           |                                                            |                                               |
| DEC 3              |                                           | Nov 20 T                           | DEC 3                                                      | Nov 12                                        |
| DEC 10             | MARKET REPORT: SMALL BUSINESS             | Nov 27 T                           |                                                            |                                               |
| DEC 17             |                                           | Dec 5                              |                                                            |                                               |
| DEC 24/31*         | EMPLOYEE BENEFITS: IN RETROSPECT          | Dec 11 T                           |                                                            |                                               |
| <b>1985 ISSUES</b> |                                           |                                    |                                                            |                                               |
| JAN 7              |                                           | Dec 19, '84                        | JAN 7                                                      | Dec 17, '84                                   |
| JAN 14             | MARKET PREVIEW/INFO FOR BUYERS            | Dec 26                             |                                                            |                                               |

\* year end double issue.

NOTE: Editorial information is subject to change.

FULL-RUN AD CLOSING DATES: Last advertising forms normally close in Chicago on Wednesday, 12 days preceding date of publication. However, certain issues will close as indicated: M for Monday, T for Tuesday.

MARKET REPORTS: Special Market Report Sections will be published as integral parts of two issues of Business Insurance during 1984.

AGENT/BROKER TOPICS DEMOGRAPHIC SECTION: The section appears in the first issue of every month. Last advertising forms for this demographic section close in Chicago, on Monday, 3 weeks preceding date of publication.

## Robins says it will appeal \$4.9 million Dalkon award

Continued from page 2

awarded last year by a Denver jury to a woman who alleged that complications forced her to undergo an abortion for medical reasons. That case is still on appeal.

The Miami award, handed down Dec. 13, brings to 25 the number of Dalkon Shield cases tried before U.S. courts, according to the Richmond, Va., manufacturer. Of those, 13 juries have assessed no damages and 12 have awarded sums of varying amounts to plaintiffs.

Five of the awards have included punitive damage amounts totaling \$8.3 million, Robins says, not counting the \$4.4 million in punitive damages awarded the Miami case. Robins says it has paid \$77,000 in punitive damages, which are not covered by insurance.

In a Nov. 10 filing with the U.S. Securities and Exchange Commission, Robins disclosed that 2,100 of the 3,800 pending cases have been assigned by its insurer to coverage years in which Robins has no product liability insurance.

The SEC filing says Robins' coverage ended after February 1977 and that for the three years immediately prior to February 1977, the limits of Robins' liability coverage may not be sufficient to cover ultimate losses caused by Dalkon Shield lawsuits.

Robins sued Aetna Casualty & Surety Co. in a Virginia state court in 1980 in an attempt to define its product liability coverage written by Aetna from 1968 to 1977 (BI, Feb. 22, 1982). The case is still pending, Robins says.

Although Robins will not discuss the limits of its liability insurance, an attorney who represents more than 30 Dalkon Shield plaintiffs calculated in 1982 that the coverage totaled more than \$325 million for 1970 through 1977.

The key issue in the coverage dispute is whether Aetna's policies should be triggered by the date of medical insertion of the IUD—generally prior to 1974—or at the time a woman discovered an injury, similar to the "exposure" vs. "manifestation" debate in the ongoing asbestos litigation.

If Robins ultimately cannot obtain coverage from Aetna for injuries discovered after 1977, it will have to assume the liability itself for the 2,100 such cases. At an average settlement expense of \$26,452, that would total \$55.5 million in uninsured losses.

In the first nine months of 1983, Robins told the SEC, litigation expenses and settlement costs not covered by insurance totaled \$13.7 million, up from \$7.1 million for all of 1982.

## New Hampshire comp rates increase

MANCHESTER, N.H.—New Hampshire employers are paying more for workers compensation insurance.

An average 8.7% rate increase, which applies to all work comp policies purchased or renewed after Dec. 1 as well as to all outstanding policies, has been approved by the New Hampshire Insurance Department.

ment.

The increase was instituted to cover the rises in New Hampshire workers compensation benefits mandated by H.B. 696, according to Peter M. Burton, the National Council on Compensation Insurance's director of government, consumer and industry affairs for New Hampshire.

# Molbeck to succeed Quinn as Blades' chief executive

John N. Molbeck Jr. will become chief executive officer of J.H. Blades & Co. Inc. in Houston, effective Jan. 1. He currently is president and chief operating officer.

Mr. Molbeck will succeed Robert P. Quinn, who is resigning his post as chief executive of the excess/surplus lines marketer but will retain his position as chairman of the company.

Mr. Quinn joined Blades as president and chief operating officer in 1974. Mr. Molbeck joined Blades in 1976 as assistant treasurer.

**Other excess/surplus changes:** Richard C. Zolty elected executive vp and general manager of Maurice H. Saval Inc. in Providence, R.I. He previously was vp and secretary of the company. Maurice H. Saval Inc. is the managing general agency for the American Universal Insurance group of companies.

Robert D. Holland appointed vp of Brentwood Insurance Brokers, a managing general agency of Orion Group Inc. in Los Angeles. Mr. Holland will head the underwriting unit, among other duties. He most recently was manager of the multiperil department for Anderson & Murison Inc.



Mr. Molbeck

## comings & goings: industry

has joined Massachusetts Mutual Life Insurance Co. in Springfield, Mass. Mr. Mike will serve as director of alternative reimbursement systems for the group life and health division's cost containment department. He will work developing alternative care systems, including preferred provider organizations.

David W. La Rocque elected vp-motor underwriting for AFIA Worldwide Insurance in Wayne, N.J. He is responsible for AFIA's motor business worldwide. He previously was assistant vp, with product warranty underwriting management duties, at American International Underwriters.

## Reinsurers

Kenneth A. Hecken named chairman and chief executive officer of Willcox Inc. Reinsurance Intermediaries, a Johnson & Higgins unit in New York. Mr. Hecken had been senior vp and director in the J&H casualty department. In his new post, he will remain a member of the executive committee of the board of Johnson & Higgins.

Esther V. Hartell promoted to vp of Ennia Reinsurance Co. of America in New York. Ms. Hartell is one of two senior treaty underwriters at Ennia.

Stephen F. Smith was promoted to senior vp and Erich F. Schweikert was promoted to vp at Munich American Reinsurance Co. in New York. Mr. Smith is manager of the bonding department. Mr. Schweikert is in the property department.

Thomas H. Friedberg joined Intermediaries of America Inc., a reinsurance brokerage, as vp. Mr. Friedberg will be located in New York and will work on specialty reinsurance coverage. Interme-

diaries of America is the U.S. subsidiary of le Blanc Eldridge Parizeau Inc., a unit of Sodarcan Inc., a Canadian insurance and reinsurance brokerage.

## Insurers

Leon Bluestone appointed president of The Doctors' Life Insurance Co. in Santa Monica, Calif. Mr. Bluestone had been the company's executive vp and will continue as the company's chief executive officer. Doctors' Life markets insurance products specifically for physicians—including group insurance, pension and annuity programs—and is a wholly owned subsidiary of The Doctors' Co., a professional liability insurer.

Donald M. Curry joined Loyalty Life Insurance Co. in Piscataway, N.J., as vp in charge of group operations. He previously was director of special agency operations for Provident Mutual Life Insurance Co. Loyalty Life is a unit of Continental Corp.

Mitchell J. Wyka elected vp-marketing for Pacific National Insurance Co. in Fullerton, Calif. His duties include assisting in new product development as well as marketing the company's property/casualty insurance products in Pacific's Fullerton and four other California offices. He previously had been with CIGNA Corp. Pacific National is part of the Armco Insurance Group Inc.

## Agents/brokers

I. Henry Curtiss Jr. and Max R. Clay promoted to senior vps of Great Lakes Agency Inc. in Chicago. Mr. Curtiss is also president of Great Lakes Benefits Inc. Mr. Clay formerly was vp at the agency.

# classified advertising

## RATES AND CLOSING TIME:

Rates: Display classified is \$65.70 per column inch, minimum of one inch. Straight classified is \$6.00 per line, minimum of 5 lines. Count 34 characters per line (include each space and punctuation as a character). Additional \$12.00 charge for blind box ads. Responses to blind box ads must fit into business size envelope. Responses are forwarded daily.

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### Business Insurance Circulation Breakdown\*

#### Commercial Consumers

Administrative Management: owners, presidents, vps, etc. 5,861

Financial Management: chief financial officers, vps of finance, secretaries, treasurers, etc. 10,426

Insurance Management: vps, directors, managers of insurance, risk, benefits, compensation, safety, security, etc. 5,865

Government, Associations, Unions, Educational Institutions 1,024

Commercial Consumers Sub-total 23,176

Insurance Agents & Brokers 9,639  
Insurance Cos. 5,384  
Financial Institutions 385  
Actuaries, Attorneys, Adjusters, Appraisers & Consultants 2,779  
Others allied to the field 1,020

TOTAL 42,383

\*Source: Business/Occupational breakdown of qualified circulation, May 2, 1983 issue, as submitted to BPA for June 1983, BPA Publisher's Statement.

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Due to the Christmas and New Year Holidays, Classified Advertising will close at Noon Monday, December 19 for the December 26 issue and at Noon Monday, December 26 for the January 2 issue.

# Benefit managers want computer capability

Continued from page 1

ment board survey participants in 1977. After that, however, risk managers have been more successful in acquiring computerized systems, according to the two surveys.

The automation gap between risk management and benefit departments isn't quite as great when terminals in the benefits department that are used for purposes other than claims information are included.

For example, eight benefit managers who responded to the survey have access to automated personnel data that tracks employee eligibility for benefits. Some of them hope to expand their current computer capability to include claims information and analysis.

The 119 benefit managers responding to the survey are members of the *Business Insurance Employee Benefit Board*. The board is composed of benefit managers from companies of all sizes, institutions and government entities who have volunteered to answer periodic surveys from *BI*. Similarly, *BI* surveyed its Risk Management Board in the fall to track computer trends.

The most popular use for computers among benefit managers is to show top management how benefit dollars are spent, the survey shows. Nineteen of the 25 respondents who already have a terminal in their office use it for this purpose.

Otherwise, existing systems are used for a wide variety of purposes. Twelve of the 25 respondents, or nearly half, use an in-house computer to store claims information and to summarize aggregate data for further analysis.

About the same number are using their computer power to judge the performance of their self-insurance programs, produce checks to claimants, sort claims information by diagnosis, doctor and/or hospital, track utilization of benefits and analyze claims data according to periods of time, location and other trends.

Some of the benefit managers with computers—especially those with stand-alone microcomputers—use summary data received from insurers or third-party administrators to perform these analyses. They do not store their own claims information.

If the in-house computer stores any claims data at all, it is almost certainly health claims and probably disability claims as well. A handful of respondents store information about life insurance claims. One benefit manager stores dental claims and another stores sick pay claims information.

Among the current computer users, 64% have terminals linked to their company's mainframe computer. Twenty-seven percent have microcomputers, often called personal computers.

In some cases, there is an overlap between these two groups because a terminal linked to the company mainframe may be a microcomputer that can function independently with its own software on a stand-alone basis.

Three of the respondents, or 9% of those using computers, have a terminal linked to an independent computer specialist's mainframe computer. Four, or 12% of those using computers, have terminals connected to an insurer-owned computer.

The amount of time that benefit department staffers spend using one or more terminals varies enormously. In general, however, they appear to use their computer a lot or a little. There is a large gap between those who use them less than one hour to three hours a week and

those who use them 150 hours or more a week.

The highest usage of 405 hours per week was reported by the director of benefits for a transportation company with 15,000 employees. About 400 of those hours are for claims handling and the remainder for management information and analysis.

The manager of benefits planning and development for a non-ferrous metals company with 15,000 employees reports that the department uses the computer an estimated 260 hours weekly. Only 20 hours per week are spent on the system for management information projects, the rest is devoted to claims handling.

That system, new this year, costs \$200,000 to set up and an estimated \$150,000 a year to operate, making it one of the most costly of those described by survey respondents. It also may be one of the most sophisticated, with terminals linked to the mainframe computers of both the company and an independent specialist.

A financial services company with 6,000 employees shelled out \$250,000 to set up a benefits information system last year, the largest amount spent by any of the survey respondents. Another company also spent that much.

The financial services company's system includes a stand-alone microcomputer linked to the company's mainframe computer.

Although 98% of the time spent at the terminal is devoted to claims handling rather than analysis, the assistant vp for compensation who answered the survey indicates that the company is using computer-generated information to identify causes of claims to develop cost-containment programs.

This respondent specifically points out that the system is being used to monitor preferred provider organizations—a new, untested approach to health care cost management. And, the company would like to link its data base to those of other organizations to develop a communitywide data base "for cost-containment activity against gouging providers."

Only 14 survey respondents volunteered information about acquisition costs for their computers. Two spent \$5,000 or less, three spent \$5,000 to \$12,000, three spent \$20,000 to \$50,000; three spent \$75,000 to \$100,000; and three spent \$200,000 to \$250,000.

Most of these companies report that their costs were "as budgeted." Three said the total tab ran to "more than budgeted."

Only a handful of companies reported their annual costs to operate their systems, ranging from \$6,000 to \$250,000.

Most pleaded ignorance, except to say that the expense was about what had been expected. But, 14 respondents said their companies were saving more than they spent on the system. One respondent disagreed and two said their systems were brand new, so it's too soon to tell.

The management consultant for a timber, paper and packaging products company with 24,000 employees estimates that the company has saved \$1 million or more in the past year through reduced health care costs.

The consultant credits the analytical powers of the company's new \$250,000 computer system for helping to make the claims cost reductions possible. The most helpful feature of the system is its creation of trend information for distribution to various operating locations, the consultant says.

Eleven respondents said they had been able to reduce staff after they acquired their computer sys-

tems.

An air transportation company with 44,500 employees set up an automated benefits system last year and has eliminated four benefit analyst positions, the group insurance program manager reports.

The non-ferrous metals company with its new system installed this year, expects to eliminate three claims examiners positions, says the manager for benefits planning and development.

Two claims processor positions were dropped at a conglomerate with 18,000 employees that spent \$30,000 on a benefits information system this year. In addition, the company has saved money in reduced insurer fees.

Although annual operating costs for the computer are budgeted at \$220,000, the assistant secretary for employee benefits estimates that the conglomerate's total annual savings attributable to the system is \$240,000.

Several benefit managers said they were able to avoid staff expansions because of the computer, although no positions had been eliminated following the conversion to automation.

Speed, ease and timeliness of claims processing were the features most frequently cited by benefit managers as strengths of their systems. Several emphasized that the computer gives them enhanced control over claims.

Benefit managers with the ability to ask "what if" questions to pinpoint the causes of losses, to identify high-cost health care providers and to forecast future costs appeared to be the most satisfied with their computers.

Inability to perform these analyses is the most common complaint among benefit managers whose systems lack this flexibility.

"The system cannot forecast multiple what ifs at the same time," complains one benefits manager. The system will accommodate only six lines of data, reports another. "Not flexible," "poor analysis of claims data," "cannot get management reports," others grouse.

Nearly three-quarters of the respondents with working computer systems said they cannot ask what if questions to identify claims trends or analyze benefit financing techniques. Sixty-eight percent say they can design their own report formats, however.

Nineteen of the 25 current computer users rated their system's flexibility on a scale of 1 to 5, with 5 the highest. The average grade was 2.3, the median was 3 and the mode was 4.

Only one user awarded the highest grade of 5 to his or her com-

puter system. Interestingly, this distinction was bestowed on the system already mentioned that is owned by a transportation company and gets an estimated 405 hours of weekly use.

At the other end of the scale, the air transportation company whose system is doing the job of four benefit analysts reached for a mark below the stated scale and gave the company's computer a 0, which helped to bring down the average grade.

The group insurance program manager complains that the system, which includes a microcomputer linked with an insurer-owned mainframe computer, is incapable of answering what if questions or providing management reports.

The same manager advises benefit managers in the market for computer systems: "Check what the system can do before you buy it."

In contrast to most respondents who say they are utilizing only a fraction of their computer-generated information, this disgruntled computer user reports that his or her department is using the system up to its full potential.

Several benefit managers explained that their systems are still so new that they are producing much more information than the department needs or can handle. "The information isn't in an easily usable format yet," said one respondent. "We must design more accurate reports," said another.

The manager of group insurance for a government entity with more than 100,000 employees has installed computer systems and software to perform a wide variety of analyses but lacks one important component—claims data currently in the possession of an insurance company.

"The system was designed with the expectation of interfacing with claims data, yet we do not have access to claims data," the group insurance manager explains. "Our carrier has not agreed to share our data... we are still fighting."

As a result of this standoff, the government entity is using less than 1% of the computer-generated information potential of its system.

Most of the survey respondents who do not have a computer terminal in their departments say this is because they rely on data provided by their insurer or claims administrator. Of these, roughly half say they are planning to computerize claims information in the future.

Seven benefit managers, or 6% of the 119 respondents, said they had investigated the possibility of buying a computer terminal and re-

jected it as too expensive. Only five respondents said they had not investigated the possibility at all.

Of 82 respondents who do not have computers today, all but four said they would want a system that performs claims analysis and provides benefits decision-making support. Twenty-six, or 32%, said they would store their own claims data.

Although the survey was designed to develop information about the penetration of computers in benefits departments for automated claims handling and analysis, several respondents said they were investigating computers for other uses.

The personnel manager for a professional association of attorneys and a law library with 100 employees says that the association plans in the future to computerize certain employee information, but not claims information.

Judging from the low cost estimates given by many of the benefit managers who are planning to acquire computers, they are either investigating desk-top personal computers or are underestimating the cost of a larger system.

Of the 28 respondents who gave cost estimates for setting up a system, four said they were planning to spend less than \$5,000; six said they were planning to spend \$5,000 to \$10,000; six said \$10,000 to \$20,000; six said \$20,000 to \$50,000; four said \$50,000 to \$100,000; and one each estimated \$500,000 and \$1 million.

The \$1 million estimate was made by the benefit planning manager of a manufacturing company with 50,000 employees who also says the company has a study in progress and anticipates installation in 1986.

Health, life, disability, workers compensation and unemployment insurance claims all would be stored in the system, which the benefit manager estimates would cost \$250,000 a year to run.

Most of the respondents planning to install computer systems believe they will ultimately save the company money through improved decision making. About one-third said the savings would come through lower claims handling costs. Only a handful expect that automation will enable the company to reduce staff.

Buyers of employee benefit plans are invited to join the *Business Insurance Employee Benefit Board*. Send a card with your name, title, company and address to Kathryn J. McIntyre, Editor, *Business Insurance*, 740 Rush St., Chicago, Ill. 60611. You will receive four surveys during the year.

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# AFIA takeover to pit CIGNA against AIG

Continued from page 1

trend in consolidation of insurance companies has expanded worldwide.

"The industry is moving toward larger units of more effective capability," observes Harold H. Hines Jr., president and chief executive officer of broker Rollins Burdick Hunter Co. in Chicago. "It is a startling development and very consistent with the way the insurance industry is moving—world insurance in this case. It creates a real opportunity to do business in foreign countries," where economic growth is exploding.

And, the acquisition of AFIA involves another fascinating financial transaction among the leading U.S. insurers.

When the insurers sell their AFIA stock and transfer their AFIA-generated business to CIGNA International, they will turn a projected \$72 million net loss on AFIA business at June 30, 1983, which they would have shared, into \$215 million in quick profits—if they account for both transactions in the same year.

The profits would be welcomed in a period of declining financial results for the insurance industry due to rate competition.

The projected \$72 million deficit is the result primarily of additions needed to reserves for claims stemming from insurance written in London prior to 1980. Otherwise, AFIA would have posted a profit.

Therefore, the sale of AFIA can be viewed as a huge portfolio transfer of liability from the selling shareholders of AFIA to CIGNA International.

Portfolio transfers of liability, a reinsurance transaction between insurers, is coming under increasing criticism from financial analysts and insurance regulators who say the transactions distort the financial reports of the participating insurers.

The bulk of the \$215 million purchase price covers the cost of this portfolio transfer, with reserves for losses discounted to their present value. In addition, the foreign insurance company licenses and current employees of AFIA are valued in the purchase price.

AFIA shareholders are carrying their stock in AFIA at about \$48 to \$49 a share, for a total market valuation of AFIA of about \$15 million to \$16 million.

CIGNA International, which turned an operating profit of \$2.1 million in 1982 on direct international business exclusive of treaty reinsurance, is protecting itself against worsening results on AFIA's business with reinsurance.

The agreement to buy AFIA is

contingent upon CIGNA buying \$100 million of reinsurance excess of projected losses at AFIA and pledges from the selling members to contribute another \$50 million should the losses exceed the reinsurance.

None of the companies selling their AFIA stock were willing to say they were selling because of bad underwriting results on the AFIA business.

In addition to Aetna, the shareholders selling their stock in AFIA and transferring their portfolios of AFIA-generated risks to CIGNA International are Hartford Fire Insurance Co., an ITT Corp. subsidiary; The Home Insurance Co., a City Investing Co. subsidiary; Fireman's Fund Insurance Co. and American Insurance Co., both owned by American Express Co.; and St. Paul Fire & Marine Insurance Co.

For their individual 27.1% holdings in AFIA, Hartford and The Home will each receive \$58.3 million. For their individual 10.4% holdings, the American Express subsidiaries will each receive \$22.4 million, as will Aetna Insurance Co. St. Paul, with 14.6% of AFIA, will receive \$31.4 million.

"All of the members at one time or another would have liked to own AFIA," Mr. Schrempf observed. "Each company has its own reasons for selling and I suspect they are different for each."

Aetna's interest in AFIA allowed CIGNA to buy out the other shareholders since the AFIA shareholder agreement gives shareholders the first option to buy out the others. A sale to one member, therefore, requires the unanimous approval of all shareholders.

Aetna Insurance Co. had been a Connecticut General Life Insurance Co. subsidiary and became part of CIGNA when Connecticut General and INA Corp. merged in 1982.

Selling their shares in AFIA does free the insurers from the anti-competitive agreement that precluded any of them from setting up their own foreign operations under their own names to compete with AFIA.

The Hartford said in a prepared statement that the sale of its shares will allow the company to go forward with plans to expand its foreign operations under its own name and management next year.

Hartford already has a strong international presence through subsidiaries in the United Kingdom, Europe and Bermuda and a joint venture in Singapore that produced \$428 million in net written premiums in 1982.

A spokesman for St. Paul said CIGNA's offer was a "very attrac-

tive financial offer." And, senior management at St. Paul is now looking at the company's options to operate internationally.

Fireman's Fund Senior Executive Vp Gerald Isom said in a prepared statement that the insurer agreed to the sale of its shares because it was an attractive offer.

"We did not see the opportunity to gain 100% ownership ourselves so we decided to sell."

Fireman's Fund has not made any decisions on future expansions abroad, the statement said. Its current foreign activities include a joint venture in Southeast Asia based in Singapore, San Francisco Insurance Co. (UK) in London and a minority interest in National Insurance Co. of New Zealand. Fireman's Fund also is the North American representative of the International Network of Insurance, a group of European insurance companies doing business with multinational companies.

Officials at The Home were not available for comment on plans for foreign operations.

Companies selling their shares in AFIA are, however, "resigning a lead to a very formidable competitor," comments Mr. Hines of RBH.

Opinions differ over whether the combination of AFIA and CIGNA International will reduce or encourage competition for multinationals' accounts—in general and especially between CIGNA International and AIG.

"AFIA is a very substantial market. INA is a very substantial market. Together, they will reduce the competition that exists," said Sandy Clark, senior vp of Alexander & Alexander in San Francisco.

"It's a bit boggles my mind," he said. "It's a big mouthful."

Other U.S. insurers' international operations—those of Chubb Corp. and Continental Crop—are smaller than AIG, AFIA and CIGNA International. In addition, Kemper Group and the members of the Factory Mutual System have international operations, primarily to insure highly protected risks.

But Mr. Hines of RBH sees the potential for increased competition resulting from the acquisition of AFIA by CIGNA.

"This creates a powerful alliance," observes Mr. Hines. "It can change the balance of nature. It can create formidable competition and can invite formidable responses. The competition will have to explore capability of like size and strength. It will stimulate competition, by forcing the remaining players to be more competitive."

AFIA's June 1983 premium volume of \$1 billion almost doubles CIGNA International's projected annualized 1983 gross premiums of \$1.1 billion to \$2.1 billion and its net premium volume of \$650 million to \$1.2 billion.

AFIA's 4,700 employees combined with CIGNA International's 3,800 creates an international staff of 8,500. AFIA is licensed in 63 countries and CIGNA International is licensed in 57 countries.

"About 23 are not common countries, so the net will be about 80 countries," said Mr. Schrempf.

If one also counted all other countries in which AFIA and CIGNA have agency or affiliate arrangements, the company is capable of servicing accounts in 140 to 150 countries.

More importantly, in some countries AFIA is stronger than CIGNA and in others CIGNA is stronger than AFIA, giving the combined operations significant new strength.

Geographically, AFIA is strong in Japan and the Far East, Mr. Schrempf noted. "We complement each other in Latin America," he said, "and we are both strong in Eu-

rope."

CIGNA International's and AFIA's business mix is about the same, Mr. Schrempf said, with property and auto risks dominating liability risks.

AFIA writes very little life insurance, according to Mr. Schrempf, and CIGNA International writes about \$200 million in life, the largest portion coming from Crusader in London.

AIG, whose international business dates back to 1919—one year later than AFIA's—remains the largest international network with 14,400 employees overseas—9,500 in property/casualty operations and 4,500 in life. Premiums from foreign operations of AIG totaled \$2.7 billion in 1982, \$2.1 billion of which was for property/casualty lines, the most recent figures available. AIG is licensed in 115 countries, has 12 joint ventures and claims operations in an additional 11 countries for a presence in 138 countries.

AIG has been expanding internationally recently, too. It was the first U.S. insurer licensed to write direct business in Taiwan and Portugal this year. Last year, TransReCo, in which AIG is a major shareholder, was the first U.S. company licensed to write reinsurance in Japan.

In 1981, AIG entered into a joint venture with the state-owned insurer in Yugoslavia, following a 1980 joint venture with the People's Republic of China and 1979 joint ventures with the state-owned insurers in Romania, Hungary and Poland.

AIG officials did not want to comment on the AFIA acquisition.

"AFIA and AIG have normally been in a position to do just about anything," observed Mr. Seward of J&H. "On any given day," he said, "one can be better than the other" depending upon the needs of the client, he noted.

"This might give CIGNA an opportunity to do more. I would hope that's the way it comes out—for capacity, flexibility and service."

"This is tremendous," said Spencer Traver, assistant treasurer of The BFGoodrich Co. in Akron, Ohio. "AFIA's experience adds so much to what CIGNA can do. AFIA is loaded with fine people."

"This is good for risk managers," he continued. "A consolidated market will provide a proper alternative to AIU (AIG's foreign property/casualty operations). Matching the skill of AFIA with CIGNA's financial resources is a boon."

In addition, Mr. Traver noted, the acquisition will simplify the structure of global programs that have been underwritten by AFIA. As it stands now, AFIA's global programs are issued from its London office but a company's U.S. risks must be insured under sublayer insurance policies issued by AFIA shareholders in the U.S. because the AFIA agreement precludes AFIA from insuring U.S. risks.

"Now they can market themselves as a domestic market, too," he suggested.

Mr. Traver, who has placed the foreign risks of BFGoodrich with AFIA, is leaving the tire maker Jan. 3 to assume a position of senior vp in the Cleveland office of American Risk Management, a consulting, risk management services and captive specialist.

Mr. Schrempf downplays the new competitive edge CIGNA International is gaining. "This doesn't change the competitive balance—and four companies can enter the market," Mr. Schrempf said, referring to the selling shareholders in AFIA.

The additional licenses abroad do provide CIGNA with "more horse-

power to get the job done" for multinationals seeking global insurance programs, he noted.

"We are going to take the best of both organizations and create the pre-eminent world insurer with a focus on service and unequaled capability—in engineering and licensing," Mr. Schrempf said.

The economies of scale that can result from consolidation also will allow CIGNA to lower its operating costs at the local level and be "price competitive," he added.

Mr. Schrempf noted that CIGNA International has "decided to wait till the closing to work out our combination strategy on name, organization and structure."

CIGNA International wants the input of AFIA management, he said. "AFIA has a significant management pool. There are not that many people schooled in international insurance."

"Mr. Butler is a significant asset," Mr. Schrempf added. "We would want him and the senior people at AFIA to be a part of this."

The acquisition of AFIA is subject to U.S. and foreign regulatory approval.

CIGNA expects to notify the Federal Trade Commission of the acquisition pursuant to the requirements of the Hart-Scott-Rodino Antitrust Improvements Act of 1976.

Foreign authorities also must approve the transfer of licenses from AFIA shareholders to CIGNA International, which Mr. Schrempf admits in some jurisdictions may take several years.

However, the AFIA agreement requires the selling shareholders to allow the remaining AFIA operations to use their licenses in other countries for a period of time to smooth the transition.

"Sure there will be some problems," Mr. Schrempf said of transferring foreign licenses. "But not major problems—in part because we have licenses in many of the countries."

While CIGNA International may consolidate AFIA business into CIGNA International companies where they exist in some countries, "an extra license may be of value" in other countries, Mr. Schrempf noted.

Mr. Schrempf does not foresee any significant regulatory obstacles to the transaction.

Current policyholders of both organizations are unlikely to feel any fallout of the acquisition now. "Year-end renewals are effectively accomplished," observed Mr. Seward of J&H. "But it could cause people to wonder where they will be next Christmas."

In the meantime, Mr. Seward said, "We will be watching very closely to be sure that our clients receive the same service—and hopefully even better service." ■

## Kansas rate change

TOPEKA, Kan.—Workers compensation rates in almost all employee categories were changed Dec. 1, Insurance Commissioner Fletcher Bell announced. But total premiums collected stay the same.

Premium levels for manufacturing companies declined 0.3%, those for contracting companies declined 0.1% and those for all other companies increased 0.3%. Each employer classification was adjusted to reflect the following changes: a 7.4% decrease resulting from recognition of the most current loss experience; a 6.0% increase relating to assessments charged by the state workers compensation fund and the workers compensation administration expense fund; a 0.9% increase resulting from changes in expense provisions; a 1.3% increase resulting from benefit changes. ■

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# Christmas carols the industry can sing

By MYRON PICOULT

Special to Business Insurance

A YEAR AGO, we expressed our frustration and concern about property/casualty insurers in a parody of "A Visit From St. Nicholas" (BI, Dec. 20, 1982).

This holiday season, the operating environment is the worst we have ever seen, and the prospect of severe earnings problems for many companies is very real.

In tune with the season, and with some "Princetonly" assistance, we have written a parody of some standard Christmas carols. Hopefully, as we enter the new year, the industry's follies will "wring" out.

## 'Underwriting, Underwriting'

(Sung to the tune of "Jingle Bells")

Dashing through the red,  
Our books are all exposed  
Gathering our heads  
To keep from being closed. (Ha! Ha! Ha!)  
The chief keeps grinning wide  
Though things may fall apart—  
What fun it is to self-delude  
Then tumble with a start!

Underwriting, underwriting  
Discounts are too high.  
Oh, what fun it would be  
To see our prices fly—Oh!  
Underwriting, underwriting,  
Reserve deficiencies.  
With standards right and prices high  
Our losses tend to cease!

## 'Jake the Shrewd Employer'

(Sung to the tune of "Rudolph the Red-Nosed Reindeer")

Jake was a shrewd employer, who had a  
unique idea.  
He never let tradition cross his plans and  
interfere.  
All of the other chairmen used to laugh and  
call him names.

They never let poor Jake play in their  
exec'tive games.

Then one bleak December 1st, Jake stood up  
to say:

"Cut expenses and agency force—Change  
our direction, that's the course!"

Then all the other chairmen

Looked upon Jake with awe—

The only guy to try a new plan

That had never been tried before!

## 'Insolvency, Insolvency'

(Sung to the tune of "O Tannenbaum")

Insolvency, insolvency... mere thoughts of  
you upset us.

Insolvency, insolvency... we pray you'll  
never get us.

Just thoughts of closing up our firm

Would make the chairman start to squirm.

Insolvency, insolvency... O won't you please  
forget us.

Insolvency, insolvency... and rehabilitations.  
Insolvency, insolvency... our books were  
imitations.

All our mistakes were followed up,

Our company's been swallowed up.

Insolvency, insolvency... You've taught us  
limitations.

## 'Our Boss the Chairman'

(Sung to the tune of "Frosty the Snowman")

Our boss the chairman was a jolly happy guy.  
With a meerschaum pipe, a pinstriped suit  
and a monacle for his eye.

Our boss the chairman was a quiet one, they  
say—

Though his heyday's passed, he acted fast

when he didn't get his way.

There must have been some problem with

that market plan we had,

'Cause when we showed it to the boss—well,

he really got quite mad.

Our boss the chairman let us know just how

he felt.

He'd revise the plan to increase growth, or

the company would melt.

Our boss the chairman knew expenses were

too high.

"Commissions are the foremost cause," was

our chairman's wise reply.

The chairman said, "Quite clearly, dis-

tribution must be changed,

But in such a way that the agencies will not

be rearranged."

There must have been some wisdom in the  
words that he contrived

For when we put them to the test, our com-  
pany survived!

Oh, our boss the chairman is smart, as you  
can see

And it's earned him well, for as you can tell,  
he's the best in the industry.

## 'The 12 Board Meetings'

(Sung to the tune of "The 12 Days of Christmas")

At the first board meeting, my chairman said  
to me, "We've got a little problem on our  
hands."

At the second board meeting, my chairman  
said to me, "Get the team together, 'cause  
we've got a little problem on our hands."

At the third board meeting, my chairman  
said to me, "Fellas, what has happened? get  
the team together, 'cause we've got a little  
problem on our hands."

At the fourth board meeting, my chairman  
said to me, "The market plan went crazy!  
Fellas, what has happened? Get the team to-  
gether, 'cause we've got a little problem on  
our hands."

At the fifth board meeting, my chairman  
said to me, "The actuary is the key! The market  
plan went crazy! Fellas, what has happened?  
Get the team together, 'cause we've got a lit-  
tle problem on our hands."

At the sixth board meeting, my chairman  
said to me, "Augment the reserves. The actu-  
ary is the key! The market plan went crazy!  
Fellas, what has happened? Get the team to-  
gether, 'cause we've got a little problem on  
our hands."

At the seventh board meeting, my chairman  
said to me, "Raise taxable income. Augment  
the reserves. The actuary is the key! The mar-  
ket plan went crazy! Fellas, what has hap-  
pened? Get the team together, 'cause we've  
got a little problem on our hands."

At the eighth board meeting, my chairman  
said to me, "Restructure reinsurance. Raise  
taxable income. Augment the reserves. The  
actuary is the key! The market plan went  
crazy! Fellas, what has happened? Get the  
team together, 'cause we've got a little prob-

lem on our hands."

At the ninth board meeting, my chairman  
said to me, "The state commis'n called us—  
Restructure reinsurance. Raise taxable in-  
come. Augment the reserves. The actuary is  
the key! The market plan went crazy! Fellas,  
what has happened? Get the team together,  
'cause we've got a little problem on our  
hands."

At the 10th board meeting, my chairman  
said to me, "Hurry, get the bankers! The state  
commis'n called us—Restructure reinsur-  
ance. Raise taxable income. Augment the re-  
serves. The actuary is the key! The market  
plan went crazy! Fellas, what has happened?  
Get the team together, 'cause we've got a lit-  
tle problem on our hands."

At the 11th board meeting, my chairman  
said to me, "Someone call the lawyers! Hurry,  
get the bankers! The state commis'n called us  
—Restructure reinsurance. Raise taxable in-  
come. Augment the reserves. The actuary is  
the key! The market plan went crazy! Fellas,  
what has happened? Get the team together,  
'cause we've got a little problem on our  
hands."

At the 12th board meeting, my chairman  
said to me, "Today the firm went bankrupt. Some-  
one call the lawyers! Hurry, get the bankers!  
The state commis'n called us—Restructure  
reinsurance. Raise taxable income. Augment  
the reserves. The actuary is the key! The mar-  
ket plan went crazy! Fellas, what has hap-  
pened? Get the team together, 'cause we've got  
a little problem on our hands."

## British Issues

| 20 Dec<br>Companies | Price | P/E  | Div.  | Yield | 1 Week    |       |
|---------------------|-------|------|-------|-------|-----------|-------|
|                     |       |      |       |       | High—Low  | pence |
| Comm Union          | 188   | 31.3 | 16.86 | 9.0   | 188—184   |       |
| Eagle Star          | 722   | 21.9 | 27.86 | 3.9   | 728—716   |       |
| Genl Accident       | 448   | 13.2 | 26.43 | 5.9   | 450—447   |       |
| Gdn Royal Exch      | 505   | 13.3 | 30.71 | 6.1   | 515—505   |       |
| Phoenix             | 385   | 16.7 | 26.00 | 6.8   | 385—383   |       |
| Royal               | 505   | 12.9 | 39.28 | 7.8   | 518—505   |       |
| Sun Alliance        | 1438  | 16.5 | 78.57 | 5.5   | 1463—1413 |       |

| Brokers        |     | Price | P/E   | Div. | Yield   | 1 Week   |       |
|----------------|-----|-------|-------|------|---------|----------|-------|
|                |     |       |       |      |         | High—Low | pence |
| CE Heath       | 318 | 7.9   | 22.86 | 7.2  | 335—318 |          |       |
| Hogg Robinson  | 126 | 9.7   | 9.43  | 7.5  | 131—126 |          |       |
| JH Minet       | 138 | 10.6  | 7.57  | 5.5  | 142—138 |          |       |
| Sedg Grp       | 231 | 11.6  | 11.43 | 4.9  | 246—231 |          |       |
| Stenhouse Hldg | 126 | 12.1  | 9.43  | 7.5  | 131—126 |          |       |
| Stew Wrightson | 283 | 9.4   | 22.57 | 8.0  | 293—283 |          |       |
| Willis Faber   | 683 | 14.2  | 30.00 | 4.4  | 685—675 |          |       |

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

## BI Industry Stock Report

DEC. 20, 1983 12/14/83 THRU 12/20/83

| Insurance Cos                |      | Price  | % Chg. | P/E  | \$ Div. | % Yld. | High   | Low           | Vol. (000) |
|------------------------------|------|--------|--------|------|---------|--------|--------|---------------|------------|
| Aetna Life & Cas Co          | NYSE | 35.25  | -3.4   | 5.6  | 2.64    | 7.5    | 36.50  | 35.25         | 832.0      |
| American Bankers Ins Group   | OTC  | 14.38  | -1.8   | 11.6 | 0.50    | 3.5    | 15.25  | 14.25         | 35.0       |
| American Gen Ins Co          | NYSE | 22.75  | -5.7   | 7.8  | 0.80    | 3.5    | 23.38  | 22.25         | 702.4      |
| American Indty Fint Corp     | OTC  | 22.38  | -3.5   | 12.0 | 1.12    | 5.0    | 25.63* | 21.88         | 47.1       |
| American Intl Group Inc      | OTC  | 62.50  | -2.7   | 10.5 | 0.44    | 0.7    | 62.75  | 62.50         | 800.3      |
| American Natl Ins Co         | OTC  | 21.75  | 0.0    | 7.9  | 0.96    | 4.4    | 21.75  | 21.63         | 273.3      |
| American Sts Life Ins Co     | OTC  | 48.50  | -1.0   | 13.3 | 0.88    | 1.8    | 49.00  | 48.50         | 1.8        |
| Aneco Reins Ltd              | OTC  | 3.75   | 3.4    | 26.8 | 0.00    | 0.0    | 3.75   | 3.63          | 7.9        |
| Aveco Corp                   | AMEX | 20.25  | 0.0    | 12.5 | 0.58    | 2.9    | 20.38  | 20.25         | 7.6        |
| Banks Iowa Inc               | OTC  | 47.50  | 0.0    | 15.3 | 1.52    | 3.2    | 47.50  | 47.50         | 0.6        |
| Bitco Corp                   | OTC  | 16.25  | -5.8   | 0.0  | 1.33    | 8.2    | 17.25  | 16.25*        | 27.4       |
| Carolina Cas Ins Co          | OTC  | 6.75   | 0.0    | 0.0  | 0.20    | 3.0    | 6.75   | 6.75          | 1.5        |
| Chubb Corp                   | OTC  | 69.38  | 1.6    | 9.0  | 3.12    | 4.5    | 69.38  | 68.75         | 355.2      |
| Combined Intl Corp           | NYSE | 37.88  | -2.3   | 11.2 | 2.00    | 5.3    | 38.50  | 37.88         | 99.5       |
| Continental Corp             | NYSE | 27.63  | 1.4    | 37.3 | 2.60    | 9.4    | 27.63  | 27.00         | 320.2      |
| Crawford & Co                | OTC  | 14.50  | 0.0    | 10.7 | 0.60    | 4.1    | 14.75  | 14.50         | 23.1       |
| Crown Life Ins Co            | OTC  | 125.00 | 4.5    | 8.2  | 3.20    | 2.6    | 125.00 | 125.00        | 1.2        |
| Employers Cas Co             | OTC  | 31.25  | -1.6   | 7.0  | 1.20    | 3.8    | 31.50  | 31.25*        | 4.3        |
| Equifax Inc                  | NYSE | 27.50  | -5.2   | 11.5 | 1.60    | 5.8    | 28.63  | 27.50         | 28.5       |
| Excelstar Ins Co             | OTC  | 21.50  | 0.0    | 18.1 | 0.00    | 0.0    | 21.50  | 21.50         | 0.0        |
| Farmers Group Inc            | OTC  | 40.13  | -0.3   | 9.9  | 1.36    | 3.4    | 40.13  | 39.75         | 238.2      |
| Foremost Corp Amer           | OTC  | 27.00  | -3.6   | 8.2  | 0.88    | 3.3    | 27.75  | 27.00         | 59.9       |
| Fremont Gen Corp             | OTC  | 14.75  | -7.1   | 0.0  | 0.48    | 3.3    | 15.50  | 14.75         | 350.3      |
| Great West Life Assurn Co    | OTC  | 264.50 | 0.0    | 9.5  | 1.00    | 4.2    | 264.50 | 264.50        | 0.0        |
| Hanover Ins Co               | OTC  | 53.00  | 1.0    | 6.8  | 0.88    | 1.7    | 53.00  | 52.75         | 9.6        |
| Hartford Steam Boiler Insptn | OTC  | 55.50  | 0.0    | 10.8 | 3.00    | 5.4    | 55.50  | 55.50         | 1.8        |
| Jefferson Natl Life Ins Co   | OTC  | 42.50  | 0.0    | 14.3 | 0.76    | 1.8    | 42.50  | 42.50         | 0.3        |
| Kemper Corp                  | OTC  | 39.88  | 0.0    | 8.6  | 1.80    | 4.5    | 40.00  | 39.88         | 147.7      |
| Lincoln Natl Corp Ind        | NYSE | 65.75  | 0.6    | 9.5  | 3.36    | 5.1    | 66.13  | 65.25         | 83.2       |
| Mission Ins Group Inc        | NYSE | 24.75  | -0.5   | 10.0 | 1.00    | 4.0    | 25.25  | 24.75*        | 156.6      |
| Nationwide Corp Ohio         | OTC  | 41.75  | 0.0    | 15.3 | 0.70    | 1.7    | 0.00   | DID NOT TRADE |            |
| Northwestern Natl Life Ins   | OTC  | 34.50  | -4.2   | 9.1  | 1.50    | 4.3    | 36.00  | 34.50         | 14.9       |
| Ohio Cas Corp                | OTC  | 45.63  | 2.2    | 8.5  | 2.52    | 5.5    | 45.63  | 44.50         | 59.7       |
| Old Rep Intl Corp            | OTC  | 32.75  | -0.4   | 7.3  | 0.90    | 2.7    | 32.88  | 32.75         | 18.7       |
| Orion Cap Corp               | NYSE | 28.00  | 1.8    | 13.5 | 0.76    | 2.7    | 28.00  | 27.50         | 11.9       |
| Preferred Risk Life Ins Co   | OTC  | 19.88  | -0.6   | 7.6  | 0.67    | 3.4    | 20.00  | 19.88         | 1.4        |
| Provident Life & Acc Ins Co  | OTC  | 65.50  | 0.8    | 8.1  | 2.60    | 4.0    | 65.50  | 65.50         | 6.4        |
| St Paul Cos Inc              | OTC  | 58.38  | 0.2    | 7.9  | 2.80    | 4.8    | 58.38  | 58.00         | 102.0      |
| SAFECO Corp                  | OTC  | 55.50  | -2.0   | 10.9 | 2.60    | 4.7    | 55.88  | 55.50         | 45.8       |
| Sri Corp                     | OTC  | 16.50  | -1.5   | 7.1  | 0.68    | 4.1    | 16.75  | 16.38         | 286.8      |
| Seibels Bruce Group Inc      | OTC  | 22.63  | -1.1   | 12.8 | 0.80    | 3.5    | 22.88  | 22.63         | 31.3       |
| Statesman Group Inc          | OTC  | 8.88   | -7.8   | 7.7  | 0.15    | 1.7    | 9.50   | 8.88          | 93.9       |
| Tokio Marine & Fire Ins Co   | OTC  | 109.50 | -2.7   | 22.1 | 0.96    | 0.9    | 111.75 | 109.50        | 2.7        |

|                                     |      | Price   | % Chg. | P/E  | \$ Div. | % Yld. | High   | Low    | Vol. (000) |
|-------------------------------------|------|---------|--------|------|---------|--------|--------|--------|------------|
| Travelers Corp                      | NYSE | 30.75   | -4.7   | 7.7  | 1.80    | 5.9    | 32.00  | 30.50  | 403.0      |
| United Fire & Cas Co                | OTC  | 32.00   | 0.0    | 11.4 | 0.88    | 2.8    | 32.00  | 32.00  | 3.7        |
| United States Fid & Gty Co          | NYSE | 54.50   | -6.0   | 9.6  | 3.84    | 7.0    | 57.75  | 54.50  | 432.7      |
| United Svcs Life Ins Co             | OTC  | 23.13   | -1.1   | 6.8  | 1.00    | 4.3    | 23.13  | 23.13  | 2.5        |
| USlife Corp                         | NYSE | 27.63   | -0.9   | 7.9  | 0.96    | 3.5    | 27.75  | 27.13  | 53.3       |
| Washington Natl Corp                | NYSE | 23.75   | 1.1    | 11.3 | 1.08    | 4.5    | 24.50  | 23.75  | 133.3      |
| Zenith Natl Ins Corp                | OTC  | 14.50   | 1.8    | 10.2 | 0.60    | 4.1    | 14.50  | 14.25  | 27.9       |
| INSURANCE COMPANIES                 |      | AVERAGE |        | 10.0 | 3.8     |        |        |        |            |
| Agents/Brokers                      |      |         |        |      |         |        |        |        |            |
| Alexander & Alexander Svcs          | NYSE | 20.00   | -2.4   | 0.0  | 1.00    | 5.0    | 20.88  | 20.00  | 191.9      |
| Baldwin & Lyons Inc                 | OTC  | 37.50   | 0.0    | 15.6 | 0.80    | 2.1    | 37.50  | 37.50  | 0.5        |
| Corroon & Black Corp                | NYSE | 23.75   | -1.0   | 14.9 | 1.00    | 4.2    | 24.25  | 23.75  | 32.9       |
| Crump & M Cos Inc                   | OTC  | 10.50   | 2.4    | 14.4 | 0.40    | 3.8    | 10.50  | 10.25  | 61.3       |
| Emmet & Chandler Cos Inc            | OTC  | 11.88   | 0.0    | 32.1 | 0.00    | 0.0    | 11.88  | 11.88  | 0.3        |
| Hall Frank B & Co Inc               | NYSE | 24.13   | -3.0   | 21.9 | 0.00    | 0.0    | 25.13  | 24.13* | 202.0      |
| Integrated Res Inc                  | AMEX | 25.63   | -9.3   | 8.3  | 0.00    | 0.0    | 27.50  | 25.63* | 356.4      |
| Marsh & McLennan Cos Inc            | NYSE | 47.88   | 3.0    | 14.0 | 2.20    | 4.6    | 47.88  | 47.00  | 238.2      |
| Poe & Assoc Inc                     | OTC  | 5.25    | -4.5   | 0.0  | 0.00    | 0.0    | 5.25   | 5.25*  | 3.5        |
| Reed Stenhouse Cos Ltd              | OTC  | 12.25   | 2.1    | 14.9 | 0.60    | 4.9    | 12.38  | 12.25  | 69.0       |
| AGENTS/BROKERS                      |      | AVERAGE |        | 16.9 | 2.7     |        |        |        |            |
| Conglomerates/Holding Cos.          |      |         |        |      |         |        |        |        |            |
| American Express(Fireman's Fd)      | NYSE | 31.25   | 9.6    | 9.1  | 1.28    | 4.1    | 31.25  | 29.63  | 8,402.0    |
| Anderson Clayton(Ranger/PanAm)      | NYSE | 28.38   | -1.3   | 13.2 | 1.32    | 4.7    | 28.50  | 28.25  | 9.9        |
| Armco Inc                           | NYSE | 20.13   | 1.9    | 0.0  | 0.40    | 2.0    | 20.13  | 19.50  | 258.7      |
| Baldwin Utd Corp                    | NYSE | 2.50    | -4.8   | 0.0  | 0.00    | 0.0    | 2.63   | 2.50   | 402.3      |
| CIGNA Corp                          | NYSE | 43.63   | -3.9   | 7.5  | 2.48    | 5.7    | 44.88  | 43.50  | 400.6      |
| City Investing Co. (Home Ins.)      | NYSE | 38.75   | 0.0    | 11.4 | 1.80    | 4.6    | 38.75  | 37.50  | 534.7      |
| CNA Fint Corp (CNA)                 | NYSE | 21.50   | 0.6    | 7.0  | 0.00    | 0.0    | 21.63  | 21.50  | 123.1      |
| Control Data (Comm. Credit)         | NYSE | 64.50   | -2.6   | 10.9 | 0.60    | 1.3    | 45.25  | 44.00  | 305.6      |
| General Re Corp                     | NYSE | 64.63   | -2.8   | 13.7 | 1.28    | 2.0    | 66.00  | 64.63  | 202.3      |
| Gulf Utd Corp                       | NYSE | 29.50   | -3.7   | 9.1  | 1.32    | 4.5    | 29.88  | 29.38  | 403.6      |
| ITT (Hartford Group)                | NYSE | 43.25   | -2.5   | 9.7  | 2.76    | 6.4    | 43.50  | 42.50  | 835.9      |
| Optimum Hldg Corp                   | OTC  | 5.00    | 0.0    | 38.5 | 0.00    | 0.0    | 5.00   | 5.00   | 23.5       |
| Sears Roebuck & Co. (Allstate)      | NYSE | 36.63   | -3.6   | 10.6 | 1.52    | 4.2    | 37.25  | 36.63  | 1,414.0    |
| Teledyne Inc (Argonaut)             | NYSE | 163.50  | 1.1    | 15.2 | 0.00    | 0.0    | 163.50 | 160.63 | 321.9      |
| Transamerica Corp                   |      |         |        |      |         |        |        |        |            |
| (Occidental & Fred S. James)        | NYSE | 30.63   | -5.8   | 10.0 | 1.56    | 5.1    | 31.50  | 30.38  | 232.6      |
| CONGLOMERATES/HOLDING COS.          |      | AVERAGE |        | 15.8 | 2.7     |        |        |        |            |
| *Record high/low since Jan. 1, 1962 |      |         |        |      |         |        |        |        |            |

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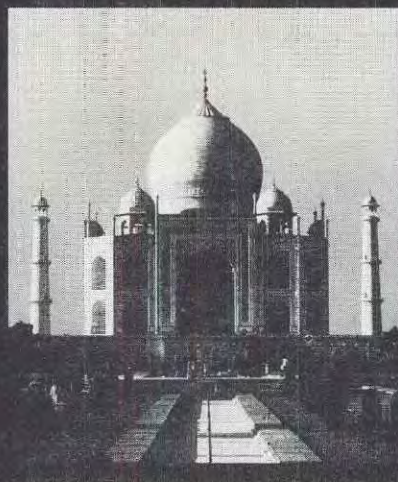
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