

business insurance

Former L.W. Biegler official pleads guilty to fraud charges

CHICAGO—A former executive of a Chicago underwriting manager pleaded guilty and two others were arraigned last week in federal court on felony charges in an alleged scheme to overcharge clients and split commissions.

Pleading guilty to two counts of mail fraud was Harry James Cantwell, former executive vp of L.W. Biegler Inc. He will be sentenced in

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More insurers formalize coverage for transplants

By DIANE LYNN KASTIEL

Several major health insurers and Blue Cross/Blue Shield plans are expanding and formalizing insurance coverage for high-risk organ transplants.

In the past, some insurers have covered the cost of heart and liver transplants—and in some cases even heart-lung and pancreas transplants—on a case-by-case basis. But, in the last six months or so at least four large health insurers and more than 30 BC/BS plans and health maintenance organizations have incorporated transplant coverage into their basic health care policies or have developed a rider that employers can purchase to cover the cost of organ transplants.

Two more insurers will offer a rider for transplant coverage early in 1985.

In all, among 13 insurers and BC/BS plans surveyed by *Business Insurance*, all now offer coverage for liver transplants; all but one offer coverage for heart transplants; nine offer coverage for heart-lung transplants; and five offer coverage for pancreas transplants.

In contrast, 15 months ago when *BI* surveyed major insurers and BC/BS plans, only Metropolitan Insurance Co. and CIGNA Corp., which both had been covering heart transplants for several years, had adopted a formal policy to cover liver transplants. No insurer at that time offered a product to cover heart-lung and pancreas transplants (*BI*, Aug. 15, 1983).

Insurer	Heart	Heart-Lung	Liver	Pancreas	Additional cost	
					Yes	No
Aetna Life Insurance	X		X			X
Bankers Life	X		X			X
BC/BS of California	X	X	X			X
BC/BS of Illinois*	X	X	X		X	
BC/BS of Massachusetts	X	X	X			X
BC/BS of Rhode Island	X	X	X	X	X	
CIGNA	X		X			X
Equitable*	X	X	X	X	X	
Liberty National	X	X	X	X	X	
Metropolitan Life	X		X			X
Monumental General	X	X	X	X	X	
Prudential	X	X	X			X
Travelers	X	X	X	X	X	

Many other insurers, like John Hancock Mutual Life Insurance Co., often will cover the costs of transplants, but they have chosen not to formally offer such coverage. Instead, they evaluate each case as it arises.

For quite some time, major health insurers have covered the cost of kidney, cornea and bone marrow transplants, procedures that have been performed thousands of times over the last 15 to 20 years. But heart, liver, heart-lung and pancreas transplants were considered experimental by insurers, and therefore were often not insurable.

These procedures also are very expensive. The average cost of a liver transplant ranges between \$100,000 and \$300,000; heart transplants cost an average of \$125,000; heart-lung transplants cost about \$125,000; and pancreas transplants average between \$35,000 and \$40,000.

But just within the last year—and in several cases the last couple of months—insurers began reclassifying these procedures as therapeutic rather than experimental and are offering specific coverage for them.

For example, beginning Nov. 1, Liberty National Insurance Co. and Monumental General Insurance Co. began offering coverage for heart, liver, heart-lung and pancreas transplants.

For Liberty National policyholders, the coverage can be added to the basic group medical policy for a monthly cost of 25 cents to 50 cents per employee for both individual and family coverage, said T. Michael Presley, associate actuary, group insurance. The coverage is reinsured by Liberty National through CIGNA Corp.'s special organ transplant reinsurance facility (see story, page 16).

"We felt our risk was becoming greater and greater," Mr. Presley said. "Whether the operation was experimental or not, whether we were right or not in denying the claim, it would just be terrible public relations to have one of our policyholders on TV saying we're denying that claim. It's a terrible situation to put your policyholders in."

Monumental General Insurance Co., a Baltimore-based insurer specializing in group coverage for associations such as the American Federation of Teachers and various alumni associations, began offering a rider

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Treasury proposal kills tax breaks for benefits

By JERRY GEISEL

WASHINGTON—The Treasury Department's tax simplification proposal is the most devastating attack ever launched on the nation's tax-preferred employee benefit system.

Nearly every major employee benefit either would be wiped off the books or would lose its tax-favored status under the proposal released last week.

However, despite the enormous effect the proposal would have on employee benefits, experts note that employers may not lobby as intensely against the benefit changes as they would against other provisions in the proposal.

Because of this, some observers fear that the benefit changes could be enacted, even if most of the proposal dies.

But, no one questions the impact the proposal would have on employee benefits.

For example, the tax plan would eliminate 401(k) salary reduction plans, the fastest-growing employee benefit plan, by eliminating Section 401(k) of the Internal Revenue Code, which allows the plans to operate.

Similarly, thousands of tax-free cafeteria benefit plans, which give employees a choice of taxable and non-taxable benefits, would be prohibited if Section 125 of the tax code is eliminated, as is proposed.

Also, for the first time, employees would be taxed on benefits their employers historically have been able to provide tax-free.

For example, employers' health care costs that exceed \$175 a month for family coverage and \$70 a month for individual coverage would be included as taxable income to employees.

In addition, employer contributions for life insurance, dependent child care, educational assistance, van pooling and group legal benefits also would become taxable income to employees.

Employees also would be hit with other new taxes on their benefits. For example, the Treasury Depart-

ment's proposal calls for imposing special taxes for pre-retirement distributions from retirement plans.

A 10% tax would be imposed if the distribution were used for tuition or for a first-time purchase of a home, while a 20% tax would be charged for distributions used for other purposes.

Employees, though, would be allowed to increase their annual contributions to Individual Retirement Accounts to \$2,500, up from the current \$2,000 limit.

Besides affecting the tax status of employee benefits, the proposal would also make it much more costly for some employers to fund their benefit plans.

For example, under Section 501(c)(9) of the tax code, employers can currently make tax-deductible contributions to Voluntary Employee Beneficiary Assns., also known as 501(c)(9) trusts. Earnings on assets held by the VEBAs, which must be used to pay

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How proposed tax plan would affect benefits

- Eliminate 401(k) salary reduction plans.
- Eliminate tax-free cafeteria benefit plans.
- Tax employees on employers' health care contributions that exceed \$70 a month for individual coverage and \$175 for family coverage.
- Tax employees on employer contributions for group term life insurance, dependent child care, educational assistance, group legal and van pooling benefits.
- Tax interest earned on reserves held by Voluntary Employee Beneficiary Assns., also known as 501(c)(9) trusts.
- Impose a 10% excise tax on asset reversions from terminated overfunded pension plans.
- Increase annual contribution limits to Individual Retirement Accounts to \$2,500 from \$2,000.

Insurer's duty to defend ends when coverage expires: Judge

By DOUGLAS McLEOD

WASHINGTON—Former asbestos producer Keene Corp.'s ability to recover defense costs from one of its primary insurers is limited under a recent ruling by a federal judge.

U.S. District Judge June L. Green ruled earlier this month that Insurance Co. of North America's duty to defend Keene under policies issued before 1966 ends when the policies' limits are exhausted.

The decision goes against three previous state and federal court rulings—upon which Keene relied—that held that insurers' duty to defend asbestos producers under pre-1966 policies continues even after policy limits have been paid out in judgments or settlements.

Policies issued before 1966 agreed to pay defense costs in addition to applicable liability limits, but did not contain a provision—added by the insurance industry in 1966—stating that the duty to defend ends when liability limits are exhausted.

Judge Green's opinion is the first in asbestos-related insurance litigation to limit primary insurers' defense duties under these policies, lawyers say.

Insurance company lawyers note that the decision will be useful in appealing previous opinions that said

insurers have an unlimited defense cost obligation under pre-1966 policies.

If Judge Green's opinion stands and becomes the rule in other jurisdictions, they add, asbestos producers and insurers that have not yet joined the proposed industrywide asbestos claims facility may be prompted to do so.

The rules of the facility similarly provide that the duty to defend under pre-1966 policies ends with the exhaustion of the policies' limits. But, the facility also establishes a defense fund to be used once defense cost coverage ceases (*BI*, May 28; July 30).

Keene, a unit of Bairnco Corp., is considering joining the claims facility but still has reservations about its provisions for defense cost coverage, according to Vp and General Counsel Howard Mileaf.

Keene hasn't yet decided whether it will appeal Judge Green's ruling, he said.

Other asbestos producers express disappointment with the ruling and hope it will be appealed.

"I just completely disagree with (Judge Green's) analysis," said Harry Day, vp and general counsel for Raymark Corp., which won unlimited defense cost coverage on pre-1966 policies in a 1982 court decision.

"I'm very troubled by the Keene decision. I wish it

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A&A still attempting to collect claims payments for Westar loss

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update

Ex-Biegler exec pleads guilty

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January. Pleading innocent to 13 counts of mail and wire fraud was Steven Hoesley, president of First Annuities Inc., according to Deputy U.S. Attorney Ira H. Raphaelson. Also arraigned on two counts of mail fraud was Geoffrey Steger, president of Geoffrey Steger Inc. and Corporate Structures Inc. His plea was not available.

Crum & Forster Inc., its subsidiaries—including Biegler—and its clients were allegedly defrauded through the scheme over a 2½-year period ending in February, according to court papers.

A Biegler official declined to comment on the case.

According to court papers, the three men allegedly overcharged clients that purchased single-premium annuities to fund structured settlements.

Florida studies work comp hike

TALLAHASSEE, Fla.—The Florida Insurance Department is considering a request to increase workers compensation rates by 34.3% and was scheduled to conduct a fact-finding hearing on the request late last week, according to a spokeswoman.

The increase was requested by the National Council on Compensation Insurance, a ratemaking organization that represents work comp insurers. The new rates would take effect Jan. 1.

Florida's most-recent rate increase, which took effect March 1, was 10.1%, almost 8% less than the NCCI had requested.

A recent study of Florida's 5-year-old wage-loss system found that insurers, still adjusting to the wage-loss approach to workers compensation, have been underreserving, but that the system is generally "working well" (BI, Oct. 29).

Under a wage-loss system, employees are compensated for injuries based on their actual lost wages, not based on a schedule of benefits that may bear no relation to actual lost salary.

Reed Stenhouse sale rumored

TORONTO—A Reed Stenhouse Cos. Ltd. executive called reports last week that the broker is negotiating a sale of its company or its U.S. operations to another financial services firm "just rumors."

Spokesmen for Corroon & Black Corp. and Frank B. Hall & Co., two brokers named as possible buyers, said that no negotiations are being conducted between them and Reed Stenhouse.

A spokesman for Citicorp, another named potential buyer, said of rumored negotiations: "It hasn't come before senior management. That does not mean that someone in the company may not be negotiating with them."

Reed Stenhouse officials in the United States could not be reached for comment because they were all engaged in meetings.

SEC rules on insurers' reports

WASHINGTON—The Securities and Exchange Commission says property/casualty insurers must provide more detailed information on their reserving practices.

The policy adopted by the SEC, however, differs significantly from its original proposal, which would have required insurers to provide detailed information on each line of business. Insurers as well as securities analysts had complained that the volume of information would have been overwhelming, says Dorothy Walker, an SEC accountant.

Under the new policy, insurers must give a description of transactions incurred during the year, including changes in reserving assumptions and major claims paid. Included will be a table presenting aggregate development data on paid claims for the past 10 years.

The rules and guidelines also stipulate that insurers disclose loss portfolio transfers. In the past, only general regulations required disclosure of material transactions by insurance companies. These rules are specific to insurers.

Most of the new policy takes effect Dec. 15. The exception is a requirement that insurers submit to the SEC the data on loss reserve development that they now submit to the state under Schedules O and P. Insurers have been given another year to comply with that requirement because they will have to consolidate the information when more than one insurance company is involved.

N.Y. reverses surety bond rule

NEW YORK—The New York Insurance Department says property/casualty insurers may no longer use surety bonds to guarantee that reinsurers unlicensed in the state will pay claims. However, a department spokesman noted that surety bonds are seldom used and bonds issued before Dec. 1 will remain in effect.

The department spokesman explained that under New York insurance law, a property/casualty insurer licensed in the state cannot take credit in its financial statement for reinsurance with an un-

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Multiemployer Act changes constitutional, judge rules

By JERRY GEISEL

WASHINGTON—A provision in a federal law that exempts some employers that left multiemployer pension plans from paying part of the plans' debts is constitutional, a federal judge says.

U.S. District Court Judge John Garrett Penn in Washington upheld the constitutionality of a provision in this year's tax law that changes the effective date of the withdrawal liability provisions in the Multiemployer Amendments Act to Sept. 26, 1980, from April 29, 1980 (BI, July 2).

That recently passed provision requires multiemployer plans to refund, with interest, any withdrawal liability payments collected from employers that withdrew from underfunded plans during that five-month period.

"Clearly, Congress had a legitimate purpose, namely, to reverse its earlier action making the MPPAA retroactive, which it has now determined was unnecessary," Judge Penn said.

The ruling, the first of its kind, requires I.A.M. National Pension Fund Benefit Plan A, a large Washington-based multiemployer plan, to refund \$85,708 in withdrawal liability payments that Morristown, N.J.-based Allied Corp. made to the plan.

The decision is a victory for employers like Allied that withdrew from underfunded plans during the five-month period and were later exempted from withdrawal liability by Congress.

"Obviously, we're pleased with the decision," said an Allied attorney. "We just wish, though, that Congress made the effective date" Sept. 26, 1980, in the first place, the attorney said.

The dispute between Allied and the I.A.M. Pension Fund involved the Allied's withdrawal from the plan after it terminated operations at a fluorite mining and milling facility in Cave-in-Rock, Ill.

After Allied withdrew from the plan, it received a withdrawal liability bill of \$278,758. Allied rejected the claim, arguing among other things that it left the plan in late 1979—before the withdrawal liability provisions of MPPAA went into effect.

An arbitrator in December 1983 ruled against Allied and determined that Allied left the plan on May 7, 1980, the date it agreed to sell the Illinois mining facility to another company.

While the case was in arbitration, Allied made \$85,708 in withdrawal liability payments to the plan.

But under the Deficit Reduction Act of 1984, passed by Congress in June, multiemployer plans like the

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Public, private entities join forces, offer day-care center to workers

By MARGARET LEROUX

BURBANK, Calif.—Workers at eight Burbank employers are taking advantage of what the employers say is the nation's first day-care center funded by a consortium of public entities and private-sector businesses.

The Horace Mann Infant/Toddler Care Center opened Oct. 15 in a vacant school building of the same name. Declining enrollment caused the Burbank Unified School District to close the school four years ago, and it was renovated for use as a day-care center with money provided by the eight employers.

Working with the school district, which operates the center, are Lockheed Corp., Walt Disney Productions, Columbia Pictures Television Division, St. Joseph's Medical Center and the city of Burbank.

Also participating are National Broadcasting Co. Inc., Warner Bros. Inc. and Burbank Studios.

Each of the employer participants contributed \$10,000 to the project and, in return, received 20 slots for their employees' children. Warner Brothers and Burbank studios divided the cost and the 20 slots between them. The school district received 20 slots for staffing and administering the center.

The center is the brainchild of Goldie Bemel, director of child development for the Burbank school district.

"My intent was to bring the private and public sectors together to fill a need for day care and to utilize a school building that was sitting empty," she said.



Graphic: Roger Schillerstrom

The need for day care in Burbank is obvious, Ms. Bemel said. "We (the school district) operate four state-funded day-care centers that service 343 children, and we have a waiting list of 500."

In addition, the school district runs a before- and after-school activities program. "The six classrooms we have for the program are filled, and I expect we'll add another next year," she added.

Ms. Bemel received a grant from the state Department of Education to plan the day-care center in September 1983 and then approached the participating employers, all of which are located close to the center.

"A lot of the employers had done research on day-care needs of their employees," she said. "But, what holds them back is the cost of building a center. We already had a facility, the expertise to run the center; all we needed was money to put in air conditioning and adapt the building for use as a day-care center."

Although they have been offering the day-care center for only a few weeks, employers in the consortium report that they have received positive feedback from employees.

Laura Wiley, administrative analyst for the city of Burbank, noted that the center received support from the presidents of four employee associations representing the city's 1,165 employees.

"We got involved because it sounded like a very good idea and it provided a way to offer an additional benefit," she said.

Sandra Cooper, senior personnel representative for

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Regulators seek funds for Cherokee

By DOUGLAS McLEOD

NASHVILLE, Tenn.—Dana Corp., parent company of Cherokee Insurance Co., is expected to release \$4.2 million in proceeds from a letter of credit to Cherokee's rehabilitators to avoid being cited for contempt of court.

Lawyers for the Tennessee Insurance Department were negotiating with Dana last week over the letter of credit proceeds, which the department expects to be paid into Chancery Court for Davidson County in Nashville, lawyers involved in the case say.

Cherokee was placed in rehabilitation in July by Tennessee Insurance Commissioner John C. Neff.

The \$4.2 million letter of credit was issued by Continental Illinois National Bank & Trust Co. of Chicago last February on Cherokee's behalf, according to David S. Weed, special deputy Tennessee insurance commissioner for Cherokee's rehabilitation.

The purpose of the letter of credit, Mr. Weed said, was to prevent Nashville-based Cherokee from having to report a drain on its surplus resulting from its inability to collect on reinsurance claims filed with Universal Marine Insurance Co. Ltd. of Bermuda.

Cherokee retroceded business to Universal Marine, a unit of Ingram Corp., that it had assumed from Beacon Insurance Co. of Raleigh, N.C., under five quota-share

and excess-of-loss reinsurance agreements.

Those reinsurance agreements have been the subject of litigation involving Universal Marine, Cherokee and Beacon, but Cherokee and Beacon have recently settled their litigation over the contracts (BI, Nov. 19).

An effort by Universal Marine to block the settlement by preventing the disbursement of \$5.6 million in proceeds from two letters of credit arranged by Cherokee and payable to Beacon failed when a federal appeals court judge last week denied Universal Marine's

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errors & omissions

• James L. Sobieski, vp of administration at Emett & Chandler Cos. Inc., did not use the word "deceptive" in describing the brokerage's nine-month earnings (BI, Nov. 19). Mr. Sobieski's point was that Emett & Chandler's net operating income of \$81,000 for the first nine months of 1984 was an improvement compared with the first nine months of 1983, in which net income included more than \$2 million in non-recurring gains.

Small part of Westar loss still not paid by insurers

By STACY SHAPIRO

LONDON—Alexander & Alexander Inc., Western Union Corp.'s satellite insurance broker, says it is still trying to collect about \$750,000 to \$800,000 in claims payments for the February loss of the Westar VI satellite.

A&A says it is still trying to collect a portion of the \$107 million claim from two primary-layer insurers: Mission National Insurance Co. in Los Angeles and St. Eustasius Insurance Co. of the Dutch Antilles.

Each of these companies wrote \$500,000 of the \$80 million primary layer on the Westar, according to Thomas M. Redmond Jr., managing vp of A&A's aviation and aerospace division in New York.

The coverage was brokered to both insurers through a chain of intermediaries in London and New York.

According to Mr. Redmond, Mission has paid only about half of its portion of the claim, while St. Eustasius hasn't paid anything.

However, according to Mission's copy of the policy, Mission only wrote \$200,000 in coverage for the Westar VI, says Robert Barberi, vp at Sayre & Toso Inc., Mission's managing general agent and a part of Mission Insurance Group Inc.

Mr. Barberi adds that Mission has paid its portion of the claim in full.

"If there is a dispute on the claim, I don't know about it," he said. "It is the first I have ever heard of this thing. Our policy is for \$200,000 and the Supreme Court can't change that."

A&A will not comment on the differences between it and Mission. "Clearly there is a conflict," said an A&A spokesman.

St. Eustasius is disputing the claim because of a disagreement between it and underwriters over last month's salvage of the Westar (see related story), said Gary Hoskie, vp of St. Eustasius and an executive at Countach Intermediaries Ltd. in New York.

"Nobody invited St. Eustasius to talk about the salvage," he said.

St. Eustasius' attorney, Bernard Hubscher, says that he is in the midst of settlement negotiations between St. Eustasius and A&A over the Westar VI claim.

The activities of St. Eustasius, which is a captive of Lladium Mines Corp. of Panama, are currently under investigation by the New York Insurance Department (BI, Oct. 22). The Insurance Department has contacted A&A about St. Eustasius' role in the Westar coverage, A&A's Mr. Redmond says.

Mr. Redmond says he is confident that A&A will be able to recover the funds it says are still owed on the Westar loss without resorting to litigation.

"We worked all summer to get carriers on the Westar VI to pay, and it was routine," he said. "Part of our job is to get underwriters to pay, and we are doing the same with Mission and St. Eustasius. Occasionally, we have difficulty in collecting claims."

"With both Mission and St. Eustasius, we are resorting to our usual way of resolving this. Right now the claims department is handling this."

Kevin J. Christel, senior director of insurance for Western Union in Upper Saddle River, N.J., says the company is confident of A&A's ability to collect. Mr. Christel referred other questions regarding the dispute to A&A.

The Westar VI coverage was placed with Mission and St. Eustasius
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Merrett says worry, elation marked satellite salvage

By STACY SHAPIRO

LONDON—Although Stephen Merrett has never met the space shuttle astronauts who salvaged two wayward satellites last month, the Lloyd's of London underwriter has a strong bond with the astronauts.

"Just as the salvage was about to get under way, one of the (other) astronauts at the Johnson Space Center came up to me and told me that he was speaking for all the astronauts—as distinct from the NASA administrators and bureaucrats—and wanted us to know how much they appreciated what Lloyd's had done for them," Mr. Merrett recalled.

"He said the astronauts were aware that if we hadn't taken the initiative and really fought for the salvage, they would never have gotten a chance to show what they could do."

"You couldn't think of anything which would give you greater pride and pleasure than to be told that," said Mr. Merrett, chairman of Merrett Holdings P.L.C.

The conversation took place at the space center in Houston just before two of the shuttle astronauts—Joseph Allen and Dale E. Gardner—left the Discovery's cargo bay and for the first time in history retrieved a satellite that had already been launched.

Mr. Merrett was at Mission Control, along with his attorney and representatives of International Technology Underwriters Inc. and satellite manufacturer Hughes Aircraft Co., as a client of the National Aeronautics and Space Administration's space shuttle program.

Mr. Merrett represented satellite underwriters who assumed ownership of the two probes—the \$107 million Westar VI, owned by Western Union Corp., and the \$78 million Palapa B2, owned by the Indonesian government—that malfunctioned when they were launched aboard a February shuttle mission.

Mr. Merrett and Intec were the lead underwriters on the coverage for the Palapa, and Mr. Merrett was also the lead underwriter on the \$20 million excess layer on the Westar (BI, Feb. 13).

Many said shortly after the two satellites were lost that a space salvage mission would be absurd. Mr. Merrett said at the time that he doubted if there would be an attempt to bring the satellites back to earth because the venture would be too costly.

But, by the end of February, Mr. Merrett had flown to Washington to hear NASA's argument that a salvage could be possible at a reasonable cost. Convinced that it

might be possible, he began to lobby for a salvage mission.

Mr. Merrett said that at first he hoped the owners of the two probes—Western Union and the Indonesian government—would join with underwriters in an attempt to retrieve the satellites.

However, the owners decided to recover from the insurers and transferred title of the probes to the insurers. Mr. Merrett then had to convince his fellow underwriters, who held the titles to the probes after claims were paid, to help finance the salvage.

According to Richard Maylam, lead underwriter on the Westar and Lloyd's underwriter for Alexander Howden Underwriting Ltd., Mr. Merrett had to convince them that the salvage would be successful and that the probes, once recovered, could be sold.

Mr. Merrett also ran into other problems in the salvage of the Westar. There was no trouble in transferring the title to the Palapa lead underwriters, Mr. Merrett and Intec. However, differences arose

between the underwriters on Westar's \$80 million primary layer, led by Mr. Maylam, and the excess insurers, led by Mr. Merrett.

According to Western Union's coverage, the excess underwriters have first right to salvage the Westar. The primary underwriters did not contest that, but they were worried that they would not receive any of the proceeds from the salvage and resale, Mr. Maylam recalled.

Rather than face litigation among Lloyd's underwriters, Mr. Merrett and Mr. Maylam agreed that once the excess underwriters recovered the cost of the salvage and the claims they paid, the primary underwriters would receive the rest of the money generated by selling the Westar.

Mr. Merrett said he doesn't believe there will be a dispute among the Westar underwriters. If the primary underwriters have any dispute now, "I presume it would be with the assured (Western Union) and the broker," Mr. Merrett said.

After ownership of the probes was resolved, the next step was to determine how much the salvage would cost, Mr. Merrett said. The underwriters finally paid \$5.5 million to NASA for the recovery of the two probes and an additional \$5 million to Hughes for work on the satellites after they were returned to earth.

While the insurers and NASA worried about legal and financial arrangements, Mr. Merrett said, the as-
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'(An astronaut) told me that he... wanted us to know how much they appreciated what Lloyd's had done for them,' Stephen Merrett says.

A world of ideas on international benefits

Foreign plans shouldn't be ignored

By MEG FLETCHER

CHICAGO—The benign neglect that has characterized management of foreign benefit plans in the past is indefensible now, international benefits experts say.

"Times have changed; we can either modify the way we manage our foreign benefits in recognition of these changes, or we can become ineffective because our old tools are no longer appropriate in this new environment," said Bernard E. Coughlin, director of international benefits for Sperry Corp. in New York.

International benefit managers must explore cost-containment options and implement those that will help boost their companies' profits, added Jerry E. Long, manager and vp of the international consulting group at broker Alexander & Alexander Inc. in Vienna, Va.

A joint presentation by Mr. Coughlin and Mr. Long began the recent Fourth International Benefits Seminar, sponsored by the International Foundation of Employee Benefit Plans.

Attending the seminar sessions, which focused on different aspects of international benefit cost management, were about 70 people from the United States, Canada, Mexico, Brazil and Europe.

Mr. Coughlin and Mr. Long agreed that new approaches are needed to control the costs of foreign benefit plans, which are increasing as a percentage of total labor costs.

Although employers in some nations do not spend an amount equal to 28% of total labor costs on benefits—the U.S. average—in some countries benefit costs are much higher, said Mr. Coughlin, quoting from a recent study by the German Labor Council.

In both West Germany and the Netherlands, benefits equal 40% of labor costs, while in Italy this expense rises to 50% of labor costs, he said.

International benefit costs have increased in the past two decades as a result of economic, demographic and political changes of surprising magnitude, Mr. Coughlin said.

The economic changes include the stagnant world economy, massive unemployment, lurking inflation and increased government intervention—especially in the area of pensions, he said.

In addition, he said, benefit managers must pay attention to a demographic trend: People are living longer.

"The most dramatic increases will take place in developing countries like Brazil and Mexico, where life expectancy is expected to
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Overseas workers have special needs

By MEG FLETCHER

CHICAGO—Dealing with overseas employees can cause problems unless an international benefits manager sets up a structured relationship between the employees and the company.



The Fourth International Benefits Seminar, held Oct. 21-24 in Chicago, drew about 70 people from North and South America and Europe.

The typical approach, which is still often followed, had been to promise whatever benefits seemed appropriate for a particular employee at a particular time, without looking at the long-term picture, said Staunton "Stan" E. Boudreau, manager of international employee benefits at Monsanto Co. in St. Louis.

"You've got to develop a discipline that controls your program, or the problems go on endlessly," he said.

Mr. Boudreau led a seminar on international employees at the recent International Benefits Seminar in Chicago sponsored by the International Foundation of Employee Benefit Plans.

There are three types of international employees, and each presents a different benefits problem:

- Temporary transfers, who are employees who are transferred temporarily to another country. The problems associated with these employees are usually minor and concern medical coverage and perhaps retirement benefits.

- Permanent transfers. Serious problems are associated with these employees, affecting primarily service-related benefits such as disability income, survivors benefits and retirement income.

- An international cadre, a small group of often-transferred employees with no designated home base. Serious problems also arise with these employees because they move around a great deal, making it difficult to fit them into a corporate or a national benefits picture, Mr. Boudreau said.

He suggested curbing the impulse to put employees from this international cadre in the company's U.S. benefits plan, because the U.S. plan would be hard to apply, for example, for a Lebanese whom the company employed in Greece and Egypt.

"The kind of employees we are discussing are few in number but somehow have a way of getting key management attention," added Frank Cortese, assistant manager of international benefits at Beatrice Cos. Inc. in Chicago.

Some of the biggest problems in international benefits involve third-country nationals. And, Mr. Boudreau said, the definition of a third-country national "depends
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More insurers offer transplant coverage

Continued from page 1
on Nov. 1 to cover the four transplants.

The monthly premium for the rider is \$2 per person for individual coverage and \$4.75 for dependent coverage, said Paul F. Granger, vp of market development. So far, no associations have purchased the rider, he added.

Both Blue Cross/Blue Shield of Illinois and The Equitable Life Assurance Society of the United States will begin offering riders for transplant coverage beginning early next year.

BC/BS of Illinois moved heart, heart-lung and liver transplants from the experimental category to the non-experimental category in June. It will begin offering coverage for these procedures in early 1985 through a rider for a "minis-

cule" premium increase, a spokesman said. The rider does not cover pancreas transplants, which the insurer still classifies as experimental.

Equitable will introduce a special rider in the next few months that will cover heart, heart-lung, liver and pancreas transplants. The monthly premium will be between 50 cents and \$1 per employee, depending on the group's size, according to Thomas Ferguson, vp and actuary.

Blue Cross/Blue Shield of Rhode Island, which made headlines in 1983 when it offered a rider for heart, heart-lung, liver and pancreas transplants for members of a Rhode Island Teamsters union local, now is offering this coverage to all group policyholders.

The monthly premium for the

While coverage for transplants is clearly expanding, some insurers are still more conservative than others in the procedures they will cover, steering clear of heart-lung and pancreas transplants.

original coverage was \$1 for individual coverage and \$2.50 for family coverage. In September, the Blues offered the rider to all groups, and the monthly premium plunged to 23 cents for individual coverage and 57 cents for family coverage.

So far, about 1,500 groups have purchased the rider, but BC/BS of Rhode Island hasn't received any claims against it, a spokeswoman

said.

Two other BC/BS plans also have recently expanded their coverage for transplants.

Blue Cross/Blue Shield of California, which had paid for heart transplants for several years, added heart-lung and liver transplants to its regular medical coverage this year at no additional cost to its policyholders. The number of transplants covered to date was not

available.

In February, Blue Cross/Blue Shield of Massachusetts added coverage for heart, heart-lung and liver transplants to its basic medical coverage at no additional cost.

Previously, BC/BS of Massachusetts offered this coverage under a special rider introduced in August 1983. A spokesman said 31% of the insurers' 24,000 group policyholders had purchased the rider, which cost an average of 55 cents a month for individual coverage and \$2 a month for family coverage.

The Prudential Insurance Co. of America added coverage for heart, heart-lung and liver transplants to its regular group medical coverage on June 1. Before that, such transplants were paid on a case-by-case basis. To date, the insurer has paid for seven heart transplants and five liver transplants, according to John Vallance, senior claims consultant.

Travelers Corp. began paying for heart transplants as part of its basic group coverage in late 1983, after it received a claim for a heart transplant operation. A spokesman said the company will pay any transplant, as long as it is not being paid for by another source, such as a research foundation or hospital. He said Travelers has paid for two heart transplants but has not yet received a claim for a heart-lung, liver or pancreas transplant.

While coverage for transplants is clearly expanding, some insurers are still more conservative than others in the procedures they will cover, steering clear of heart-lung and pancreas transplants.

For example, Connecticut General and Metropolitan Life, which were the only insurers formally offering liver transplant coverage 15 months ago, still do not have a formal policy to cover heart-lung and pancreas transplants.

Connecticut General, which added heart transplants to its regular medical insurance coverage in 1981 and added liver transplants in the first half of 1983, has paid for five heart transplants and two liver transplants.

Metropolitan Life Insurance Co. began covering heart transplants in 1981 and liver transplants in early 1983 as part of its regular medical coverage. It has paid for 30 heart transplants and 20 liver transplants to date.

However, neither has expanded coverage to include heart-lung and pancreas transplants. Spokesmen for both insurers say these procedures are still considered experimental and therefore not covered under the basic policy.

Similarly, Aetna Life Insurance & Annuity Co. only offers coverage for heart and liver transplants. It has paid for heart transplants for approximately three years. A little more than a year ago, it began to cover liver transplants and has paid for five to 10 operations.

Bankers Life & Casualty Co. began offering coverage for liver transplants this summer, but is the only one of the surveyed insurers that does not offer heart transplant coverage. A spokesman said the company still considers heart, heart-lung and pancreas transplants to be experimental and therefore does not offer coverage.

The John Hancock Mutual Life Insurance Co. does not include coverage for transplants as a routine part of its group health insurance policies, but rather reviews claims for heart, heart-lung, liver and pancreas transplants on a case-by-case basis. According to Eileen M. Forde, senior consultant in the group insurance claims division, the insurer has paid for 11 heart transplants, one liver transplant and one pancreas transplant. It has received no claims for heart-lung transplants, she said.

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opinions

Act now to safeguard benefits

IF YOU BELIEVE that employee benefits should be tax-free to employees, that salary reduction plans should be preserved and that employers that self-fund benefits ought to be encouraged to pre-fund those liabilities, you had better start lobbying loudly, logically and fiercely—immediately.

The Treasury Department is asking for comment on its tax simplification plan, and those who get there first with the best arguments will make the most lasting impressions.

And you can bet there will be plenty of competition for the Treasury Department's ear in response to its tax proposal (see story, page 1).

Anyone lobbying on behalf of benefits has a strong case to argue.

Tax-free health, life and other income protection programs for employees have served the country well in the development of a private system of income protection for employees. The social policy issues that are involved in taxing employee benefits should not be ignored.

Taxing employer-paid health insurance benefits above a certain value raises a host of problems for employers, which we identified when the proposal was first floated as a method of encouraging health care cost containment. How are employers that self-fund going to determine the monthly cost of their health plans? What costs do they include when calculating the health plan cost? Benefit department staff salaries? Consulting fees?

Salary reduction plans, or 401(k) plans, are proving popular with employees and are encouraging them to save for their retirement. The savings eliminated by repealing this provision of the tax code will not be accommodated by merely increasing the deduction for Individual Retirement Accounts to \$2,500.

Voluntary Employee Beneficiary Assns., or 501(c)(9)



Illustration: Roger Schillerstrom

trusts, encourage employers who self-fund benefits to set aside money to pay the promised benefits. If the Treasury Department taxes all investment income earned in these trusts, employers will have no reason to pre-fund promised benefits in these trusts.

The odds that this tax simplification program will sail through Congress are mighty low. A tax bill that chips away at tax breaks is much more likely. But, now that we see the tax simplification proposal, we also have the laundry list the Treasury Department can be expected to work from if tax simplification is tossed aside and instead the administration decides to chip away at more tax breaks to increase revenues.

If you make a convincing case now to preserve the tax advantages bestowed on employee benefit plans, you also will be laying the groundwork to protect employee benefits from the more likely tinkering with the tax code.

Buyers benefit from SEC rules

CORPORATE INSURANCE buyers will soon have another tool for gauging the financial strength and underwriting ability of leading insurance companies: Reports to be filed with the Securities and Exchange Commission under new rules requiring more disclosures by insurance companies.

The new SEC rules were motivated by concern for protecting the interests of investors in publicly traded insurance companies, but insurance buyers can also use the reports to help them determine the financial strength and abilities of insurers from which they buy coverage.

For one, the rules state explicitly that insurers must disclose loss reserve sales.

We don't think all loss reserve sales are inherently immoral or signal financial trouble for an insurer, as some insurance traditionalists seem to suggest, but we agree with the SEC that loss reserve sales ought to be disclosed.

Income derived from the sale of loss reserves is one-shot income. Not only is that ongoing business lost to the insurer, but also those reserves are lost, which if held, would have generated future investment income that would benefit the insurer's financial strength in the future.

In addition, insurance buyers as well as investors also will be able to determine how well insurers have judged their future liabilities when they read the SEC filings on how insurers have adjusted their loss reserves. Is the insurer consistently increasing its loss reserves because it underreserved in the past? Or, are the losses developing as expected, reflecting prudent loss reserving?

While the loss reserve information will be the same as contained in reports to insurance departments in the insurer's annual statement, when more than one insurance company is owned by the same entity, the infor-

mation on loss reserves will be consolidated in the filing to the SEC.

Corporate insurance buyers should be sure to request and review these SEC filings by insurers with which they have placed large portions of their insurance programs, especially large portions of their liability insurance programs.

The SEC reports won't supply all the information a corporate insurance buyer needs to decide if an insurer will be in business years in the future to pay claims, but they will become one more source of valuable information.

Offer transplant cover

DOES YOUR GROUP HEALTH insurance plan include coverage for heart transplants?

It should, because when confronted with an employee who needs a heart transplant, your company will want to cover the claim, just like Honeywell Inc. did recently (see story, page 14).

But, your company may not have the resources of Honeywell to pay for a heart or other organ transplant without insurance.

Thankfully, more insurers are formally incorporating coverage into their group health policies for organ transplants that until recently were considered experimental, such as heart, heart-lung and pancreas transplants (see story, page 1).

Adding coverage for heart and other transplants does not mean you are writing a blank check for any and all transplants. Honeywell, for example, has developed procedures to be sure of that.

Adding coverage for the growing number of organ transplants that are proving successful does mean that your group health plan will provide the kind of coverage for a catastrophic health bill that employees need.

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Transplants raising questions for insurers

By DIANE LYNN KASTIEL

Whether a transplant procedure is considered experimental or non-experimental can depend almost entirely on an employer's group health insurer.

"The big problem right now is that there is no one organization that says whether a transplant is experimental or not, so you get differences in insurance coverage," says John Festa, supervisor of the guidelines unit for Metropolitan Life Insurance Co.

Insurers, which generally decide themselves whether to classify a particular kind of transplant as experimental or non-experimental for coverage purposes, base their decisions on opinions from groups

like the American Medical Assn. and the U.S. Department of Health and Human Services and its agencies.

Often, these opinions are filtered through clearinghouses such as the Health Insurance Assn. of America, which publishes information for its members. However, these groups are silent on specific reimbursement policies, leaving the decision to the individual insurer.

Similarly, the Blue Cross & Blue Shield Assn. in Washington provides "advisory services only" to its members. The final decision for coverage rests on the individual plan, a spokeswoman said.

The Group Health Insurance Assn. of America, an HMO trade association, also gives little direction to its members on what's experimental and what's not.

"It's a situation that's as much in flux in the HMO industry as it is in the insurance industry," said Candace Keller, the association's legislative counsel.

"The problem that our members have that insurance carriers do not have is that they have to commit to actually perform the (transplants) in addition to financing them.

"So before they say, 'Yes, we'll cover this type of operation,' they have to be able to perform the procedure as well. And the centers that can provide this type of care are very limited."

Despite this lack of answers, the question of whether transplants should be covered or not continues to grow as more organs become available for transplanting and the procedures are completed more successfully (see story, page 16).

And, if an employer really wants coverage for risky transplants, it's available. Some insurers have added to their regular group coverage, others have developed riders that an employer can purchase and others simply evaluate coverage requests on a case-by-case basis (see story, page 1).

Even insurers with firm policies against coverage for these transplants will accommodate the needs of the policyholder—as long as the policyholder is willing to pay for it.

But, the question of what type of coverage is best can be debated as much as the original question of what transplants to cover. Should an employer have to specifically purchase transplant coverage or should it simply be added as part of the basic group policy at no additional cost?

Connecticut General Life Insurance Co., a CIGNA Corp. unit that has been paying for heart transplants since 1981 and liver transplants since 1983, automatically includes the coverage in all group policies without additional cost.

"There's some inherent differences, we feel, in setting up a special rider for this kind of coverage," said Beth Cook, senior product consultant in the group marketing department of Connecticut General.

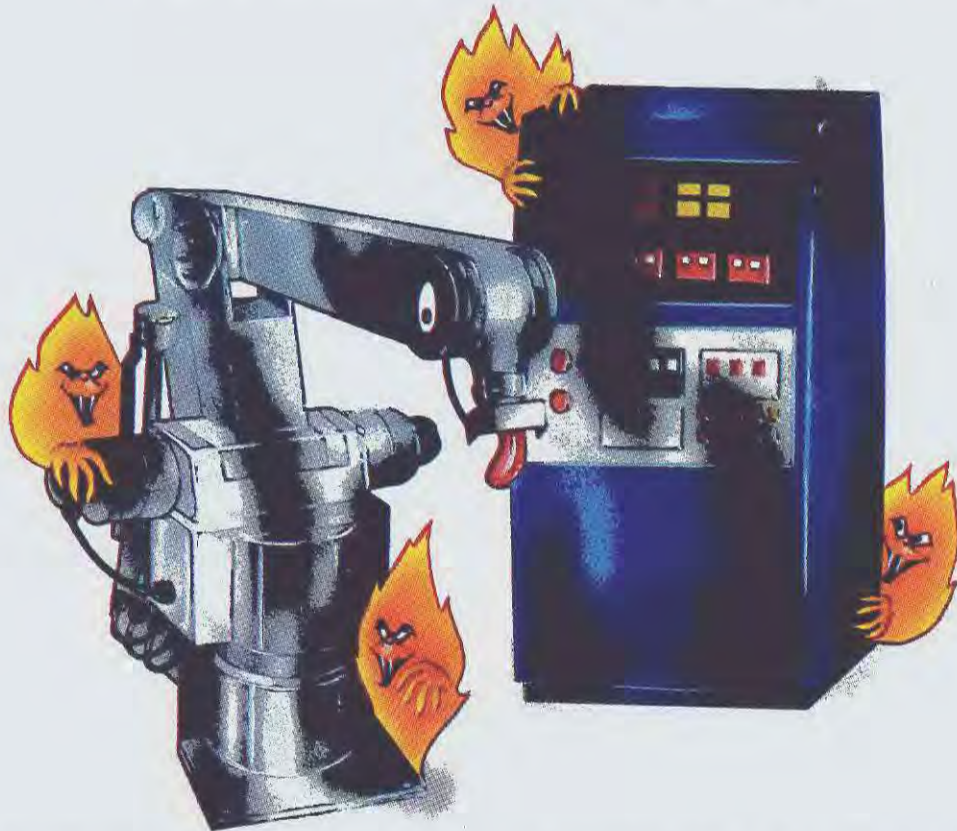
"The employer is going to be placed in the position of the bad guy when employees realize they don't have that coverage because the employer didn't buy it.

"We are very reluctant to say to the employer—you have to make a choice whether someone lives or dies. And when it's connected to a financial consideration, it's horrible. I don't think we should put anyone in that situation."

Other insurers that also offer the coverage as part of their group policies at no additional costs, say a rider is unnecessary because transplant coverage is not as costly as it may seem.

"There's been an overreaction to
Continued on page 10

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Transplants pose questions for insurers

Continued from page 10
be," said John W. O'Connor, the local's executive director of health services and insurance plans.

"We calculated (the price) times the number of bodies involved and we thought it was a fair price.

"One transplant in those days cost more than the total premium. Even if we only had one exposure, we felt it was worth it."

Another Rhode Island group, Pawtucket Fire Fighters Local 1261, recently purchased the BC/BS rider.

"I think it's an asset because if you use this item just once, for the amount of money involved, it seems to be worth the piece of mind," said Lewis L. Soares of the union's executive board. "There's a financial factor to (a transplant operation) and it's an emotional strain on any family. You see the traumatic shock to the family, and this is something that can relieve it."

Rather than wait to bargain for the extra coverage at contract renewal time, the union purchased the policy independently—and its 93 members voted unanimously to foot the bill individually.

In doing this, the firefighters hit on an idea which Hansen's Mr. Schick says might be a way to provide coverage to employees who want it without inflating the employer's health care bill.

"Maybe the answer is for the employer to make coverage available for employees and let them elect to buy it or not," he said.

The Teamsters' Mr. O'Connor wholeheartedly agrees.

"The basis of health care insurance is for people to prepay health care costs—prepay them," he emphasized. "I'm not saying employers should pay for (organ transplants), but they should at least offer their employees the chance to prepay that kind of coverage." ■

Most insurers cover only human organs

Although insurers are covering more types of organ transplants, even the most liberal limit coverage to transplants of human organs.

They still exclude transplants of artificial and animal organs, like the baboon heart recently transplanted in Baby Fae and the artificial heart implanted on Nov. 26 into William J. Schroeder.

"It's a highly unusual situation," said Beth Cook of Connecticut General Life Insurance Co., when asked about Baby Fae's transplant. "We would not pay for it because it is considered experimental."

Experimental is the important word in transplant insurance coverage. If an operation is considered experimental, it generally is not covered; when it moves from the experimental to the non-experimental category, it is covered.

The main factors that determine whether a particular transplant is experimental are the number of times the operation has been performed and its success rates.

Over the years, several types of transplants have been moved from the experimental to the therapeutic (non-experimental) list, as they are performed more frequently and their success rates increase. These include kidney, cornea and bone marrow transplants.

Liver and heart transplants are becoming generally accepted as therapeutic.

These newest and riskiest transplants include the use of artificial organs and animal organs.

These operations are clearly experimental, and most of the insurers interviewed, including Aetna Life Insurance Co., Metropolitan Life Insurance Co. and the Blue Cross/Blue Shield plans, said they would not pay for such coverage under their normal policies.

"Our policy specifically states human organs," said a spokesman for BC/BS of Illinois. "I've never seen a policy that said anything other than human organs."

But, at least one insurer will pay for these highly controversial transplants. Travelers Corp. offers coverage for any transplant, as long as there are no research funds available to pay for it.

"The criteria, as far as we're concerned, is if it is not paid for under research funds, and if the recipient is a covered person," a spokesman said. "So, if Baby Fae was insured with us, we would have paid for her operation."

He added that Traveler's takes such a liberal position on transplants because claims are so infrequent. To date, the company has only paid for two heart transplants.

Other insurers say they would provide coverage for such transplants if a group wanted such coverage and were willing to pay higher premiums. ■



Too much paperwork got you chomping at the bit?

Some days you probably feel like Secretariat straining at the starting gate. Everywhere you look you see paper. Piled up quotes, policy apps, payroll reports, loss runs, engineering surveys, requests for repeat or follow-up service. It's enough to make anyone chomp and snort.

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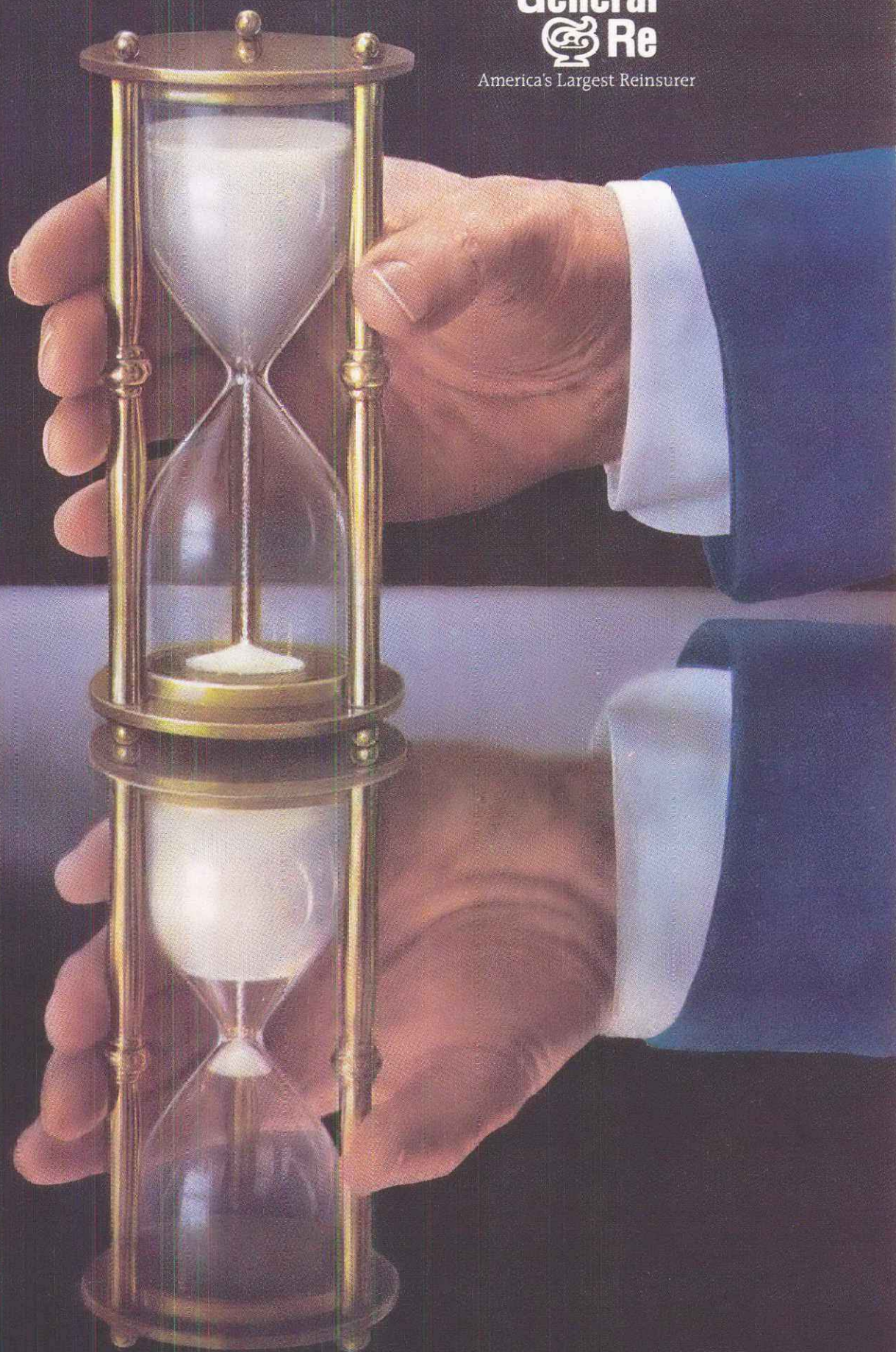
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Insurers face transplant questions

Continued from page 8
the whole thing as far as costs are concerned," said John M. Vallance, senior claims consultant for Prudential, which added coverage for heart, heart-lung, liver and pancreas transplants to its regular group coverage in June.

"There's been too much focus on the cost of transplants, when the important thing is that so few are done."

In the last year, Prudential paid for seven heart transplants and five liver transplants.

"We're not really seeing that many (claims)," Mr. Vallance said.

"We're talking about millions of claims we paid in the last year and here we have only 12 transplants. It's low-incidence compared to the coronary bypass, for example, that's actually more risky."

But Thomas Ferguson, vp and actuary for Equitable Life Assurance Society of the United States, defends his company's rider policy, which will be offered within the next few months and will pay for heart, heart-lung, liver and pancreas transplants.

Mr. Ferguson argues that coverage for risky transplants should be separated from routine medical

coverage to keep the employer's loss experience in line.

"When you have (a transplant claim), it can blow experience out of the water," Mr. Ferguson said. "There's a great deal of risk here. These things have been exploding in frequency, and the cost is astronomical. What's going to be happening in a year or two as more donors become available? It's going to be a volatile area for awhile."

Blue Cross/Blue Shield of Illinois, which has offered a rider policy for heart, heart-lung and liver transplants since June, agrees that groups should be able to choose whether they want to pay for these expensive transplants.

"We don't want to see a small group get knocked out because they had a transplant and suddenly their premiums are through the roof," a spokesman said.

The spokesman said his company's rider is inexpensive and claims against it would not affect a group's regular experience.

"There would be a nominal increase in premiums for groups," the spokesman said. "I could not give you the exact figure, but it is miniscule."

But, at a time when cost containment is sacrosanct, penny-pinching benefits managers are apt to snarl at even miniscule cost increases.

"There's going to be many employers who'll sit back and say that extra 15 or 20 cents (per month, per employee) is just something we can't afford," Connecticut General's Ms. Cook said.

"They're cutting back standard benefits as it is because of cost containment."

Fred Schick, principal at benefits consultant A.S. Hansen Inc. in Lake Bluff, Ill., agrees with Ms. Cook.

"There's a very definite desire on the part of employers to provide this type of coverage, but there is an equal concern over whether they can afford it," Mr. Schick said. "Some of these exotic procedures will run into the six figures. You can't be talking cost containment and then run costs up with coverage for organ transplants."

However, there is evidence that employers may not be so stingy toward organ transplants.

"When it comes to an issue of anything that affects the life and death of an employee, employers almost unanimously say, 'We're going to make sure our employees are taken care of,'" said Larry Tucker, head of Hewitt Associates' West Coast group benefits consulting practice.

Indeed, several groups have purchased special organ transplant coverage.

Honeywell Corp. in Minneapolis recently expanded its medical plan to cover the cost of heart, liver, heart-lung and pancreas transplants (see story, page 14).

One of the first groups to purchase transplant coverage was Teamsters Local 251 in Providence, R.I. (BI, Aug. 15, 1983.)

The Teamsters' policy, which is underwritten by Blue Cross/Blue Shield of Rhode Island and became effective Sept. 1, 1983, pays for heart, heart-lung, liver and pancreas transplants. At the time, the local paid monthly premiums of \$1 for individual coverage and \$2.50 for family coverage.

Since then, coverage has been extended to other groups and the premium has dropped to 23 cents a month for individual coverage and 57 cents a month for family coverage.

Although the local is happy about the lower premiums, it said the coverage was worth the higher price it originally paid.

"We didn't mind it because we knew up front what the rate would

Continued on page 12

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Honeywell transplant cover stresses cost containment

By DIANE LYNN KASTIEL

MINNEAPOLIS—A little more than a year ago the wife of an employee at Honeywell Inc. in Minneapolis developed a life-threatening heart ailment.

Doctors said a heart transplant was needed to save her. But, there was no apparent way for the employee or his wife to pay for the operation, which could cost \$125,000, including post-operative care.

Although Honeywell provided ample medical benefits through its self-insured health care plan, the plan did not pay for heart transplants because the company considered them experimental.

In the end, Honeywell decided to share the cost of the transplant with the woman's employer, and

the operation was performed.

The incident prompted Honeywell to expand its coverage to include heart, heart-lung, liver and pancreas transplants. And it coupled this with an aggressive stance toward cost containment.

"The upshot was we developed a program here whereby organ transplants for heart, heart-lung, liver and pancreas are covered, providing the cases are managed by Honeywell," said Laird L. Miller, Honeywell's corporate manager for provider relations.

Honeywell "manages" organ transplant cases by making sure they meet three main criteria:

- The patient must be faced with the high risk of death. This criterion is met if "all conventional therapies have been attempted and are not working," Mr. Laird said.
- The patient must have no concurrent terminal disease.
- The patient must satisfy the selection criteria of the transplant center to which he or she is sent. Before accepting a patient, transplant centers consider several factors that could affect the patient's chance of survival.

"We exert a significant amount of control in terms of working with the provider, establishing eligibility criteria and monitoring payments," Mr. Miller said.

"Certainly the question of medical necessity is there, but we go far beyond that. We say, 'Is this the only appropriate method of treatment?' Also, we negotiate with individual providers for prospectively agreed prices."

He said Honeywell is negotiating for pre-determined transplant fees with several centers, including the University of Minnesota, the University of Pittsburgh and Massachusetts General Hospital.

Deborah Chollet of the Employee Benefit Research Institute in Washington, praises Honeywell's emphasis on cost control.

"I have strong reservations on employers covering these types of transplants in every incident," she said. "I think moving ahead on coverage is a good idea, but it has to be done very cautiously."

"I think coverage can be offered to the employee, but I also think it's going to be necessary for employers and insurance companies to take a close look at the costs of that coverage and what can be done to reduce the costs."

Honeywell's transplant coverage pays for all costs associated with the transplant, including transportation for the organ and the patient. Coverage begins five days before the operation and continues for 18 months afterward, Mr. Miller said.

He said the coverage costs 50 cents a month for individuals and \$1.50 a month for dependent coverage. Honeywell pays for individual coverage, but the employee pays for dependent coverage.

Most employers realize that, sooner or later, they may have an employee who needs a transplant.

"We haven't had to address the issue at this point, but we think we'll have to in the future because it's becoming more and more common," said Donald R. Margenthaler, manager of health services at Deere & Co. of Moline, Ill. "We're developing our policy. . . ."

Hewlett-Packard, in Palo Alto, Calif., has found that its "case-by-case" policy on transplant coverage causes some ethical problems.

"We've been wrestling with these issues for several years," said Art Young, benefits manager. "We don't shrink from reviewing individual cases, but the problem is it's very difficult to say, 'We'll cover your heart (to one employee), but not yours (to another).'"



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Transplant reinsurance available

Several reinsurers are offering reinsurance coverage to health insurers to cover organ transplants.

CIGNA Re Corp., CIGNA Corp's reinsurance marketing unit, is offering health insurers reinsurance coverage for heart, heart-lung, liver and pancreas transplants.

"We felt that there was a need in the insurance marketplace for this coverage," said Richard J. Francisco, vp of group and special risks underwriting.

"We had seen articles that indicated that the insurance industry was going through trauma over offering coverage for these transplant procedures," he said.

Proportional reinsurance is available to cover up to 90% of all expenses associated with the transplant, including the cost of removing and transporting the organ. Excess-of-loss coverage also is available.

Coverage begins five days before the operation and continues for one year after the surgery.

For the maximum proportional coverage, the reinsurance will cost insurers an average of 40 cents per month for individual coverage and \$1.50 per

month for family coverage, according to Thomas A. Shipley, vp of sales marketing.

Several commercial health insurers, Blue Cross/Blue Shield organizations and health maintenance organizations have already bought the product, Mr. Shipley said.

Liberty National Life Insurance Co. in Birmingham, Ala., recently bought the reinsurance and on Nov. 1 began offering a rider for expanded organ transplant coverage to its policyholders.

T. Michael Presley, associate actuary-group insurance for Liberty National, says the monthly premium for this rider will cost employers between 25 cents and 50 cents per employee.

BCS Financial Corp. in Chicago has offered transplant reinsurance coverage similar to CIGNA's since last July, according to BCS President William E. Ryan.

So far, he says 33 Blue Cross/Blue Shield plans and plan-owned health maintenance organizations have bought the reinsurance product, which offers cover up to 90% of the cost of heart, heart-lung, liver and pancreas transplants on a proportional basis.

New laws, growing success to spur coverage requests

Employers may face more requests to cover organ transplants as government agencies encourage the procedures.

Recent federal and state legislation facilitates access to organs for transplants, while government medical aid programs are expanding coverage for transplants.

And, requests for transplant coverage will probably increase as the success rate grows.

President Reagan signed a bill on Oct. 19 to award \$25 million to organ procurement organizations over the next three years. It also calls for the establishment of a national, computerized network to match donors with patients.

An Illinois law passed in July appropriates \$3 million in fiscal 1985 to pay for organ transplants for people who cannot afford them.

In March, the federal Office of Health Maintenance Organizations announced it no longer considers liver transplants for children with biliary atresia—a liver defect—experimental. The OHMO said it could not support federally qualified HMOs in excluding such procedures. Medicaid also now covers liver transplants for children with this disease.

Some states are including Medicaid payments for other types of transplants, too. California approved Medicaid payments for all types of liver transplants last year and added coverage for heart transplants this year.

The Civil Health and Medical Program of the Uniformed Services, or CHAMPUS, the armed forces' health plan, began covering liver transplants last year.

In addition, advanced surgical techniques and new drugs have increased the success rates of most transplants. And, as the success rate improves, more hospitals are performing them.

Some 171 liver transplants were performed in the United States last

year, compared with only 40 in 1981, according to Donald W. Denny, director of organ procurement for the University of Pittsburgh School of Medicine. He said approximately 200 liver transplants have been performed this year.

The number of centers performing liver transplants has grown dramatically in the last three years. In 1981, only the University of Pittsburgh did the transplants; now, 17 centers handle them.

Although Mr. Denny could not cite nationwide figures, he said the success rate at the university, which has performed more liver transplants than any other center, is about 65% for adults and 80% for children. The success rate is the number of patients who survive the first year after a transplant.

He said the average cost of a liver transplant is \$130,000 to \$150,000.

More than 1,100 heart transplants have been performed worldwide as of last April, said a spokesman for Stanford University Medical Center, adding that the vast majority have been in the United States.

The survival rate for heart transplant patients at Stanford, which has done more than any center, is about 80% for the first year, he said. The average cost is \$125,000.

Only about 50 heart-lung transplants have been performed, the spokesman added. Half have been done at Stanford. The transplants have about a 32% success rate, he said. The average cost is \$125,000.

About 500 pancreas transplants have been performed worldwide, said Dr. David E.R. Sutherland of the University of Minnesota. Half were in the United States.

Dr. Sutherland said he expects about 150 pancreas transplants to be performed in 1984, compared with 130 last year and about 100 in 1982. The success rate is currently about 50%, he said, up from 30% in 1982. The average cost is between \$35,000 and \$40,000, he said. ■



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Liability coverage minimums for truckers to rise

By JERRY GEISEL

WASHINGTON—Higher liability insurance requirements for truckers are just around the corner. On Jan. 1, the second stage of the insurance requirements in the Motor Carrier Act of 1980 will go into effect.

Under that federal law, which deregulated the trucking industry, interstate motor carriers that haul non-hazardous cargo, like furniture, must have \$750,000 of liability insurance; carriers of hazardous cargo, like oil, will need \$1 million of coverage; and carriers of very hazardous cargo, like liquefied compressed gas, must have \$5 million in insurance.

Those new limits are major increases from the first stage of the insurance requirements in the Motor Carrier Act, which has been in effect since July 1, 1981. Motor carriers of non-hazardous or hazardous cargo are now required to have \$500,000 of coverage, while carriers of very hazardous cargo are required to have \$1 million of liability insurance.

The new limits had been scheduled to take effect July 1, 1983, but Congress in late 1982 approved an 18-month delay as part of legislation that raised the gasoline tax by 5 cents a gallon (*BI*, Jan. 3, 1983).

Flood insurance

The federal government's National Flood Insurance Program is improving its combined ratio, says the Federal Insurance Administration, which runs the program.

Before 1981, the program paid \$2.64 in claims and expenses for each \$1 received in premiums, said FIA Administrator Jeffrey Bragg, for a 264% combined ratio.

Since then, the ratio has been reduced to an annual average of \$1.30 in paid claims and expenses for each \$1 in premium payments—a 130% combined ratio.

The improved underwriting results mean a savings to the federal government of more than \$200 million annually, Mr. Bragg said.

The improvement comes from rate increases, improved administrative efficiency and higher deductibles, he said. For example, recent increases have boosted the average annual premium to \$184, up from \$74 in 1981. And, the standard deductible has been boosted from \$200 to \$500 each for structural and contents coverage.

The flood insurance program is available to property owners in more than 17,000 communities that have agreed to adopt and enforce flood plain management ordinances and practices. There are more than 2 million policyholders.

Pension plan holdings

A Miami pension plan must sell a parcel of property valued at more than \$2.1 million to diversify the plan's real estate investments, a federal court in Florida says.

The order, issued by the U.S. District Court for the Southern District of Florida, requires trustees of the Post, Buckley, Schuh & Jernigan Employee Trust & Profit Sharing Plan to appoint an independent trustee to sell the property, which is located at 6850 Bird Road in Miami.

The independent trustee also will manage the plan's other real investment investments.

The court order resolves a complaint filed by the U.S. Department of Labor. The department alleged that the plan trustees violated their fiduciary responsibilities by imprudently investing more than 50% of the plan's assets in real estate located in the Miami area.

The Labor Department says the

washington

trustees invested about \$2.2 million—more than 50% of the plan assets—in property in Miami, Hollywood and Fort Myers. Net assets of the plan, as of Dec. 31, 1980, totaled about \$3.6 million.

Under the Employee Retirement Income Security Act, pension plans must diversify their investments to reduce the risk of losses that could result if any one investment sour.

IRA deposits up

Individual Retirement Accounts deposits held by savings institutions jumped by 30% during the first six months of 1984, according to a trade association survey.

The survey of 319 savings and loan institutions and mutual banks found that the average savings institution had \$33 million in deposits

in June 1984, up from \$25.4 million in IRA deposits in December 1983.

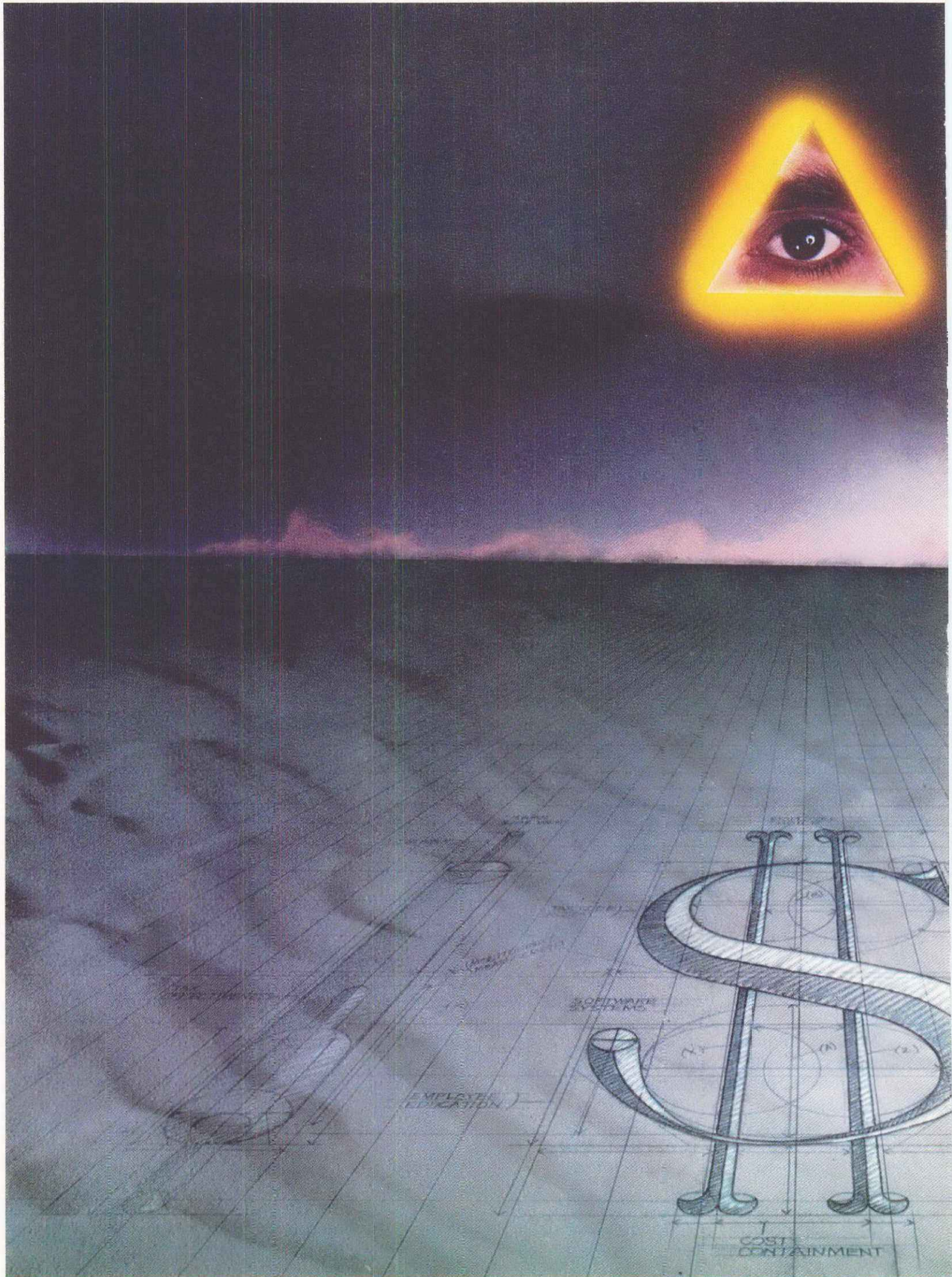
The survey, by the 3,500-member United States League of Savings Institutions in Chicago, also found the average number of IRAs maintained at a savings institution jumped to 10,600 from 7,500 during the same six-month period.

Less than 10% of respondents charged service fees to customers maintaining IRAs even though IRAs cost approximately \$11 per account to maintain in 1983, the trade group said.

Retiree health cover

More than 60% of workers employed by medium and large employers in 1982 were covered by group health insurance plans that extend coverage after retirement, according to the Employee Benefit Research Institute, a Washington-based benefits think tank.

Eligibility for retiree health insurance benefits often is determined differently than eligibility for active employee coverage, *Continued on facing page*



Continued from facing page
EBRI says in its November brief.

For example, employers may require 10 to 15 years of service for eligibility for post-retirement health care coverage. But, coverage in the health plan for active employees often begins when an employee begins working or no later than after three months on the job.

In addition employers may require that the retiree be eligible for pension benefits to qualify for post-retirement health care coverage.

Employees who quit before retirement, even though they are vested in the pension plan, may then lose their eligibility for post-retirement health care benefits.

These restrictions may exclude

many workers from post-retirement health care benefits, even though they work for an employer offering such benefits, EBRI says.

NAIB counsel

The National Assn. of Insurance Brokers in Washington has a new legal adviser.

Lee Backus, former director of research and industry affairs for the National Assn. of Professional Insurance Agents in Alexandria, Va., is now the NAIB's general counsel, a newly created position.

Pension panel

The Labor Department's Na-

tional Pension Forum will hammer out its final recommendations to improve the administration of the Employee Retirement Income Security Act at a meeting set for this week.

The public meeting is scheduled to begin at 10 a.m. on Dec. 5 in the Ticonderoga Room of the Hyatt Regency Hotel, 400 New Jersey Ave. N.W. in Washington.

The National Pension Forum was set up by the Labor Department earlier this year.

To comment on any aspect of ERISA considered by the forum, send 50 copies to Edward Lysczek, U.S. Department of Labor, Room S4522, 200 Constitution Ave. N.W., Washington, D.C. 20210.

DEC. 17-18. How to Audit and Check Insurance Policy Costs and Coverages conference in San Francisco, sponsored by the American Management Assns.; \$620 for members; \$715 for non-members. Registrar, AMA, 135 W. 50th St., New York, N.Y. 10020; 212-903-8177.

DEC. 17-18. Behavior Science: A New Approach to Accident Prevention course in Los Angeles, offered by the University of Southern California; \$400 tuition. USC, Institute of Safety and Systems Management, Office of Extension and In-Service Programs, Los Angeles, Calif. 90089-0021; 213-743-6523/6524.

JAN. 10. Products Liability Insurance luncheon seminar in Montreal, sponsored by the Quebec Risk & Insurance Management Assn.; \$18. Suzan Ness, Chairman, Dominion Textile Inc., 1950 Sherbrooke St. West, Montreal, Quebec H3H 1E7; 514-989-6297.

JAN. 11-12. Preparation and Trial of a Complex Toxic Chemical or Hazardous Waste Case seminar in New York, sponsored by the Practising Law Institute; \$350. Registrar, PLI, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

JAN. 11-13. End Crisis Management seminar in Atlanta, sponsored by Retirement Advisors Inc.; \$425; \$375 three weeks in advance. RAI, 919 Third Ave., New York, N.Y. 10022; 212-421-2400.

JAN. 15-16. Application of Microcomputers to Occupational Health and Safety course in San Diego, offered by the University of Southern California; \$375. University of Southern California, Institute of Safety and Systems Management, Office of Extension and In-Service Programs, Los Angeles, Calif. 90089-0021; 213-743-6523/6524.

JAN. 17. Pre-Admission Certification seminar in New York, sponsored by the Task Force on Utilization Review; free for members; \$25 for non-members. The New York Business Group on Health Inc., 1633 Broadway, 46th Floor, New York, N.Y. 10019; 212-397-1260.

JAN. 21-22. Health Care Cost Containment Workshop in Miami, sponsored by the Health Research Institute; \$395. Also Feb. 11-12 in Los Angeles. Workshop Coordinator, Health Research Institute, 49 Quail Court, Suite 200, Walnut Creek, Calif. 94596; 415-676-2320.

JAN. 21-25. Industrial Ventilation Fundamentals course in San Diego, sponsored by the University of Southern California; \$850. University of Southern California, Institute of Safety and Systems Management, Office of Extension and In-Service Programs, Los Angeles, Calif. 90089-0021; 213-743-6523/6524.

JAN. 22. Data Workshop & National Statistical Data Base Briefings workshop in Miami, sponsored by the Health Research Institute; free. Also Feb. 12 in Los Angeles. Workshop Coordinator, HRI, 49 Quail Court, Suite 200, Walnut Creek, Calif. 94596; 415-676-2320.

JAN. 23. Health Improvement/Prevention workshop in Miami, sponsored by the Health Research Institute; \$195. Also Feb. 13 in Los Angeles. Workshop Coordinator, Health Research Institute, 49 Quail Court, Suite 200, Walnut Creek, Calif. 94596; 415-676-2320.

JAN. 23-25. Antitrust in the Health Care Field conference in Washington, sponsored by The National Health Lawyers Assn.; \$340 for NHLA members, \$390 for non-members. Registrar, Program Division, NHLA, 522 21st St. N.W., Suite 120, Washington, D.C. 20006; 202-833-1100.

JAN. 26-31. Physical Security Workshop in Las Vegas, sponsored by the American Society for Industrial Security; \$445 for members, \$535 for non-members. Registrar, ASIS, 1655 N. Fort Myer Drive, Suite 1200, Arlington, Va. 22209; 703-522-5800.

JAN. 29-30. "Where Do We Go From Here?" Annual flexible compensation conference in Washington, sponsored by Charles D. Spencer & Associates Inc.; \$400. Registrar, Charles D. Spencer & Associates Inc., 222 W. Adams St., Chicago, Ill. 60606; 312-236-2615.

FEB. 1. Advanced Post-Graduate Cost Containment workshop in Los Angeles, sponsored by the Health Research Institute; \$195. Workshop Coordinator, Health Research Institute, 49 Quail Court, Suite 200, Walnut Creek, Calif. 94596; 415-676-2320.

FEB. 1-3. Third Annual Southwest Head Injury Symposium in Costa Mesa, Calif., sponsored by Northridge Hospital Medical Center; \$185 before Jan. 1; \$200 after Jan. 1; Pamela W. Schiffmacher, Northridge Hospital Medical Center, 18300 Roscoe Blvd., Northridge, Calif. 91328; 818-885-8500.

FEB. 4-8. Occupational Health Nursing: Basic Theory Update course, offered by the University of Southern California; \$550. USC, Institute of Safety and Systems Management, Office of Extension and In-Service Programs, Los Angeles, Calif. 90089-0021; 213-743-6523/6524.

FEB. 4-MARCH 10. Systems Reliability and Risk Analysis study program, offered by the Massachusetts Institute of Technology; \$7,700. Director, Advanced Study Programs, Center for Advanced Engineering Study, MIT, Cambridge, Mass. 02139; 617-253-6128.

FEB. 7-8. Atlanta Risk Management Educational Conference, in Atlanta, sponsored by the Atlanta Chapter of the Risk & Insurance Management Society; \$100 for members; \$115 for non-members; \$25 for students. Al Nesmith, Southern Co., Risk Management, 64 Perimeter Center E., Atlanta, Ga. 404-399-4062.

FEB. 14. Reinsurance luncheon meeting in Montreal, sponsored by the Quebec Risk & Insurance Management Assns.; \$18. Suzan Ness, Chairman, Dominion Textile Inc., 1950 Sherbrooke St. West, Montreal, Quebec H3H 1E7; 514-989-6297.

FEB. 22-23. Workers Compensation: Your Safety & Health Balance Sheet course, offered by the University of Southern California; \$95 per day. USC, Institute of Safety and Systems Management, Office of Extension and In-Service Programs, Los Angeles, Calif. 90089/0021; 213-743-6523/6524.

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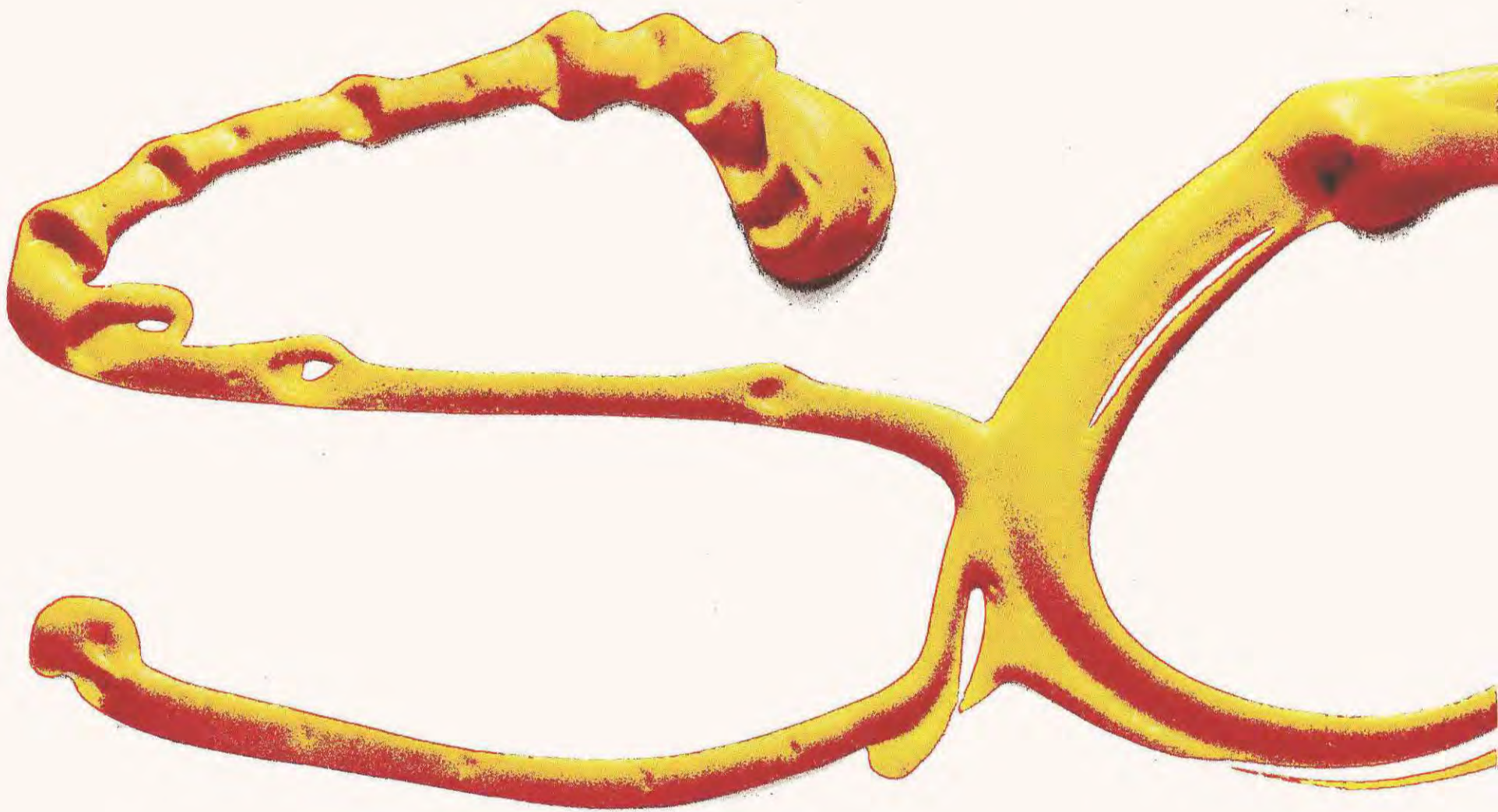
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How French's avoid whenever it s



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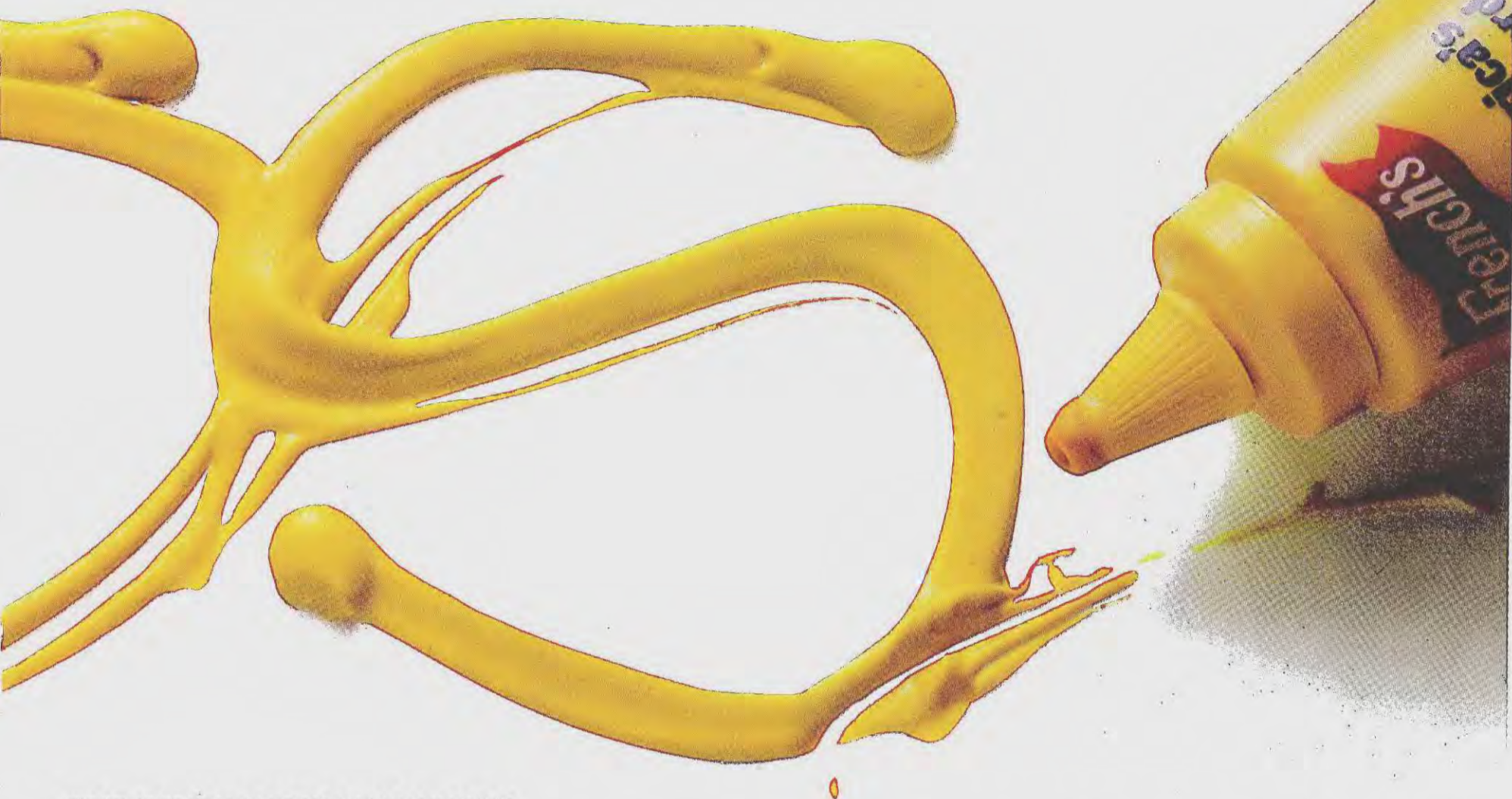
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agent/broker topics

A monthly editorial section sent exclusively to agents and brokers

Breaking down barriers

Are independent agents representing direct writers cashing in on a trend or are they selling out?

By LINDA J. COLLINS

THE IMPOSING WALL that has traditionally separated independent agents and direct writers is crumbling.

Two direct writers, Allstate Insurance Co. and Sentry Insurance Co., initiated the erosion process a decade ago when both insurers modified their marketing approaches to include representation by independent agents.

Now, Metropolitan Life Insurance Co. is enlisting independent agents to represent its 10-year-old property/casualty subsidiary, Metropolitan Property & Liability Insurance Co.

In addition, Nationwide Insurance Co. says it will conduct a limited experiment in two Southwestern cities—Albuquerque, N.M. and Lubbock, Texas—in which independent agencies will represent the insurer. The test will begin in November 1985.

The agents that have already forged ties with direct-writing companies say that they're pleased with the link and that they do not feel they're doing anything wrong by representing a direct writer.

"The survival of our agency is our No. 1 obligation," notes William Billings, president of the Baumann & Ozzie Agency in Skokie, Ill., which represents Northbrook Casualty Co., an Allstate subsidiary.

"We did not take existing business away from our companies; it just gave us the opportunity to write more business we would not have been able to write," he says.

"I looked at it from the standpoint of name recognition," James W. Probus, owner of The Probus Insurance Agency in Louisville, Ky., says of his decision to sign up with Metropolitan. "I did not look at them as a direct writer. We signed an independent agent contract with them."

Mr. Probus says that if a direct-writing insurer, like Metropolitan, has a product line to offer and is willing to place it through the independent agency system, he sees no difference in representing the direct writer than any other insurer.

"If they start giving their staff agents a better deal, that's a different story," he says.

However, officials at the National Assn. of Professional Insurance Agents and the Independent Insurance Agents of America say they have reservations about such links.

"We are in the process of looking at this situation," explains Patricia A. Borowski, the PIA's vp of government and industry affairs.

"There is a concern on the part of agency companies about agents dealing with direct writers," she says. "We have some mixed emotions. Such offers must be viable and maintain agent independence."

"It's nice to be in a courting position all of a sudden... While it looks good and there may be beneficial things on the surface, we want to make sure," Ms. Borowski adds.

"We're always somewhat pleased when a direct writer decides to use independent agents," says a spokesman for the IIAA. "We're not too pleased with dual marketing in general."

"We're glad to see their recognition of our marketing system—that they view it as successful," the spokesman continued. "We've talked to Metropolitan and Nationwide to follow what's going on... where they're coming from."

The wall between independent agents and direct writers started to crumble about 10 years ago, when Allstate began enlisting rural independent agents to represent it in areas without a Sears store and with an insufficient volume of business to warrant establishing a captive agency.

Currently, Allstate is represented by about 1,400 rural independent agents, but they are not under traditional independent agent contracts in that they do not own their renewals, according to an Allstate spokeswoman.

The company's dual marketing efforts increased five



Illustration: Roger Schillerstrom

years ago, when Allstate established Northbrook Casualty Co., an independent agency company that writes commercial lines business.

Unlike the rural agents that represent Allstate, the some 900 Northbrook agents, primarily large agencies in metropolitan areas, write exclusively commercial lines business and sign a traditional independent agent contract.

Combined, these agents write \$100 million to \$150 million in premiums annually. National accounts written through large brokers and some large independent agents account for approximately \$50 million to \$60 million in additional business.

John R. Larson, assistant vp of marketing for Allstate's Commercial Insurance Division, says the company thought that independent agents were the natural distribution system for commercial lines business.

"If you are going to merchandise something over a broad geographic area, you go to the best distribution system to meet those needs," he says.

"We're excited and pleased with our relationship with our independent agents," Mr. Larson says. "It has exceeded our expectations."

"The main reason we signed a contract with Northbrook was their willingness to sign a contract with us when many agency companies would not," says William Billings of the Baumann & Ozzie Agency.

"We had a lot of soul-searching to do before we decided to write with an Allstate sister company," Mr. Billings says. "Once we found out that the companies were separate with the exception of claims, we decided to accept the opportunity."

Another Northbrook agent, Edward H. Schwartz, president of Schwartz Brothers Insurance Agency Inc. in Chicago, says he thinks Northbrook has an excellent staff and offers good products and services. Mr. Schwartz points out that Northbrook is an independent agency company, adding that he would not have represented Allstate.

"There are very few insurers today that aren't owned by some conglomerate," Mr. Schwartz adds. Due to the current industry environment, "We're going to have to be in the financial services business and offer the best products, no matter who owns the company providing the service."

Although Sentry had been represented by some independent agents through a subsidiary, Sentry Indemnity Co., Sentry expanded its independent agency force when it purchased Middlesex Insurance Co. in June 1974. Middlesex

writes both personal and commercial lines.

The insurer now has between 1,200 and 1,300 independent agents writing standard line business for Middlesex or Sentry Indemnity, says Richard J. Lippert, vp of sales and marketing for Sentry Insurance Co. Sentry also has 37,000 independent agents who represent Dairyland Insurance Co., which primarily writes substandard automobile and motorcycle risks.

Sentry, however, has not promoted its tie with independent agents until recently. Now, it plans to expand its independent agent force by about 10%, and has begun to advertise to independents.

The insurer wants agencies that want to make "significant premium commitments," explains Mr. Lippert.

"We want to be within the top three companies represented," he says, noting that Sentry is "very sensitive to the profit of our lines and of the agents we do business with."

Business produced by Sentry's independent agents is underwritten separately from its captive agents' business throughout most of the country.

Sentry also provides additional services to its independent agents, including product and sales training programs for sales managers, producers and agency employees. In addition, it sometimes provides financial assistance to producers.

According to Mr. Lippert, Sentry formed independent agent and captive agent councils to make sure problems resulting from the management of dual agent forces would be detected. "We have gone out of our way to demonstrate our commitment to both. It is walking a thin line, and we must use integrity in our dealings... We are very conscious of our responsibility."

Independent agents who represent Sentry and its subsidiaries say they're pleased with the company.

"What I like about Sentry Indemnity is that they hustle, they are very cooperative, they want to write our business... and they come up with competitive programs," says Charles A. Conselman, vp of White & Conselman Inc. in Dallas, which writes 30% to 35% of its business through Sentry Indemnity. "They seem more responsive than many independent agency companies."

Robert J. Hansman, president of Hansman, McAvoy & Co. Inc. in Hingham, Mass., and chairman of Middlesex's independent agent council, notes that Sentry has a good book of mass-marketed association business that the agent council persuaded it to open up to its independent agent force.

Continued on next page

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with independent agents***Continued from previous page*

"These are ongoing, successful programs. We used to compete against them. Now they are available to us," he explains.

Mr. Hansman downplays the link between an independent agency and a direct-writing insurer.

"It's more of a concern to us when agency companies, who we thought were on our side, go off and make deals with banks, etc.," Mr. Hansman says.

Metropolitan's experimental program—under which independent agents will be able to sell a variety of personal lines, life and financial services products—currently involves eight states: Arkansas, Colorado, Kansas, Kentucky, Maine, Minnesota, Missouri and West Vir-

ginia.

If it proves successful, the insurer plans to enlist independent agents in all but the five states in which Metropolitan does not write property/casualty coverage: North Carolina, South Carolina, New Jersey, Alaska and Hawaii.

As of Nov. 15, 37 agents had signed up, and 50 are predicted to sign before the end of the year, says Hugh Beal, director of independent agents for Metropolitan. By the end of 1985, the insurer hopes to have 200 to 300 independent agents under contract.

According to Mr. Beal, the insurer can offer independent agents a wide variety of services, including a teleservicing network with a toll-free number through which policy changes and claims can be expedited electronically; several training programs; cooperative advertising; a direct-billed, four-payment plan for auto and homeowners policies with no interest charge; annual auto and homeowners policies; and a payroll-deductible life insurance and financial services package that agents can offer to commercial clients with three or more employees.

Mr. Beal says the insurer tried to incorporate the suggestions made by the IIAA and the PIA into its agency agreement, and it offers bonuses for high volume and high-quality business.

"It's realistic to say that we (eventually) expect our independent agents to have a field number of as many as Allstate," Mr. Beal says. "We want to make sure we do it right. We have the financial ability" to succeed.

"They are trying to tailor their business and philosophies to fit into our agency operation, rather than trying to make us fit their system," notes Steve Juvland, president of Insurance Consultants in Edina, Minn., who signed a contract with Metropolitan in July.

"As an agent," Mr. Juvland says, the experiment "confirms my belief that the independent agency system is one of the best systems in the world, and direct writers must recognize this if they are making these arrangements with independent agents.

"From a business point of view," Mr. Juvland continues, "it opens up a new area for us. We can compete in areas where maybe we couldn't compete before, since Metropolitan is large enough to provide the rates on superior business that the direct-writer agents have available."

Nationwide's program is still in the formative stage, and the insurer does not intend to appoint any independent agents until next fall, says Joan S. Ellis, Nationwide's manager of Western market strategy. The four to 10 agents who will initially be appointed in Lubbock and Albuquerque will write all lines of commercial property/casualty business available through Nationwide.

Nationwide has no captive agents in either city and writes less than 10% of its business in the West, she explains.

No additional agents will be appointed during the trial period.

"If we found we could interact well with independent agents, and they with us, we might decide to work out a deal with other independent agents in the West, mostly in smaller cities," Ms. Ellis says. She is quick to point out, however, that the insurer would still primarily sell products through its own agency force.

"It will be at least mid-1987 before a decision is made" on whether to expand the program, she says. "It could be two years after that." ■

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CHINA: A NEW CHALLENGE

Insurers in the People's Republic ready to cover outside investments

By S. Robert Beane

A NEW CHALLENGE LIES ahead for multinational risk managers, and the name of that challenge is China.

In an international business environment that has become increasingly integrated through advances in telecommunications, travel and trade, the People's Republic of China has remained until recently isolated from the economies of other countries. While it is difficult to imagine how the world's third-largest country, with one-fourth of the world's population, managed to keep itself isolated for so long, that era is rapidly coming to a close.

China has never been as receptive to foreign interaction as it is today. Tourism and trade have skyrocketed, and recently the doors to foreign investment have swung open. So, multinational companies must insure risks in a country where the rapidly developing insurance industry is something of an unknown quantity.

Over the last decade, China has developed a policy of greater internal flexibility in order to speed development. The new leadership is moving away from heavy industries to an emphasis on consumer goods in order to improve the general standard of living. Increased worker satisfaction will presumably stimulate greater economic development and enable China to accelerate what is now a healthy record of steady growth.

One of the central strategies for implementing this policy is the selective encouragement of foreign participation in the economy, largely through joint ventures. The government recognizes the need to open the doors if China is going to benefit from the technology of advanced industrial countries.

Encouraging foreign investment is relatively new. It was only at the end of the Cultural Revolution in 1976 and the assumption of power by Deng Xiaoping that the People's Republic committed its resources to the "Four Modernizations": agriculture; industry; science and technology; and national defense.

To achieve development in these areas, China gradually introduced capitalist incentives and management into the centrally planned economy, particularly in small business and agriculture. The resulting boom surpassed all expectations—10% growth in 1983—but officials are still concerned about achieving broad economic expansion. Therefore, current policies continue to stress growth in agriculture and manufacture of consumer goods. China is increasingly looking to foreign investment as a means of stimulating this growth and expanding the nation's technological base.

The Chinese have officially encouraged foreign investment for the last five years,



The character for 'protection' in front of the character for 'danger' forms 'insurance' in Chinese.

international issues

but until recently they have met with limited success. Only 100 equity joint ventures were negotiated between 1979, when a joint venture law was promulgated, and 1983. During the same period, however, approximately 1,600 less-formal projects, involving compensation trade or cooperative production, have been accepted.

Recognizing that foreign investors have been concerned about the economic and legal climate as well as about certain aspects of the 1979 joint venture law, China has gradually created a more formal legal structure for business. Officials hope the preferential treatment of sales, taxes and foreign exchange now afforded joint ventures will ease foreign uncertainties and lead more multinationals to initiate operations in the 40 Special Economic Zones that have been made available.

As U.S. companies begin to test the economic waters in China, risk managers find themselves dealing with a developing state-owned insurance market that only recently has been asked to respond to the complex needs of overseas investors.

Insurance is still a relatively new concept in the People's Republic, although China had a thriving insurance industry before 1949. When the People's Republic was established, the domestic insurance function was consolidated in a single state-owned insurance company, the People's Insurance Co. of China. A decade later, however, domestic insurance operations were curtailed when People's Communes were established under Mao Tse-tung's "Great Leap Forward."

After a hiatus of 20 years, insurance once again has strong government support. There are now three state-controlled insurance companies: China Insurance Co. Ltd., Taiping Insurance Co. Ltd. and the PICC. The first two have underwriting experience that predates the 1949 revolution, and they continue to underwrite overseas business in Hong Kong and Singapore. They are under the informal control of the PICC.

The Ming An Insurance Co., a PICC subsidiary, writes business in Hong Kong, Macao and the Special Economic Zones. In 1980, the PICC entered a joint venture with American International Group Inc. and formed China American Insurance Co., which writes business out of its offices in New York.

The PICC's head office is in Peking with more than 1,500 branches with a staff of 30,000 throughout the country. It writes more than 60 classes of insurance, including all-risk coverage for commercial

property and construction.

The fastest-growing lines of insurance have been motor vehicle, life and livestock mortality insurance, but this is a reflection of domestic demand rather than the PICC's level of sophistication. In fact, the PICC has proven itself adept at providing insurance for the difficult risks posed by foreign investment, particularly in the area of offshore oil exploration.

China's willingness to accommodate foreign investors is apparent in a statement made by the PICC's general manager, Song Guohua, to a gathering of London insurance executives: "To serve the increasing number of foreign clients, PICC has been flexible in its dealings in light of internationally applicable practices, and at the same time has been simplifying its procedures."

Taking advantage of this flexibility, most risk managers dealing with the PICC to date have sought the aid of an international insurance broker. This has been particularly evident in oil exploration. Because more than half of all foreign investment, and the only projects of any great size so far, have been associated with exploratory drilling, a broker with specialized knowledge of the oil industry often accompanies the client to China.

Relatively few U.S. brokers have extensive relationships with the PICC at this writing, but those who do have found it to be flexible. The PICC is sincerely interested in accommodating the needs of large foreign clients within the framework of China's laws and often will negotiate manuscript policies.

While the property insurance of joint ventures must be placed through the PICC, leased equipment or property wholly owned by the foreign firm can be handled on a non-admitted basis. However, the PICC is typically competitive on this type of business, and it often is willing to cede some of this

business to a directed insurance market such as a captive.

The PICC has unusually wide reinsurance ties around the world, a reflection, perhaps, of the opportunities reinsurance underwriters and brokers anticipate in China. The PICC maintains relations with more than 1,000 companies abroad, and it receives visits from close to 200 brokers and intermediaries annually. In reinsurance as in insurance, however, the PICC has been selective.

So far, most of its outward reinsurance is related to marine cargo and hull, aviation and large property risks. Some 40% of the inward reinsurance has been from London and European markets, while an additional 30% has come from North America. China is a member of the Federation of Afro-Asian Insurers & Reinsurers and the Asian Reinsurance Corp. and receives a significant part of its inward reinsurance from Asia, Africa and Latin America.

The volume and scope of the PICC's business has increased dramatically. The emphasis is on service and prompt claims payment. The PICC has signed agreements with several American insurers to coordinate transit loss adjustments and payments. It also uses bilingual policies in Chinese and English and foreign currency policies when appropriate.

The PICC views the need to develop China's insurance industry just as seriously as the government regards its commitment to modernizing the economy. In a Washington address to business and government leaders, Premier Zhao Ziyang said: "China has opened its door and will never close it again. Instead, as China gradually realizes its modernization program, its external economic relations will grow steadily in depth and width."

As opportunities to invest in the People's Republic of China unfold, risk managers will increasingly come to the PICC for insurance coverage. The PICC is ready for the challenge.

According to General Manager Song Guohua, "Insurance circles will, on the basis of equality and mutual benefit, make joint efforts to increase continuously business intercourse, strengthen the exchange of technical know-how and cooperation on more subjects, and further enhance the friendship between insurance industries."

Although the Chinese insurance industry is still developing, management obviously understands its vital role in building the national economy. This fact is reflected in the Chinese word for insurance, which is formed by putting the character for "protection" in front of the character for "danger."



S. Robert Beane is vp and manager of the New York International department of Johnson & Higgins. He serves on the Permanent Working Group of UNISON, the international network of insurance brokers of which Johnson & Higgins is a founding member. His column on international issues appears the first Monday of every month.

Auto liability limits in Italy rise

As of Sept. 1, the minimum obligatory third-party liability limits for automobile insurance in Italy have been increased to:

- Bodily injury liability, 100 million lira (about \$53,000) per person, and 300 million lira (about \$159,000) per accident.
- Property damage liability: 30 million lira (about \$16,000) per accident.

Because of the relatively low minimum obligatory requirements, third-party liability coverage in Italy is often written for limits higher than that required by law. The current maximum limit that can be obtained in the local market is about \$1 million, combined single limit.

—From Johnson & Higgins/UNISON Update

Lloyd's book entertaining, not enlightening

Lloyd's of London
By Godfrey Hodgson
 Published by Elizabeth Sifton Books
 Viking Press
 40 W. 23rd St. New York, N.Y. 10010
 363 Pages, \$17.95

By Peter Downes

ABLURB ON THE dust jacket of this book relates that its author, Godfrey Hodgson, was trained as a historian and is a journalist. After reading the book, I would say that he is a pretty good journalist, since it reads swiftly, is often entertaining and seems to be superficially informative. However, my first thought when I finished reading it was anyone who found Lloyd's of London a mystery before reading the book will find it no less mystifying after reading it.

Nevertheless, Mr. Hodgson does give a kaleidoscopic view of daily happenings at Lloyd's, and the book is interspersed with anecdotes, thumbnail sketches of personalities, potted histories of brokerages and other firms and a capsule history of notable events that have occurred at Lloyd's. The history itself is spattered with factual errors, such as placing the Roylance debacle in the 1920s, when it actually happened in the 1960s, if I recall correctly.

But, such trivial errors are unimportant to Mr. Hodgson, since he intended not to write a history, but to propound a theory. The sole purpose of these and other historical sketches is to set the scene for his theory, which is that events during the past 10 years or so and the subsequent reforms are reruns.

History does repeat itself, and past reforms have been the salvation of Lloyd's. However, any question as to whether the latest reform will accomplish the same result has been left open.

The most recent reforms, including the changes made in Lloyd's governing and disciplinary procedures, were originally recommended in 1980 by a committee under the leadership of Sir Henry Fisher.

The underlying cause that gave rise to the Fisher reform has often been described and can be quickly discussed. Just about the first words a British student sees when he opens the textbook with the title "Principles of Insurance" are *uberrima fides*, or the utmost good faith, which is always contrasted with that other well-known rule of commerce, *caveat emptor*, or let the buyer beware. It is then stressed that the good-faith principle is a fundamental of insurance and indeed, as far as marine insurance is concerned, it is actually embodied in a British statute—the Marine Insurance Act of 1906.

So pervasive was the principle that it tended to govern the attitudes of Lloyd's as an institution, particularly the attitudes of the governing Committee of Lloyd's. This was hardly surprising, since at any time the greater number of committee members were active underwriters, and thus the committee became the arbiter of what could or could not be done in good faith.

One outcome of this was that if the rules that governed Lloyd's could not be fitted to a particular situation, then the committee would invent a rule, and because such an invention was made in good faith, the members would go along with it. This was all very fine as long as everybody agreed to do so, but inevitably the day arrived when somebody felt he had no such obligation.

One such incident, and according to Mr. Hodgson, the case that triggered the Fisher inquiry, was the so-called butter mountain case. This involved cargo insurance with an individual shipment limit of \$1.5 million. However, nobody told the underwriters that more than one shipment might end up in the same warehouse. This actually happened, and it resulted in a loss of about \$15 million following a fire. The underwriters, understandably enough, were quite annoyed about the whole thing and, before doing anything further, they



The interior of Lloyd's of London in a bygone era.

books & ideas

wanted the case to go to arbitration.

Sending cases to arbitration has long been standard operating procedure at Lloyd's, but the broker in this case did not want to follow that time-honored path and consulted a lawyer instead. The legal advice he received was that the broker was an agent of the insured, and as such he owed no duty to the underwriters.

Learning of this, the Lloyd's establishment was shaken to its very foundation and, although the disputing parties finally agreed to accept arbitration, the committee quickly realized that it could no longer rely on its powers of moral persuasion. Or to put it more pointedly, the committee might tell a broker what to do, whereupon the broker would likely tell it where to go!

And if this were true of the British, how much more true would it be of Americans. This thought caused Mr. Hodgson to speculate amusingly on what might have happened if the committee had called the chairman of Marsh & McLennan Cos. Inc. and had attempted to give him a good dressing down for his conduct.

Arising from all of this, it seemed obvious to the committee that changes were overdue. Not only were brokers and underwriters no longer playing by the rules, but criticisms were being leveled denigrating the lack of good faith at Lloyd's. And, indeed, the whole institution seemed in danger of losing its jealously guarded reputation, notwithstanding the integrity of the vast majority of its working members.

Moreover, the committee itself was finding that when action was called for, it might well be inhibited by its own laws. For example, to expel a member required a vote of

the entire membership. This was fine back in 1884, when there were about 400 members, most of whom worked in or around Lloyd's. By 1984, however, there were more than 23,000 Lloyd's members, most of whom rarely saw the place. In fact, there had been no major revision of the rules for more than a century, and they were clearly archaic.

But, this had all happened before in one way or another, Mr. Hodgson argues. Back in the 18th century, nobody could tell who was an underwriter and who was not. Consequently, clerks without two pennies to rub together would underwrite risks, collect the premiums and then abscond with them. By 1800, this induced members to pass a resolution governing the rules of membership, and, in 1811, a Trust Deed outlined the first constitution of Lloyd's.

Later in the century, the committee finally came to realize that it had little or no authority over the conduct of members themselves, and thus, for example, a bankrupt member could still accept risks. This, coupled with a few scandals, finally led to the Lloyd's Act of 1871. In 1911, a further Act of Parliament was passed that extended Lloyd's powers to non-marine insurance and that regularized provisions concerning members' deposits and audits.

Mr. Hodgson describes in great detail a number of events that happened during the past 10 years or so, none of which showed members or the committee in a good light. In fact, there were times when they were crassly stupid, and Mr. Hodgson does not hesitate to say so. He supplies detailed accounts of a number of Lloyd's scandals. Even after the Fisher reforms, there were further events involving Lloyd's underwriters, leaving us to wonder what else might come crawling out of the woodwork in the future.

But, Mr. Hodgson continues, as had happened before, the pressure of events led members to accede to reforms, and it now remains to be seen whether they will have saved Lloyd's once more, and whether they will lead the institution to new heights or to abysmal failure.

To sum up, this book might fairly be described as a polemic, and like most literature of its kind, it is ephemeral. Nevertheless, its arguments are plausible, and the book as a whole is entertaining.

One has no doubt that it will be of at least passing interest to all those who are even remotely connected with Lloyd's. But it is the kind of book that is quickly remaindered by its publisher.

For myself, when my bookshelves start getting overcrowded once more, I can envision this book becoming an early candidate for my wife's next garage sale.

Ambiguity construed against insurer

Where a group health and hospitalization insurance policy was ambiguous as to whether it afforded coverage for medical transportation from one medical facility to another, the contractual ambiguity had to be construed against the insurer, according to a Louisiana appellate court ruling.

Bernard Hampton was covered by a group policy issued to his employer by Lincoln National Life Insurance Co. Included in eligible charges was transportation within the United States and Canada by professional ambulance service or regularly scheduled airline to, but not returning from, a hospital.

Mr. Hampton suffered a stroke in 1981 and was hospitalized in Louisiana. His physician recommended that brain surgery be performed by a specialist in Ontario. Therefore, Mr. Hampton was flown to Ontario, where he underwent several operations.

When his condition stabilized, he was flown back to the Louisiana hospital by air ambulance. He remained in the Louisiana hospital until Sept. 18, 1981. He was then transferred to a rehabilitation center, where he died in August 1982.

Lincoln National paid more than \$150,000 in medical expenses pursuant to coverage, including the cost of the transportation to the hospital in Canada. However, Lincoln National refused to pay \$7,234 for the cost incurred in returning Mr. Hampton to the hospital in Louisiana.

Mr. Hampton's heirs then sued Lincoln National to

legal briefs

recover the cost of the ambulatory air evacuation from Canada to Louisiana. The trial court ruled in favor of the insurer.

However, the appellate court concluded that the language "to, but not returning from a hospital. . ." was ambiguous. The court said that the phrase in question could be construed in several ways, including in a way that would exclude an insured's return from the hospital to his own home or exclude a return from a hospital after his medical treatment had been completed.

According to the court, the policy was also ambiguous as to whether coverage was afforded in circumstances such as this one, where Mr. Hampton was transported between two hospital facilities before his medical treatment was completed.

Thus, the court found Lincoln National liable for the cost of transportation from Canada to Louisiana. *Hampton vs. Lincoln National Life Insurance Co.*, Court of Appeal of Louisiana, Jan. 16, 1984 (BI/04/D.-\$5).

These abstracts were prepared by Cases Unlimited Inc. A copy of an entire decision may be obtained by sending a check for \$5 made out to Cases Unlimited to Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. List the number for each opinion.



Peter Downes is risk manager for American Trading & Production Corp. in Baltimore. He worked for a Lloyd's of London broker in the 1950s.

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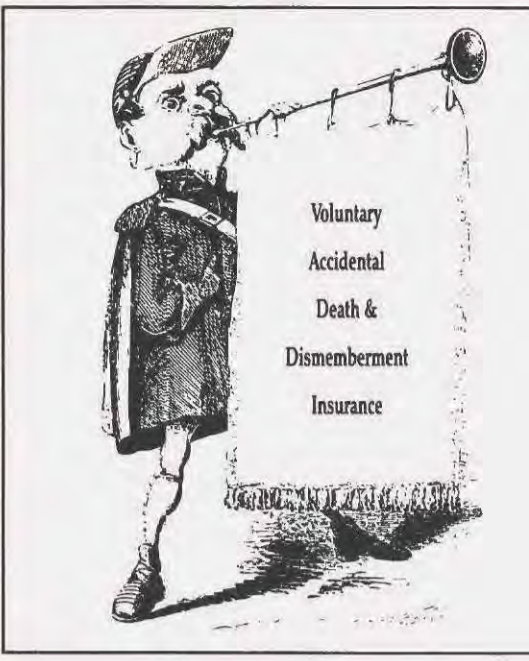
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Independent agents need to plan to beat competition

By LINDA J. COLLINS

NEW ORLEANS—Independent agents are a wide range of competitors—direct writers, captive agents, large brokerages and possibly even banks—in the battle for market share.

"To beat the competition, we must be planning. We must be organizing to achieve the results that you and I want as producers," Willis Hargrave Jr., owner of Harco Insurance Services in Houston, told agents attending the National Assn. of Professional Insurance Agents' annual convention.

Mr. Hargrave was one of three agents who participated in a workshop discussion addressing the

topic: "Beating the New Competition."

Another panelist told agents they must be aggressive to compete.

"I'm trying to spur all those small agencies across America to stop being small-minded in the way they operate their businesses," said Jon H. Pease, vp of Holmes, Murphy & Associates Inc. in Des Moines, Iowa.

Most agents, he noted, depend on the "Three Rs" for sales: relatives, referrals and renewals. "To say that our greatest weakness is the lack of an aggressive effort would be an understatement."

To show the audience how relatively little business is being produced by independent agencies, Mr. Pease referred to 1982 statistics revealing that of the \$123 billion of property/casualty premium generated by insurers, just \$65 billion—or 53%—was written by the nation's 69,500 independent agents. The remaining \$58 billion was written by direct writers and captive agents.

This breaks down to "\$10 billion of countrywide commission income for all 69,500 agencies," Mr. Pease said. "You can throw in another \$1 billion for profit-sharing and interest income that the agencies are able to make on their float, plus another \$1 billion of life and health commission. So, we've got about a \$12 billion pie for the independent agents at this point."

"Now, who gets that \$12 billion?" he asked.

Mr. Pease explained that \$3 billion of that amount was generated by the 10 largest publicly owned brokers, \$240 million went to the second 10, and \$442 million was generated by the next 80 largest agencies. That means 30% of the \$12 billion in commissions available to independent agents went to the 100 largest agents and brokers, he said, adding that \$5.1 billion—or 42% of the total—went to the top 1,000 agencies.

Mr. Pease said this left about \$750,000 of premium volume, or \$120,000 of revenue, for each of the remaining 68,400 U.S. agencies.

"How (they) can survive is beyond me," he remarked.

A problem plaguing agencies, according to Mr. Pease, is a lack of strategic planning. He said estimates reveal that less than 1% of independent agencies have a strategic plan for their agencies.

Two additional problem areas are that most independent agencies are "horribly undercapitalized," often not retaining any earnings, and that most agencies are more sales-oriented than service-oriented, Mr. Pease said.

Mr. Hargrave told the agents that the large, national brokers have picked up much of the market share lost by independent agents, "so we have another competitor out there on the street." These brokerage firms, he said, have grown through acquiring agencies and "by target marketing small commercial accounts... through mass-marketing and traditional sales efforts."

Mr. Hargrave noted that, due to competitive pressures, the number of agencies has dwindled to 60,000 from the estimate of 69,500 in 1982 cited by Mr. Pease. "Brokers and direct writers have shared a dramatic growth at our expense," Mr. Hargrave said.

Mr. Pease added that insurers have begun to identify their growth-oriented agencies and offer them special services not available to their entire independent agency force.

"These little sweetheart deals are more than just sweetheart deals. It

Continued on page 24F

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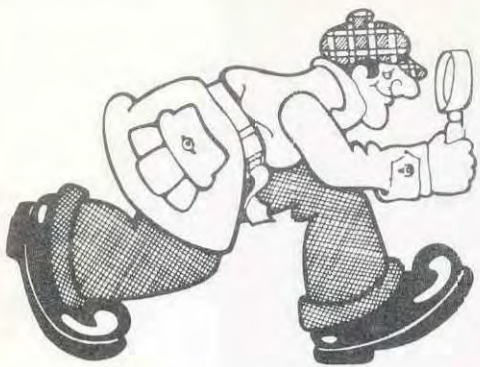
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Agents must battle stiff competition

Continued from page 24D

appears that the companies are offering now a two-tiered commission structure for agencies, to reward the growth-oriented agencies at the expense of the smaller ones," he warned.

Mr. Pease noted that he agreed with a statement made by an agency consultant that most property/casualty insurers would do away with their agency force if they could learn how to write business directly and figure out how to survive during the beginning of such a process as agents moved business to other markets to retaliate.

"I think the partnership we talked about 20 years ago is dead," Mr. Pease explained. "The only partnership is who can secure the market share for the national agency companies."

He noted that agents who depend

on the "Three Rs" "are not going to furnish that market share to those companies and therefore will probably suffer the consequences.

"So, who is our real competition? Is it the banks? Is it the direct writers? I think our biggest competitor is ourselves.

"The other distribution systems will continue to take more and more each year of our market share if we don't make some drastic changes," Mr. Pease said.

One way to fight shrinking market share, according to Mr. Hargrave, is to physically audit every single file in the agency.

"You may be only writing one line of business for that insured when, in fact, he may have four separate lines of property/casualty business that are available to you, excluding all the life" business, which is another area of potential growth, he said.

Mr. Hargrave noted that an agency's clients must already respect the agency or they wouldn't be doing business there. "That's where you begin," he said, "but from that point on, you've got to create a plan.

Mr. Pease and Mr. Hargrave also recommended that agents look into deals with banks.

"There are ways to work with banks to achieve these things," Mr. Hargrave told agents. "We are working with some banks ourselves, on a consulting basis. . . . Even though they may be in the business, they're uncomfortable doing what you and I do every day."

He said that if agents succeed in selling themselves to these clients, it will be hard for banks to ever take that business away.

"Banks can't afford the salesmen it would take to sell commercial insurance and out-perform, and I don't think they are going to outperform the captive agents. I don't think they can take the personal lines from the direct writer, and I don't think they'd take the commercial lines from the independent agent," Mr. Pease said.

"But what they will do, I'm sure, is attempt to write a lot of personal lines business, and they're going to get it out of your pocket unless you do it for them," he said. "They're going to buy agencies or they're going to attempt to market their own lines on their own.

"So," Mr. Pease asked, "how can we benefit from the entry of banks into our business?"

He said that many agencies are currently undercapitalized, and need to find the capital necessary to survive. This capital "is being offered and dangled in front" of agents by insurers offering capital infusions in exchange for exclusive representation.

"I submit to you," Mr. Pease said, "that maybe a less-dangerous connection, if you want to maintain your independence, is to look to your local banker as a source of capital.

"You can do one thing in your communities that the banks can't," Mr. Pease said, "and that's to encourage your customer base to take their banking needs to an individual institution. Bankers know that."

The third agent on the panel, Walter G. Williams Jr., president of Coastal Underwriters Inc. in Plantation, Fla., noted that "Joint ventures (with banks) are being promoted as a gold mine for agents, but PIA warns they should be viewed with considerable skepticism.

"I would emphasize, therefore, the views to be expressed by our panel this morning are not necessarily shared by your sponsors," Mr. Williams said. ■

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Prepare clients for rate hikes, agent advises

By LINDA J. COLLINS

NEW ORLEANS—Agents should prepare buyers for commercial insurance rate increases because rate hikes are necessary if insurers are to survive, according to a panel of producers and insurers.

"Prepare clients for rate increases," advised Edward H. Akin, president of Akin-Akin Agency in Howell, Mich., and past president of the National Assn. of Professional Insurance Agents. "They will understand (the increases) if you take the time to explain."

Mr. Akin, several insurance company executives, an excess/surplus

lines broker and a consultant discussed the need for rate hikes and a potpourri of other subjects at the PIA's annual convention.

The panelists generally agreed that insurers must increase rates substantially and that some buyers may encounter capacity problems.

"To improve loss ratios, we are looking at a price need change of 70% to 80% to take the commercial lines business back to a reasonable return—to break even," said Gerald Isom, president and chief executive officer of Transamerica Insurance Group in Los Angeles.

"New entrants into this business have gotten us into the mess we are

in today," he said. "Until prices get to a satisfactory point, capacity will be found, but some things are going to go wanting."

Mr. Isom noted that if insurers do not "get back close" to a 100% combined ratio "on short-tail lines, we will be in trouble. It may not be realistic to assume this will happen in long-tail lines."

Robb B. Kelley, chairman, chief executive officer and treasurer of Employers Mutual Casualty Co. in Des Moines, Iowa, said he agreed that insurers need to strive for an underwriting profit.

In his remarks, Mr. Kelley said that further deregulation of the in-

urance industry is not needed.

"The property/casualty industry is beginning to arise from the worst underwriting cycle in modern times," he said, noting "the idea of deregulation is very popular right now, and open competition is still popular in some corners."

But he warned, "The property/casualty insurance business has many characteristics that are different from other (industries). The consequences (of deregulation) will not show up until a long time down the road.

"The pendulum has swung too far toward deregulation. We must regulate for rate adequacy," Mr. Kelley stressed. Among other things, he suggested that workers compensation rates should be regulated by the states.

The relationship between insurers and agents was also on the minds of the panelists and the audience.

According to Mr. Isom, traditional relationships between agencies and companies are changing.

The concept of a "partnership" between agents and insurers "has been overused in the industry," Mr. Isom remarked. "In soft markets, partnership is used by companies and agents to help them compete with the direct writers. Partnership has a much more serious meaning as we try to compete in the next 24 to 36 months."

Mr. Isom gave several qualifications for a working partnership between agents and companies, among which are:

- Agencies should work with insurers that match their needs.
- Insurers need to select agents

who can sell their products.

• Agents must understand that insurers really do need price increases.

• Agents and insurers have to recognize that their businesses are different.

Mr. Isom also said that although many agents should reduce the number of insurers they represent representing just one company is not a good idea.

"I don't believe sole representation by one company is the answer," he said. "To effectively compete, we have to find a way to do (business) a lot cheaper. It's not cheap for agents to represent four to five markets in personal lines."

"Putting all business with one company is foolish," Mr. Kelley added, noting that if the insurer decided to pull out of such an arrangement, the agent would be left high and dry.

Mr. Akin said that representing two companies for personal lines business is fine. "I don't see why more than two or three (companies) are needed, (although) there could possibly be reason for more in some areas of the country."

Agents in the audience asked the panelists whether commissions paid by insurers would be cut soon.

"Competition won't allow it, and agents are entitled to (their current commissions)," Mr. Kelley replied.

Mr. Isom said commission levels should be determined according to who is providing the bulk of the service to the policyholder.

"If the agency performs the service, the company should pay him for it. If the company is to do the service, then this should not be so." ■

Advertising has no set rules: Executive

NEW ORLEANS—There are no facts pertaining to advertising, only generalized truths, an advertising executive says.

Robert R. Russo, president of IMS Advertising in Bloomfield, Conn., explained the truths and myths of promotional communications to agents attending the National Assn. of Professional Insurance Agents' annual convention.

"Promotional communications are anything you do to enhance your name, intentional or not," Mr. Russo noted, advising agents not to look for rules regarding advertising but to "learn from what generally works and what generally doesn't."

In addressing the promotional needs of the independent agency, Mr. Russo discussed and dispelled five common advertising myths.

The first myth he addressed is that agencies should cut back on

advertising when the industry is in a down cycle. Mr. Russo disagreed. "Advertising has a direct relationship to market share, which has a direct relationship to return on investment," he said.

The second myth he addressed is that there is no benefit to a consistent approach to advertising. "We have conducted a lot of full communications programs. (They are) forgotten frequently after a year or so," he said, alluding to the need for ongoing ad campaigns.

Mr. Russo said an advertising program gives an agency something the competition doesn't have, so people will say, "I've heard that name before. How do you put a value on the 'Oh, yeah?' effect?"

Myth No. 3 is that advertising should avoid humor at all costs. Mr. Russo said ads should avoid comedy, not humor. Jokes, according to

Mr. Russo, are only effective once.

He said that although humor is not a substitute for a sale, it can be an enhancement for a sale. He also noted humor cannot be applied to a situation that is not funny, such as a severe loss, but that appropriate humor can be used effectively in an advertising campaign.

Mr. Russo said a fourth myth about advertising is that long copy doesn't sell. "Long copy is OK if it's jammed with useful information. If you have a lot that's worth being said, don't be afraid to say it.

"If a person is not a valid prospect, (he's) not going to read copy, no matter if it's long or short," Mr. Russo explained.

The final myth Mr. Russo dispelled is that advertising is another word for marketing. "Advertising is a communications vehicle for your marketing efforts," he said. ■

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Structuring foreign benefits

Continued from page 3
increase from about 50 in 1950 to about 70 years in 2020," Mr. Coughlin said.

Another demographic trend is that birthrates are falling in industrialized nations, which means that entire societies are beginning to age.

"The most remarkable increase will occur in Japan. In 1983, only about 9% of their population was over age 65, but by the year 2025 that percentage will more than double to 21%.

"Put another way, in Japan there are currently about seven workers for every one retiree on pension. By the end of the century, each pensioner will have to be supported by only 3½ workers," he said.



Mr. Coughlin

In addition to economic and demographic trends, governments are spending more on public income maintenance, including social security pensions, unemployment benefits and family allowances. They're also taking a more active interest in regulating privately supplied benefits, especially pension benefits.

"Most industrialized countries are in the midst of their own social security crises," Mr. Coughlin added.

These crises have been caused by the economic and demographic trends and by the fact that many social security programs were inflation-proofed or indexed to protect the real value of their benefits.

For instance, benefit changes are linked to increases in the consumer price index in Australia, Canada, the Philippines and Chile, Mr. Coughlin said. A wage index is used in France and Holland, while West Germany adjusts its social security benefits according to changes in national average earnings.

"More recently, governments have begun to adjust their social security programs in line with economic realities," he said. "On the income side, contribution ceilings have been raised, payroll contribution rates have been increased, and social security benefits previously exempt from taxation have been taxed.

"On the outflow side, indexing adjustments have been cut back, and in some cases, actual benefit levels have been reduced."

In many cases, the financial burden of these benefits has been shifted to the private sector, he said, and as a result, the cost of integrated benefit plans will increase.

"For example, in Holland, the government has reduced old-age pensions. Integrated pension plans which guarantee a specified benefit level inclusive of social security will consequently have to make up the difference," Mr. Coughlin added.

Coping successfully with all these changes require two important management developments that are emerging today, A&A's Mr. Long said.

The first is a growing awareness of the financial implications of foreign benefit programs. International benefit managers need to monitor the design and funding of foreign plans, determine the optimum pace of funding to maximize cash flow and monitor the investment performance of the chosen funding medium, Mr. Long said.

The second development is that corporate headquarters are beginning to exercise more centralized management over their foreign benefit programs. "It has simply become too costly to ignore the inefficiencies that inevitably arise

from situations lacking effective centralized management, not to mention the customary 'feathering of the nest' which often takes place when foreign managers are allowed to go it alone," Mr. Long said.

He cited as an example a situation in which managers of the Hong Kong operation of an American company began pressuring U.S. headquarters for a pension plan.



Mr. Long

They cited surveys showing that local competitors had such plans and that the lack of a plan put the company at a disadvantage in hiring.

Headquarters asked consultants to design a competitive retirement plan. "Only at this point was it discovered that the requests for a retirement plan omitted one very important point: In order to compensate the employees for the lack of a pension plan, direct compensation was already about 15% higher than normal!" he said.

According to Mr. Long, international benefit managers can use a variety of tools, from setting up captives to making more efficient use of tax laws, to cut the cost of international plans. Other tools include:

- Developing a corporate benefits philosophy.

"Experience has shown that, when left to their own devices, some local managers tend to purchase overly expensive benefits packages," Mr. Long said. "In other cases, good employees have been lost due to poorly designed, uncompetitive (or even non-existent) employee benefit programs.

"What is needed is a corporate statement providing the broad outlines of an acceptable corporate benefits package to all of the company's foreign managers," he said.

"The ideal philosophy should be thought-through and formalized, flexible enough to allow for a wide range of individual needs, generic enough to encompass the diversity of all countries in which the company operates and specific enough to provide guidelines so that international consistency exists for all of the corporation's employees around the world."

- Conducting an international benefits audit and updating it periodically.

"Given the large sums of money that are being spent on foreign pension and other benefit plans, it's quite surprising how few of the largest American multinational corporations really know about their foreign plans," Mr. Long said.

An international audit can help expose many problems and inefficiencies and can help evaluate the appropriateness of existing benefit levels.

After the initial audit, it is normally desirable to conduct regular review audits, Mr. Long said.

- Rationalizing plan design by incorporating new legislative or regulatory changes.

"The fact that many plans currently in force overseas have not been subject to regular reviews and audits indicates that there is probably considerable room for cost savings," Mr. Long said. "Existing plans may no longer be cost-effective because they don't incorporate more recent legislative, tax or social security changes."

Using this approach, one company in England was able to devise a plan that reduced its long-term pension liabilities and was so popular with employees that more than 90% of those eligible chose to participate, Mr. Long said.

Continued on next page



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Foreign benefits

Continued from preceding page

"The company was concerned about increasing benefit levels and the escalating costs of its defined benefit pension plan, due to inflation and proposed legislation, which would mandate portability of funds and the indexing pensions," he said.

The company's objectives were to gain greater control over long-term pension liabilities, while at the same time maintaining roughly equivalent overall benefit levels, Mr. Long said.

The solution to the problem was two-pronged: reduce the benefit formula of the defined benefit plan and introduce a separate savings plan in which the company would match employee savings.

First, the company reduced the defined benefit plan's formula to a benefit equaling one-half of final pay, down from two-thirds. Thus, the company was able to also reduce mandatory employee contributions to the plan. For the average management employee earning 15,000 pounds a year, pension contributions were cut about 39%.

The company then instituted a U.S.-style savings plan, basing its matching contributions on the employee's length of service. For instance, it provided a 10% match for an employee with one to two years of service, and it fully matched contributions by employees with 10 or more years.

"In essence, what was created was the core of a defined benefit pension plan. An employee could either opt for higher take-home pay or increase his retirement income by contributing to a matching savings plan instead," he said.

"The end result for the company was that—whereas the total annual cost of the new pension plan plus the savings plan was roughly equal to the cost of the old pension plan—there were no unfunded liabilities associated with the savings plan. Unfunded pension plan liabilities were reduced by approximately

22%," he said.

"At the same time, employees were happy because they were granted a choice between greater take-home pay and increasing future retirement income through company-matched contributions to the savings plan."

● Calculating termination indemnities and considering them as liabilities.

Termination indemnities are mandatory or voluntary payments to employees when an employment is terminated. They are required in 23 countries in Latin America, Europe and Asia and are customary in five other countries, he said.

"Termination indemnities represent a significant corporate liability," Mr. Long said. For example, in Venezuela, an employee can receive a termination indemnity of up to one month's salary for every year of service.

"Yet, since most countries do not allow the tax-free prefunding of termination indemnities, many companies simply do not recognize this accruing liability," he added.

"In some countries it is possible to, in effect, replace a termination indemnity, which you cannot pre-fund on a tax-deductible basis, with a private pension plan that can be prefunded on a tax-deductible basis. By making this de facto substitution, a company can actually pre-fund its accruing termination liabilities in an orderly fashion."

Also, recognizing previously ignored accruing termination liabilities helps firms identify total business costs for product pricing.

● Pooling employee benefit plan insurance for operations in two or more foreign countries (*BI*, Sept. 3).

A multinational corporation pools its overseas benefits by placing its subsidiaries' group benefit coverages with the partners in a multinational insurance network, rather than with unrelated insurers in the nations where the subsidiaries are located. The network then treats the separate plans as a single pool that is then experience-rated. Losses in one country can be absorbed by surpluses in others.

"The two main advantages of multinational insurance pooling are cost savings and centralized bargaining," Mr. Long said.

Cost savings of typically 7% to 15% are generated by an international rebate or second-stage dividend, which is determined by a comparison of the actual experience of all the subsidiaries with the assumptions that are made when premiums are calculated.

"The largest rebates come from countries with insurance tariff systems or cartel agreements where unrealistic margins are included under national premium rates."

Mr. Long said.

Dealing with a single network gives the multinational better bargaining power, he added.

Experience-rating also improves the ability of the parent company to monitor foreign benefit plans, leads to higher surrender values when an insurance contract is discontinued and eases the transfer of pension reserves from one participating country to another when an employee is relocated, he added.

● Requesting an international actuarial valuation.

An actuarial valuation of all retirement and termination indemnity plans of a company's foreign operations uses consistent criteria in selecting actuarial assumptions and a common actuarial cost method. "It is a cost-control procedure that permits companies to collect accurate and consistent information of the current and potential future costs of its foreign retirement programs," said Mr. Long.

"In a number of cases the international actuarial valuation has actually led to new product pricing policies in order to more accurately reflect real production costs."

It provides more complete and consistent data than actuaries in local foreign countries can, he said.

"For example, some European countries require that pension costs be determined without allowance for future earnings increases, even though final earnings actually determine the benefit," he explained.

It also makes it easier to comply with U.S. general and tax accounting regulations, he added.

● Communicating employee benefits more understandably.

Most employees don't clearly understand their benefits. Communicating clearly the cost of the benefits will improve good will and may ease employee negotiations, he said.

"The effective management of foreign benefits must be a high priority in the challenge to enhance international competitiveness through cost control," he said.

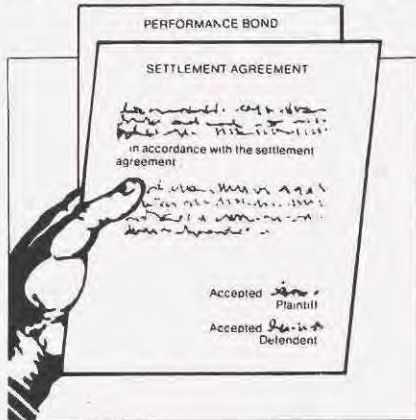
G. Ashley Cooper, an actuary with The Wyatt Co. in New York, warned companies against the "dangerous" practice of looking merely at competitors' benefit plans without considering whether the benefits are adequate.

His comments came during another seminar in which he summarized future international benefit trends.

"To be frank, the benefit survey has been one of the worst benefit exports from the United States," he said. "Moreover, it just isn't mathematically possible for every employer to be 'above average' as so many of them want to be," he said.

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Selecting a consultant for global plans not easy

By MEG FLETCHER

CHICAGO—A consultant can be a valuable asset to an international benefit manager, experts say. But first, the benefit manager must be convinced that outside advice is needed.

And then, the benefit manager must find the best advice at the best price and must sell the idea to top management.

G. Ashley Cooper, an actuary with The Wyatt Co. in the consultant's New York office, and two international benefit managers—Anthony L. Filippelli of Merck & Co. in Rahway, N.J., and Robert E. Cox of Winthrop Products Inc. in New York—gave tips on choosing an international benefit consultant at a recent International Benefit Conference in Chicago sponsored by the International Foundation of Employee Benefit Plans.

Outside consultants can be used to help develop corporate benefit policies, prepare special benefit projects, recommend benefit plan design and funding and provide a full range of actuarial services, Mr. Cooper noted.

The sources range from independent consultants hired on a strict fee-for-service basis to those whose services are not billed but who rely on commissions or premiums from the client's purchase of related services like insurance.

A consultant can provide specialized skills, like those of an actuary or lawyer, or a breadth of experience in areas that are new to the benefits manager, Mr. Cooper said. A consultant also can help sell a program change to top management, he noted.

And, a consultant's expertise can help avoid pitfalls in international benefits. "It is easy to get into an insurance contract in Holland, but not that easy to get out of it," he quipped.

"The best way to use a consultant is to work with him," he suggested.

The client company should first determine whether the project is centralized, decentralized or local. A decentralized project involves both the home office and another corporate entity, like a regional office or overseas subsidiary. A centralized project is controlled totally by the home office. And, a local project is handled completely by another entity.

A decentralized project can pose the most problems, Mr. Cooper said.

For example, in establishing a new pension plan for the U.S.-based client company's subsidiary in a foreign country, the parent company would expect the U.S.-based consultant to bill for its services. But, it may be surprised to learn that the consultant's cooperating partner in the foreign country is also billing the parent's overseas subsidiary.

"There is a real need to clarify who is working for whom," he said.

Mr. Cooper's suggestions for making the most-effective use of a consultant include:

- Get the consultant involved early. To involve a consultant in a project that it is well under way increases the potential for problems and may increase costs, he said.

- Define the consultant's role. Have a planning meeting to define the project, division of labor and ground rules, Mr. Cooper suggested. If you do this as a "new business" meeting, the consultant may not even send a bill for his

time, he said.

He added that such a "new business" meeting gives the consultant a chance to learn about the company. But, he encouraged firms to develop a long-term relationship with a consultant. "If the consultant knows the company... he will do a better job for you."

- Outline the entire project for the consultant, even if he is working only on part of it. It is important for the consultant to see how his piece fits into the whole program, Mr. Cooper said.

- Achieve a balance between the cost of the project and the cost of the consultant. "You don't want a \$20,000 study for a \$200 problem," he said.

Continued on next page

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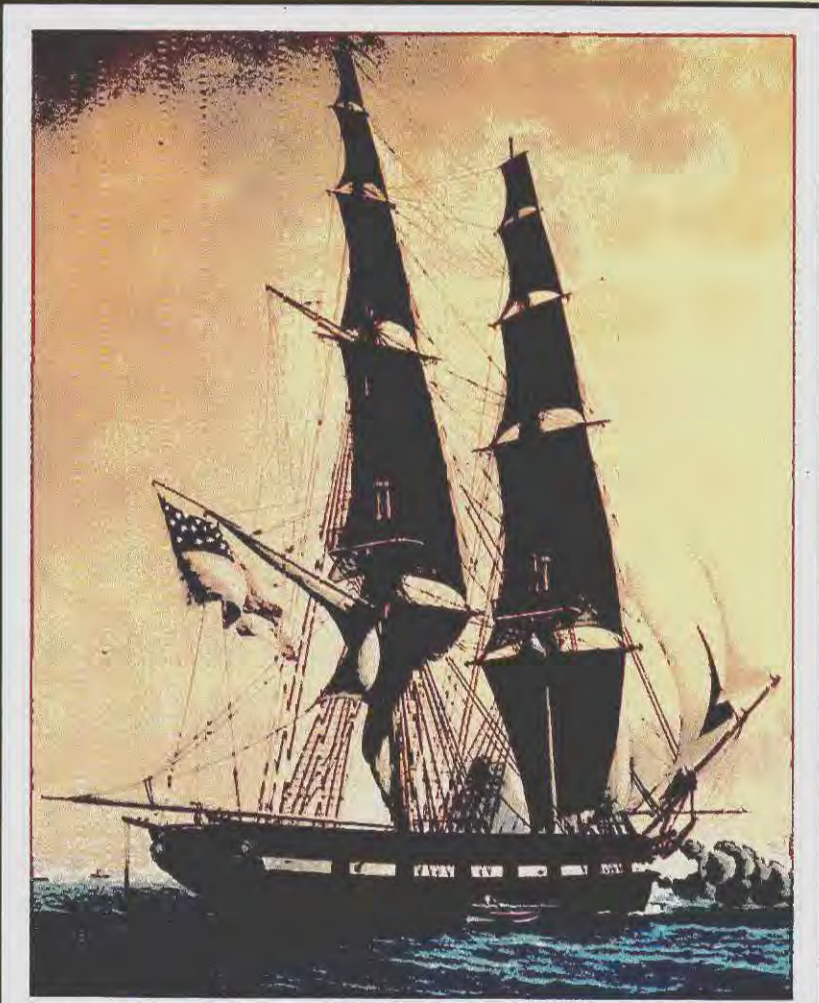
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International consultants

Continued from preceding page
 These tips will help eliminate some problems. And, most problems that do occur involve the consultant's cost overruns or failure to meet deadlines, he said.

Some cost overruns occur because the project was not properly defined or understood, or because it changed in the course of the consultant's work. But, some cost overruns also can be the fault of the consultant, especially if he or she intentionally underbid to get the project.

Getting a consultant to meet deadlines can be a problem. "Very frequently the consultant is too optimistic about the amount of work involved," Mr. Cooper said.

Part of the problem involves difficulties in gathering information. "Data is hard to get, particularly in foreign countries," he added.

He suggested asking for interim deadlines at the planning session as a way to get a consultant to finish the work on time.

All types of consulting services have pluses and minuses in terms of cost and service, Merck & Co.'s Mr. Filippelli said.



Mr. Filippelli

"The (company's) object is to get the right answer, right off," he emphasized. "While we are all benefit specialists, we are all cost managers as well."

For example, a company's insurer may be well-versed in company operations, but it may provide a one-sided approach to any problem, he said.

An independent consultant working in the foreign country on a fee-for-service basis is knowledgeable about local legislation and

Germany may tax benefit dividends

CHICAGO—The West German government is considering taxing the international dividend paid to a company with operations in Germany that pools its international benefits through an international employee benefit network.

Robert M. Pickrell, president of Multinational Benefit Associates in Darien, Conn., which also represents INSUROPE Network, said the possibility of such a tax was mentioned by an official of the Alteleipziger Co., the INSUROPE Network insurer in Germany.

Mr. Pickrell made the comment at the International Benefits Seminar sponsored recently in Chicago by the International Foundation of Employee Benefit Plans.

An international employee benefits network is a working arrangement among different insurers through which a multinational employer is able to obtain employee benefits coverages for two or more of its foreign-based subsidiaries through one master contract.

In multinational pooling, a service these networks provide, the claims experience of all the employers' subsidiaries are pooled by the network, and good loss experience is rewarded with a dividend paid to the employer after each policy year.

"There are a lot of questions which must be answered" about the possible German tax, Mr. Pickrell said.

For example, he said, one question is if the insurer would withhold the tax from the dividend or if the subsidiary would pay it directly. Another question is how losses from other countries would be balanced against the experience in West Germany, Mr. Pickrell added.

practices. But, distance may make communication difficult and the project hard to control. And, the consultant may not have sufficient background on the company.

"There is a tendency to propose solutions that are hard to sell to your top management," he said.

A local foreign consultant who is also a broker may not charge for his or her services, but will expect to be compensated through commissions and renewals. Therefore, he or she may not volunteer cost-reduction information. Also, service may be inconsistent if the client is small, he said.

A multinational consulting firm operating on a fee-for-service basis is an easily accessible source of expert information with vast resources, he said, noting the firm can also help sell top management on the program.

The only disadvantage to such a

firm, he said, is that, "The corporate benefits manager may tend to refer more project work than necessary and the costs can be significant."

Winthrop Products' Mr. Cox suggested to the audience that remembering that nothing is free will prevent a benefits manager from relying too heavily on a consultant with a financial stake in the advice he or she is providing.



Mr. Cox

But even self-interested sources can provide useful information, including profiles of the country with which you are concerned.

In selling the idea of consulting services to top management, it is important that an international benefits manager prove that it is

the most cost-effective approach to dealing with the problem, Mr. Cox said. It is important to show management that money will be saved in both the short run and the long run.

It is also important to know top managers' philosophy, he said, especially whether they would be willing to employ a less-well-known consultant who may cost less and do more, or whether they want an established one who may charge more.

A benefit manager's approach should be tailored to the philosophy of the person he or she most needs to persuade, Mr. Cox noted. For example, if the benefits manager is reporting to a committee, the approach should be tailored to the philosophy of the committee leader.

In any case, the presentation should be professionally done, and charts should be used if necessary, Mr. Cox said.

He suggested that a company

should not be locked into a relationship with one consultant and should consider hiring different consultants for different projects, unless the firm is too small to attract them. That approach allows a company to select the consultant who is strongest in a particular area, he explained.

The competition also keeps a consultant from getting lackadaisical, he said.

When asked to comment on the many mailings consultants send about proposed legislative changes affecting international benefits, Mr. Cooper urged the benefit managers to view them as tip sheets but to resist the underlying element of salesmanship.

However, he pointed out that consultants sometimes find themselves between a rock and a hard place. If they don't inform companies about a change, they are not keeping up, but if they send a letter, they are accused of seeking business.

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Structure benefits for overseas workers; Expert

Continued from page 3

upon your company. There are about as many definitions as there are practitioners."

His company defines a TCN as "an employee who has been permanently transferred to another country at the company's request." Factors that other benefit managers sometimes consider, which have been eliminated from this definition, include nationality, citizenship and where the person plans to retire.

"The best advice I can offer on the topic of TCNs is to get some order and structure into the per-



Mr. Boudreau

sonnel and hiring relationships," Mr. Boudreau said. He said most of the TCNs with whom he has dealt have been mid-level technocrats. His suggestions come from his experience, but he urged others to explore their situations before adopting a technique.

Before defining a TCN, an international benefits manager should review the employer's international personnel structure and whether employees are temporary or permanent transfers or members of an international cadre.

Mr. Boudreau said it's also helpful to collect on a standard form pertinent information a benefits manager should consider in analyzing the types of employees with whom he or she is dealing. The factors include:

- Who is the employee?
- Who is the employer?

- What is the employee's compensation base?

- What is his or her employment history to date?

- Was the employee transferred at the company's request, or his or her request? "Do you owe them a solution if they transfer at their request?" he asked rhetorically.

- What is the employee's probable career path?

- What has he or she been told or promised? By whom?

Even under a structured approach, problems can arise when promises are made, often at a high level, with which a benefits manager must cope, Mr. Boudreau said.

After analyzing who the international employees are and what their relationship is with the company, it is then possible to bring order into that relationship, Mr. Boudreau said.

The first step, he said, is to set up written personnel policies. "Spell out employment status, compensation, benefits, perquisites, etc., to the employee in writing," he said. "Avoid ad hoc arrangements."

Ignore citizenship and determine which corporate unit is the permanent employer. Tie the employee, especially new hires, to a base. Demonstrate a preference for temporary instead of permanent transfers, Mr. Boudreau said.

It also helps to discuss with your executives the appropriate legal arrangements for doing business in a foreign country, he said.

This approach works for Monsanto, where 90% of its TCNs are in Europe and have never been to the United States. Since most of these have moved through the company's European headquarters in Belgium, benefits there provide the

standard for them.

"You've got to take a look at your own situation," Mr. Boudreau said. "You've got to gather facts first."

Basic approaches to making adequate benefit promises center on plans of the employee's home country, plans of the country where the employee is working, plans of the parent company, individual ad hoc arrangements or some combination of these, he said.

Deciding what approach a company should choose also requires considering the company's corporate philosophy and objectives, and the legal structure and future prospects of overseas operations.

Mr. Boudreau said basic goals include making benefits predictable in advance, fitting benefit targets to the employer's philosophy and circumstances, controlling costs, maximizing tax deductions and establishing and maintaining good communications with employees.

Benefits design issues that must be considered include eligibility, benefit targets, offsets of local benefits, TCN supplements and currencies.

Benefit eligibility should be considered for permanent, but not temporary, transfers. Once a determination about eligibility has been made, an employee should be formally notified and required to sign forms waiving prior company commitments as conditions for coverage, Mr. Boudreau suggested.

Benefit targets for retirement and disability income and survivor's benefits can be determined after benefit surveys, including a survey of the employer's own local plans, to determine appropriate target levels.

"Develop worldwide targets, but skew these according to locations and local benefits levels of your TCNs," he said.

Offsets are local private and government benefits that the employee has accrued. They include local company-provided benefits, local public benefits to which the employee has contributed directly or indirectly and local benefits mandated by law or custom to which the company has contributed, regardless of the method of funding. "If a benefit is contributory, you should normally offset (integrate) all of it," Mr. Boudreau suggested.

Supplements are equal to the difference between target benefits and offsets after they have been converted to the appropriate currency at the exchange rate that is in effect at the time of entitlement. They can be paid as an annuity or a lump sum. The sources of the payment can include the parent company, the home country employer and the final employer, he said.

"Tax deductibility should be a primary concern," he added.

The two currencies an international benefits manager needs to be concerned about, he said, are the currency of the promise, which is also the currency in which the benefit calculations will be made, and the currency of payment.

The currency of the promise can be that of the home or host country, Swiss francs, U.S. dollars or special drawing rights of the U.S. Monetary Fund. "You should be seeking stability and avoiding situations of currency speculation by the employees," he said.

The currency of payment is a matter of convenience, as long as it is agreeable to the company and the TCN. "If different from the currency of the promise, the exchange rate applicable at the time of each payment should be used for conversion," Mr. Boudreau suggested.

Dealing with the benefits problems of international employees offer some "marvelous" opportunities for problem solving, he said. "It's fun, too."



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Fireman's Fund consolidates national accounts

Fireman's Fund Insurance Cos. is pulling national accounts underwriting out of its 35 branch offices and consolidating it in eight regional offices.

Two home offices, one in Novato, Calif., and one in New York, will oversee the operations of the regional offices.

In addition, national accounts and risk management services have been assigned to Executive Vp Matt McNally in New York.

The transition to a regional network of national accounts underwriting, which began in October, is officially effective Jan. 1.

Underwriting national accounts is "so sophisticated" that it was difficult to staff all the Fireman's Fund branch offices, explained James B. Runyan, vp of risk management services, who is moving to New York.

Regional national accounts offices are located in Baltimore; Parsippany, N.J.; Cleveland; Chicago; Minneapolis; Dallas; Los Angeles; and San Francisco. The New York headquarters also will work directly with the New York-based brokers.

"We want to concentrate our strength in the major markets," explained Michael R. Calhoun, assistant director of marketing national accounts and risk management services, who is now located in New York.

In addition to the regional offices, 11 territorial executives are being appointed in various branch offices to maintain continuity.

In all, 110 field staff members are assigned to national accounts underwriting. An additional 25 people will be located in New York, and 50 home-office staff members assigned to national accounts remain at Fireman's Fund's Novato headquarters.

Currently, Fireman's Fund has about 510 national accounts, which encompass insurance programs written on a loss-sensitive basis, involve an individually calculated dividend or entail some kind of cash-flow premium arrangement.

The insurer is targeting "modest growth," in its national accounts, according to Mr. Calhoun. "There is still competition in our market."

Policyholders retentions have been driven too low and insurers' expense factors and profit margins are too small, Mr. Runyan added.

While the underwriting for national accounts will be done in the regional offices, national accounts will continue to receive services, such as claims and loss-control services, from branch offices.

Bermuda consultant

Finance & Risk Services Ltd., a Bermuda-based consulting and management company, has been formed by John S. Kemp and Bryan L. Martin to specialize in run-off administration and rent-a-captive management.

Mr. Kemp and Mr. Martin formerly were with Walton Insurance Co., the Phillips Petroleum Co. captive insurer that withdrew from commercial insurance and reinsurance underwriting in January 1983. Mr. Kemp directed the run-off operations as president of Walton since January 1983, and Mr. Martin had been vp of operations.

But as of June, Mr. Kemp said, the systems were in place to continue the run-off and they decided to form their own company. Finance & Risk Services has a consulting contract with Walton through the end of the year.

"I doubt there is a problem in international reinsurance that we did not see and develop a solution for," said Mr. Kemp.

Between the Internal Revenue Service attacks on tax breaks for

markets

captive insurers and adverse results on commercial reinsurance underwriting, more companies will decide to withdraw from the business and will need expertise in administering the run-off, Mr. Kemp predicted.

"It's essential that any withdrawal from the market is done in a controlled and disciplined manner because it reflects on other in-

surers in Bermuda," Mr. Kemp observed.

Finance & Risk Services will develop strategic plans for withdrawal from reinsurance underwriting, will direct the implementation and management of the run-off administration, including accounting and processing matters, and will develop proposals for the sale of portfolios

of business.

Finance & Risk Services Ltd. also is the manager of Apex Reinsurance Co. Ltd., which is a new insurance company formed as a subsidiary of Pinnacle Reinsurance Co. Ltd.

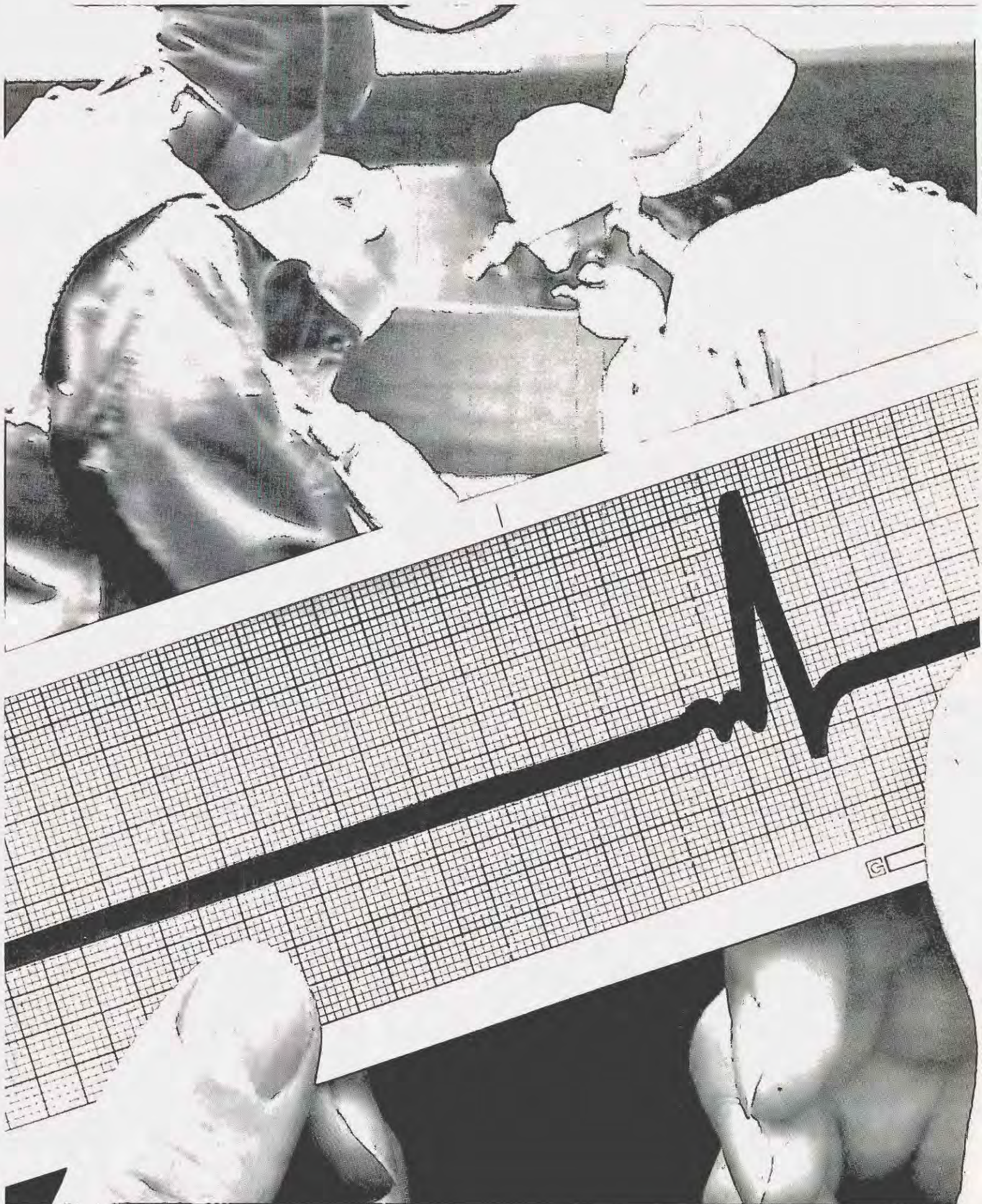
Apex, capitalized by Pinnacle at \$5 million, is dedicated to writing rent-a-captive programs in which a participant is able to enjoy the benefits of a captive insurance company program using the insurer's capital without forming a separate insurance company.

Finance & Risk Services Ltd. is located at 129 Front St. in Hamilton, P.O. Box HM463, Hamilton 5, Bermuda; 809-292-3966.

Reinsurance broker

The Crump Cos. Inc. has opened a reinsurance brokerage operation, Edward Lloyd Ltd., in New York. The office, which opened Nov. 1, will act as a successor to CrumpRe Intermediaries Inc. on all new business.

Continued on facing page



Continued from facing page

CrumpRe's business had dwindled following the departure of its principal to join another reinsurance firm. The principal had purchased the reinsurance facility's book of business, and the office had been primarily involved in book-keeping functions.

The new facility is anticipated to be "a significant contributor to Crump's overall insurance efforts," according to Donald A. Thomas, who is executive vp of The Crump Cos. Inc.

Ronald H. Molatto has been appointed to the post of president and chief operating officer of the new company.

The affiliate is owned 100% by

Crump Cos. Inc. However, Crump is currently negotiating a joint venture agreement with a London-based brokerage firm.

The deal should be finalized by the first part of 1985, according to Mr. Thomas.

Edward Lloyd Ltd. is located at 90 William Street, Third Floor, New York, N.Y. 10038; 212-809-3120.

Trenwick purchase

Trenwick Reinsurance Group of Westport, Conn., now controls 100% of New York-based Trenwick American Reinsurance Corp. after buying out minority interests in the firm.

Trenwick Reinsurance Group bought out the interests of the USF&G Corp., Copenhagen Reinsurance Co. of America and the Hanover Reinsurance Co. for an undisclosed amount.

The company also says that concurrent with the acquisition, it contributed \$8.25 million in additional surplus to Trenwick American, raising its statutory capital and surplus to \$21.1 million.

Trenwick Reinsurance Group also includes Trenwick Reinsurance Co. and Trenwick Guaranty Insurance Co., both in Bermuda. It is also a major stockholder in and manages Apple Syndicate Corp., a member of the New York Insurance Exchange. ■

Day-care center a joint effort of private and public entities

Continued from page 3

St. Joseph's Medical Center, which has 2,100 employees, said, "Day care is something our nurses have been asking about for years.

"We have day-care centers for our hospitals in other locations, and have noticed where we have them, there's a reduction in the turnover problem," she said. St. Joseph's is one of the Sisters of Providence Hospitals, which operate in California, Washington and Oregon.

At Lockheed, which has 17,000

employees in the Burbank area alone, the available slots for the day-care center filled up quickly, and there now is a waiting list of 20 employees.

"Because our employee base is so large, the center doesn't meet all our day-care needs," conceded a Lockheed spokeswoman. "But, it's a start. It's new; we have no road maps," she added.

Currently, there are 125 children at the Horace Mann center, which is staffed by six teachers, a supervisor and 16 aides. All the slots are not filled because some companies are holding slots for employees whose children have not yet reached the minimum age of 3 months.

Employees with children at the center pay \$65 a month for full-time care if the child is between 3 months and 2 years old, and \$50 for preschoolers between 2 and 5. None of the employers helps pay employees' day-care costs.

Demand for the slots in the day-care center was so great that some of the participating employers held lotteries to decide which employees got them, while others offered the slots on a first-come, first-served basis.

There is a ratio of one caretaker for every four infants. For the 2- and 3-year-olds, the ratio is one teacher for five children. For the 4- and 5-year-olds, the ratio is 1-to-7. Also on staff at the day-care center are a cook, a housekeeper and a custodian.

The center, which is open from 6:30 a.m. to 6:45 p.m., provides a hot lunch and two snacks every day, and breakfast is also available for children who arrive early.

Although the center seems to be a success, there have been some obstacles, employers report.

The newness of the center may have been a deterrent for parents who already had day-care arrangements for their children, noted Sharon Richardson, coordinator of employee relations for Walt Disney Productions.

"Most of our slots are filled by employees with infants who weren't in day care yet. We have three slots reserved for women whose babies won't be 3 months old until January," Ms. Richardson explained.

Another obstacle has been the recent publicity over child abuse in day-care centers in Southern California.

"Some parents were skeptical," said the Lockheed spokeswoman. "But, with the school district behind the program, we're hedging our bets."

Ms. Bemel said, "Because we're a public entity, we're much more open to scrutiny. It's my feeling parents feel better about the center because the school district is involved."

She said the district fielded "lots of questions about security" from employers during planning sessions over the past year.

Staff members at the center are fingerprinted and cleared by the FBI, Ms. Bemel noted. "We're very cautious and careful. We have a format for the releasing of children to someone other than their parents."

The best safety measure of all is the center's open-door policy. Parents and employers can drop in, unannounced, at any time during the day.

"We're only seven minutes away from the furthest of the employers in the consortium, so it's very convenient for everyone," Ms. Bemel said.

"Mothers who are nursing their babies can come in to feed them; fathers can come have lunch with their children."

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The prognosis for health care costs just got better.

Satellite salvage ended months of work

Continued from page 3

tronauts trained to make sure the salvage mission went smoothly.

"And particularly, both the technicians and the astronauts themselves and the effort they put into perfecting the training and the routines and so forth, did enable them largely to do it very smoothly indeed," he said.

The Discovery finally lifted off Nov. 8. The next day, Mr. Merrett flew to the United States.

"We were originally going to have a meeting with NASA that Saturday afternoon (Nov. 10), but they abandoned it because the maneuvering (on the shuttle) involved some of them being on call early that morning," Mr. Merrett said.

The meeting was arranged to discuss several hitches in the mission that had unexpectedly arisen. The astronauts reportedly were not entirely comfortable about recovering both satellites, he said.

On Sunday, Mr. Merrett finally met with NASA officials and found the concern was over nothing.

"The remarks that had been made by the astronauts seemed to be taken largely out of context. They were speaking with natural conservatism, I suppose, of trying an entirely new job and not being absolutely convinced that they had enough time to rehearse all the operations," he said.

At 3:30 a.m. on Monday, Nov. 12, as the astronauts approached the Palapa B2 to retrieve the probe, Mr. Merrett took his seat in the customer support room of NASA's Mission Control.

"You have the customer at Mission Control to authorize certain developments in accordance with the provisions of the launch services agreements," Mr. Merrett explained. "There are certain things that NASA has the authority to do.

There are certain things that NASA is required to check with the customer. But, obviously, if there is a risk of life, NASA has total discretion."

The day was filled with tension, he remembered. Although he speaks about the event with matter-of-factness now, he said he was so wound up that he couldn't think of eating for most of the day.

The early portion of the shuttle's approach to the Palapa was not televised, so Mr. Merrett said he and the others in the room followed the shuttle's movement on a chart.

And, as they waited, a hitch did develop. A piece of hardware dubbed the "A-frame," designed to wield the satellite into the cargo bay, wouldn't fit onto the probe. It looked as if the astronauts could not load Palapa into the shuttle.

To top it off, Mission Control lost television contact with the shuttle because of a typhoon that affected a relay station in Guam.

"There was tremendous tension and worry, and Hughes (officials) were very astonished to find that the A-frame didn't fit and they couldn't understand what it was that was obstructing it," said Mr. Merrett. "We were getting concerned that Hughes appeared to think that there was a real possibility that they would not be able to secure the satellite."

But, the astronauts and NASA had a backup plan: The astronauts themselves would pull the probe into the cargo bay.

"Then really, quite extraordinarily quickly, the whole thing fell into place as it were. The rings on, the clamps on and it was fixed firmly into place on the floor of the shuttle bay," Mr. Merrett recalled.

Surprisingly, there was no champagne after this historic event. But, Mr. Merrett recalled a feeling of

'It is nice to, almost literally, pull money out of thin air,' Stephen Merrett says.

elation and noted that he called the office of Lloyd's Chairman Peter Miller to report that the Palapa had been retrieved.

Later that day, Mr. Merrett and James Barrett, president and chief executive of Intec, held a press conference.

On Tuesday, Nov. 13, Mr. Merrett was able to relax and play golf while the astronauts, NASA and Hughes prepared to salvage the Westar VI. Mr. Merrett also held talks that day with potential buyers of the probes, though he will not identify them.

On Wednesday, Mr. Merrett again was at Mission Control before dawn. The astronauts went straight to the backup plan, and the Westar was secured in the shuttle cargo bay by early afternoon.

With the space salvage complete, Mr. Merrett and his colleagues

started for Florida to watch the shuttle land at the Kennedy Space Center. Celebrations were in order, though, so they stopped in New Orleans for a dinner at Antoine's.

By Friday, Mr. Merrett was at Cape Canaveral for the landing. "I was too tense to sit, so we stood in front of the stand and the shuttle landed about 1,300 feet in front of us. If the wind hadn't been blowing from behind us, it would have been too close for the fumes," he said, adding there was "tremendous excitement" all around.

Mr. Merrett did not stay to visit with the astronauts or to view the satellites. He said he did not want to intrude on the shuttle crew and their families. And, as far as the probes was concerned, he would receive reports from Hughes on their condition.

Instead, Mr. Merrett returned to London.

Almost a month after the satellites were retrieved, Mr. Merrett said he still does not know how much it will cost to refurbish them. But, he is confident that he can sell them for between \$30 million and \$40 million each, and possibly more.

He is also not concerned about what has been called a glut in the

satellite market. For instance, a Canadian satellite that is already in orbit is available for lease.

"The Canadian government's probe... isn't nearly so useful," he said.

"It is also in an orbit which isn't particularly satisfactory, and under Canadian requirements it is only under a relatively short lease. So it is not a major competitor."

Because of all the free publicity buyers have shown interest in the two satellites.

"We are now establishing who is a real buyer and who is just a trader and who has finances which are purely in their imagination. We are sorting them out now," he said.

Although Mr. Merrett is obviously elated over the salvage, he said he doubts there will ever be a similar shuttle mission—or, at least he hopes there won't be the need for one.

"They (the satellites) have got to be there to be worth going for, and we hope that there won't be any more failures and therefore, there won't be any more that need recovery," he said.

Still, he said, "It is nice to, almost literally, pull money out of thin air."

Brokers sell underwriting agencies

london line

LONDON—Two leading Lloyd's of London brokers are selling their underwriting agencies, as required by the Lloyd's Act of 1982.

Recently, Lloyd's broker Stewart Wrightson Holdings P.L.C. announced it will sell underwriting subsidiary Pulbrook Underwriting Management Ltd. to a subsidiary of one of Lloyd's largest underwriting agencies, Merrett Holdings P.L.C. The price will be 1 million pounds (\$1.20 million).

Two days later, Britain's largest broker, Sedgwick Group P.L.C., announced the sale of its 88% share in Edwards & Payne (Underwriting Agencies) Ltd., which includes both an underwriting and a members' agency, to another of Lloyd's largest agencies, Sturge Holdings P.L.C., for 4.5 million pounds (\$5.4 million).

Under the terms of the Sedgwick sale, Sturge will pay 3.96 million pounds (\$4.75 million) in cash, plus stock valued at \$648,000.

When the contracts are exchanged at the end of January 1985, Sturge will get an agency that manages three syndicates and the

affairs of 300 Lloyd's names.

Sedgwick will keep another members' agency, Sedgwick Forbes (Lloyd's Underwriting Agents) Ltd.

The moves by Stewart Wrightson and Sedgwick are subject to the approval of the Council of Lloyd's.

Petition filed on insurer

The British Department of Trade and Industry has filed a petition in the High Court to wind up Pacific & General Insurance Co. Ltd.

Hearings on the petition will begin in the High Court early this month, and until then the department will not say why the company is being wound up.

However, a spokesman for the department pointed out that Pacific & General's parent company, Pacific American Insurance Co., has recently been placed in rehabilitation by authorities in Delaware.

Pacific & General was a small

general insurance company that wrote less than 1 million pounds (\$1.20 million) in net premiums last year, mostly U.S. business.

Cargo war risk rates

Fluctuation in cargo war risk rates offered by London underwriters has prompted the War Risk Rating Committee to lift minimum war risk rates in and around Kharg Island in the Persian Gulf.

Recently, the committee, made up of cargo war risk underwriters at Lloyd's of London and other London insurers, announced that rates for voyages to ports in Iraq and Iran west of 51 degrees longitude, including the Iranian oil terminal at Kharg Island, would be quoted on a held-cover basis.

This means that cargo war risk underwriters can charge what they want for oil shipments coming from Kharg Island.

Previously, the cargo underwriters abided by the committee and charged a minimum premium of 2% of the insured value of the shipment.

Broker backs voyage

In 1606, three vessels sailed from Ipswich, England, to Jamestown, Va., in one of the earliest voyages across the Atlantic to the New World.

Now, Lloyd's broker Willis Faber P.L.C. is one of the sponsors of a re-creation of the voyage of one of these vessels, which will sail from Ipswich to Virginia in April 1985.

The Godspeed, a 68-foot by 14-foot unmodernized vessel, has been built in Virginia and will be crated to England and re-rigged for her voyage. The ship and her 12-man American crew will sail for about 10 weeks across the Atlantic to the Caribbean and then to Virginia.

The vessel has been built by the state of Virginia, as part of its promotion of tourism in the state, a spokesman for Willis Faber says.

Willis Faber became involved because the broker, Britain's second-largest, has an office in Ipswich, the spokesman said.

Property insurance for the ship totals \$600,000 and was placed by Willis Faber and Johnson & Higgins in the United States.

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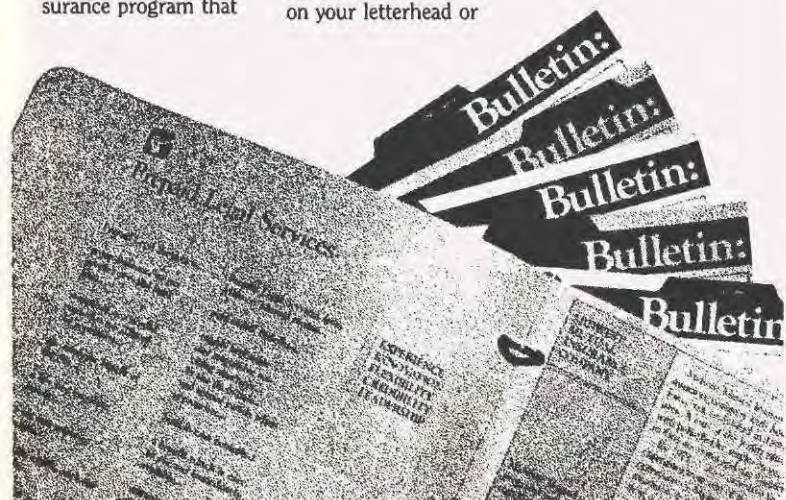
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Midwest employers to test model health care systems

By CAROL CAIN

CHICAGO—Employers in six areas in the Midwest will introduce experimental health care purchasing systems as part of a model program designed by the Midwest Business Group on Health to manage escalating health care costs.

Aspects of the recently designed model system soon will be implemented on a test-case basis in Chicago; Rockford, Ill.; Springfield, Ill.; Milwaukee; Des Moines, Iowa; and Minneapolis/St. Paul.

A \$50,000 grant awarded to the Midwest Business Group on Health by CIGNA Corp. will partially fund the cost of the program's implementation by paying for feasibility studies, consultants, communications and staff (see related story).

The 140 employer members of the nine-state regional coalition have been involved in cost-containment activities since the organization of MBGH in 1980, says James D. Mortimer, president of the Chicago-based group.

But, during the past year, an advisory panel determined that to significantly manage health costs over the long term will require a fundamental change in the way the private sector finances health care, Mr. Mortimer said.

The competitive health care payment system project is an ambitious endeavor to design a payment system that best supports competition among providers and rewards the efficient delivery of high-quality health care, he said.

The model program designed by the advisory panel—composed of employers, health care providers, insurers and scholars—is a set of essential elements for the administration of a health benefit program. The individual test programs will be built around some of these elements:

- The selection of providers.
- The method of payments to physicians, hospitals and other providers, as well as financial incentives for care in the most appropriate and least costly setting.
- Utilization review programs.
- Data requirements.
- Consumer information for employees.
- Benefit plan design.

The MBGH has prepared detailed guidelines based on these elements for use by employers in designing their own competitive purchasing plan.

CIGNA funds to aid groups studying health care costs

PHILADELPHIA—Ten business coalitions that are taking aim at managing escalating health care costs will get a financial shot in the arm from CIGNA Corp.

CIGNA will provide awards this month and next of up to \$50,000 in the second phase of a two-year, \$1 million national grant program, that it introduced in March 1983 (BI, March 14, 1983; May 2, 1983).

"In 1983, CIGNA joined forces with local business coalitions to address the problem of rising health care costs. We are maintaining our financial and technical support because we believe that it is through the coalitions' dedication to solving the problem on a local basis that we will find effective and timely ways to address this national issue," said Hartzel Z. Lebed, president of CIGNA Corp.'s Employee Benefits and Financial Services Group.

Since the beginning of the program, CIGNA has allocated about \$1 million to support projects that

The system's data base 'would monitor health care, not payments,' Mr. Mortimer says.

The guidelines include a task-by-task process through which employers could design a plan, educate their corporate leadership, conduct a feasibility study, solicit proposals from insurers and mount a communications program for their employees.

In the MBGH's model, aspects of current payment systems are compared with the model system.

For instance, in a typical existing plan, all licensed health care providers are reimbursed equally. In the MBGH's model, providers would be chosen, using quality, cost and location criteria.

In addition, according to the model, payments to hospitals, physicians and other providers would be prospectively determined, rather than being based on line item charges or reasonable and customary charges.

In the area of utilization management, the typical pre-admission testing and concurrent review standards now in use would be expanded in the model to a comprehensive review and case management system, a more thorough type of review.

Communicating a health care plan to employees also is addressed in the MBGH model. In addition to communicating the plan's benefits and limits, the model suggests informing employees about prices, services and locations of the selected providers.

"The competitive health care purchasing system is a replacement for the health insurance payer system," Mr. Mortimer said. "In it, the carrier would become the purchasing agent for the employer."

In the MBGH's system, a different kind of data base would be monitored, Mr. Mortimer said.

"It would monitor health care, not payments," he explained, "which sets up a whole different set of incentives."

The purpose of the project is to lay out the "guidelines and ground rules" to create a shift in how health care services are purchased, said Don Conley, vp of public af-

fairs with Honeywell Inc. in Minneapolis, a member of the coalition and vice chairman of the advisory panel.

He noted that at each of the test sites, the model system will be implemented differently.

"They'll be trying different competitive approaches, but each will have to do with prospective payment to health care providers," Mr. Conley said. "What will come out in specific changes has yet to be decided," he added.

For instance, in Rockford, three members of the MBGH will work with local hospitals, while in the Minneapolis-St. Paul area, a separate business coalition will work with both providers and health insurers.

The MBGH represents corporate members in nine states: Illinois, Indiana, Iowa, Michigan, Minnesota, Missouri, Ohio, Wisconsin and Nebraska.

Information about the competitive health care purchasing system may be obtained from the Midwest Business Group on Health, 417 S. Dearborn St., Suite 410, Chicago, Ill. 60605.



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FDIC rules would govern state banks' insurance acts

By LINDA J. COLLINS

WASHINGTON—The Federal Deposit Insurance Corp. is proposing rules under which FDIC-insured state-chartered banks can enter the insurance business.

If adopted, the regulations would:

- Prohibit any insured bank from engaging in the underwriting of property, casualty, mortgage guarantee or life (except credit life) insurance, reinsurance or annuity contracts unless conducted through a separately capitalized and funded subsidiary—to avoid a threat to the bank.
- Limit the amount of funds an insured bank could invest in such a subsidiary.
- Require that the bank provide the FDIC with notice of its intent to invest in any such subsidiaries.
- Place restrictions "on extensions of credit and other transactions between insured banks and their subsidiaries."
- Require banks that have set up such subsidiaries or are engaging in such activities to conform to the rules by a stated date.

The FDIC will accept public comment for 60 days before it acts.

"We have not authorized banks to do anything," an FDIC spokesman said. "In those states where banks have been authorized to do so, we are saying that these are the rules to follow."

The rules would affect state-chartered FDIC-insured banks in 27 states that do not prohibit insurance activities by state banks. National banks insured by the FDIC would not be affected by the proposals because federal regulations prohibit such activities.

Congress took no final action on banking deregulation this year, although legislation was pending when Congress adjourned. The FDIC spokesman said, "We felt we could not wait any longer."

Although the rules would require that a subsidiary be established to conduct insurance transactions, the activities could be conducted from the bank's premises.

Underwriting activities would be more closely regulated than brokerage transactions. An underwriting subsidiary would be required to use a separate name or logo from the bank, hire separate employees from the bank and maintain physically separate operations.

Jon Harkavy, director of governmental affairs for the New York-based Risk & Insurance Management Society, says he could not predict the short-term effects on corporate insurance buyers but added, "The more players the better, as long as the safety nets are in place."

Agents and brokers, however, are concerned about the proposals.

Patricia A. Borowski, vp of government and industry affairs for the National Assn. of Professional Insurance Agents, says, "I think the FDIC is getting prepared for what they feel is the inevitable. They believe that deregulation will eventually occur, so they are answering some of the questions and concerns raised on the safety and soundness of such transactions."

Roger N. Levy, vp of government affairs for the Independent Insurance Agents of America, noted: "The regulations do much more than they purport to do. The document confers legitimacy on many acts not typically engaged in by banks."

around the states

N.J. sees a 13.1% drop in workers comp rates

TRENTON, N.J.—An average 13.1% decrease in workers compensation rates is expected to save New Jersey employers an estimated \$46 million in premiums during the 1985 policy year, according to a state Insurance Department official.

The new rates go into effect Jan. 1 and mark the beginning of the fourth consecutive policy year that workers compensation rates have decreased, said Robert R. Heckman, special deputy commissioner of the New Jersey Department of Insurance and chairman of the Compensation Rating and Inspection Bureau, a workers compensation rate advisory board in Newark.

During the previous three years rates declined an average of 30.8%, Mr. Heckman said.

Mr. Heckman credits the rate reduction to New Jersey's strong economic recovery, a transition from a heavy manufacturing state to a service-oriented state and a 1980 reform law that tightened the eligibility requirements for workers compensation.

In that law, the "going-to and coming-from" provision of the statute, which provided compensation if a worker were injured while coming to or leaving work, was discontinued, he said.

California work comp

SACRAMENTO, Calif.—Workers compensation insurance rates will increase an average 6.1% for California employers beginning Jan. 1.

The increase will generate about \$180 million to \$200 million more in premiums, according to Robert Meyer, vp and actuary for the Workers' Compensation Insurance Rating Bureau, California's rating authority.

The premium approximation is based on the \$3.3 billion in workers comp premiums written last year,

he added.

Originally, the board had filed for an average 9.5% increase with the Insurance Department, according to Mr. Meyer. Correcting an over-projection of the state's future hospital costs resulted in the average 6.1% rate increase, he explained.

During policy year 1984, employers saw a 6% decrease in their workers compensation rates, while in 1983, mandated work comp benefits pushed that year's rates up 15.1%, he said.

Insurer fights order

SCRANTON, Pa.—Scranton Insurance Co., a group accident and health underwriter, is fighting the suspension ordered by Pennsylvania's insurance regulator.

Acting Insurance Commissioner William R. Muir ordered the suspension last month and has filed a petition with the Commonwealth Court of Pennsylvania for liquidation of the company. The suspension was ordered because of the company's recent financial problems, according to a spokesperson for the state's Insurance Department.

However, the insurer was still operating in late October after a temporary injunction against the suspension was granted by the Commonwealth Court.

The suspension order would prohibit the company from writing new policies or renewing existing coverages.

In addition, written approval from the Insurance Department would have to be obtained before the insurer could transfer property or make any payments, and legal action could not be brought against Scranton during a suspension period.

The insurer is licensed only in Pennsylvania and does not operate outside the state, according to the Insurance Department.

Judge upholds changes in Multiemployer Act

Continued from page 2

I.A.M. Pension Fund were ordered to refund payments made by hundreds of employers that left between April 29, 1980, and Sept. 26, 1980.

The plan contended, though, that the DEFRA provision was unconstitutional because Congress did not give extensive consideration when it set a new effective date.

By contrast, when Congress passed the Multiemployer Amendments Act, it gave "in-depth" consideration to making the act's effective date retroactive, the plan said.

It was believed that, without a retroactive effective date, there would be a last-minute mass exodus of employers who wanted to escape paying for the plan's liabilities. Such a rush could have weakened the financial stability of the plans, legislators believed at the time the MPPAA was passed.

However, Congress eliminated the retroactive withdrawal liability when it passed DEFRA because, among other reasons, it believed some employers could be bankrupted if they had to pay the claims.

Judge Penn noted that, while Congress may not have given "in-depth" consideration to the elimination of retroactive withdrawal liability when it passed DEFRA, the

issue had been considered by the Senate Finance Committee and discussed on the House floor.

And, Judge Penn said, judgments about the wisdom of legislation remain the province of the legislative and executive branches.

"The decision to eliminate the retroactive provisions of the MPPAA seem little more than a congressional reconsideration of an action already upheld by the Supreme Court," Judge Penn said, referring to a high court ruling that upheld the constitutionality of Congress's original decision to make withdrawal liability retroactive (BI, June 25).

Robert Osgood, an attorney for the plan, said an appeal of Judge Penn's decision is being considered, but he declined further comment.

The I.A.M. Pension Fund, according to its most recent available Form 5500 financial reports filed with the federal government, had \$337.7 million in assets while the present value of vested benefits totaled \$643.3 million at the beginning of 1982.

According to statements filed by its actuaries, the plan at the beginning of 1982 had 67,007 active participants, 12,753 terminated participants with vested benefits and 18,920 retired participants and beneficiaries of deceased participants.

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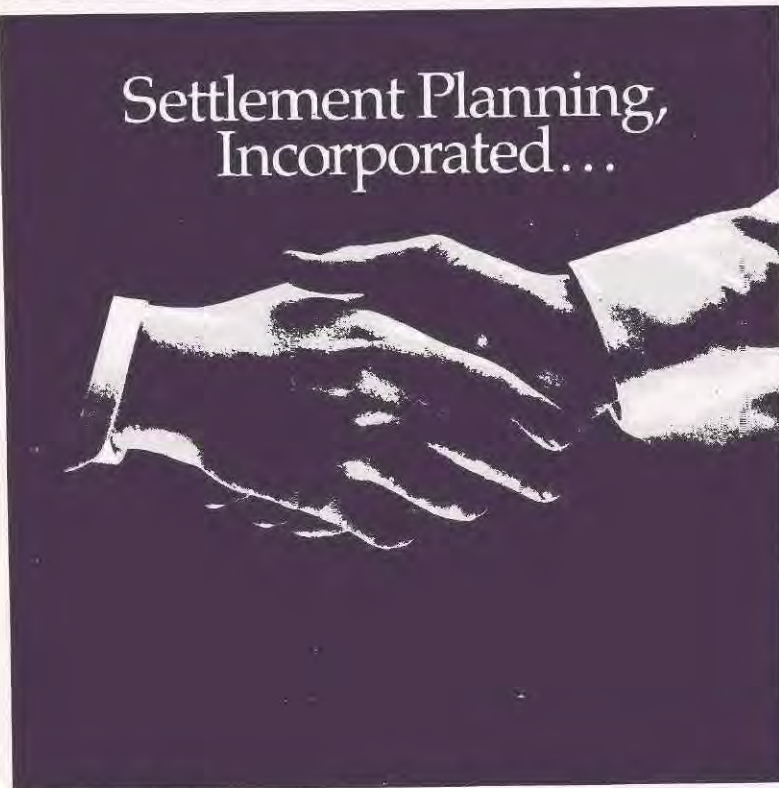
PUBLISHING DATES	CLOSING DATES
Nov 26	Nov 13
Dec 3	Nov 20
Dec 10	Nov 27
Dec 17	Dec 5
Dec 24*	Dec 11

1985

Jan 7	Dec 19
Jan 14	Dec 27
Jan 21	Jan 9
Jan 28	Jan 15
Feb 4	Jan 23
Feb 11	Jan 30
Feb 18	Feb 5
Feb 25	Feb 12
Mar 4	Feb 20
Mar 11	Feb 27
Mar 18	Mar 5
Mar 25	Mar 13
Apr 1	Mar 20
Apr 8	Mar 27
Apr 15	Apr 2
Apr 22	Apr 9
Apr 29	Apr 16
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Small part of Westar loss still unpaid

Continued from page 3
 earlier this year before the Westar VI was launched aboard the ill-fated February shuttle mission. Both the Westar and another satellite, the Palapa B2 owned by the Indonesian government, failed to reach a proper orbit and were rendered useless.

After the \$107 million Westar claim was paid, excess-layer underwriters gained title to the Westar, which was then salvaged last month along with the Palapa.

Westar VI had been insured by Western Union in 1981 as part of a three-satellite package. However, the Westar VI's insurance was renegotiated just prior to the February launch because it was to be launched aboard the shuttle instead of aboard the European Space Agency's Ariane rocket as previously planned.

Because of this change, the rate for the coverage was to be cut to 5.75% of insured value from 8.75%, sources confirm.

When it placed the coverage, A&A sought to insure the Westar VI for about \$107 million. The coverage consisted of an \$80 million primary layer and a \$20 million excess layer.

An additional \$5 million in contingency insurance was sought that would be triggered only if the satellite were declared a total loss. And, the final \$2 million in coverage insured the 20% premium refund Western Union was promised if there were no loss.

A&A tapped Lloyd's broker Sedgwick Aviation Ltd. to place about \$60 million of the coverage in the London market, confirmed Ben Foole, director of Sedgwick Aviation.

But, at the time the coverage was placed, Mr. Redmond said, there was not enough capacity in the

world market to cover the Westar VI at the new, reduced rate. A&A's aviation insurance department asked A&A brokers in other divisions to find extra capacity, Mr. Redmond said.

Frank Conklin, vp of A&A's casualty department, says he was able to place about \$2.25 million of primary-layer coverage with an independent London broker, Harold Montagu (Monty) Bartlett.

"Monty Bartlett had been helpful in finding capacity for Westars IV and V, and I was trying to help (the aviation department) out for capacity, so I placed it," said Mr. Conklin.

"I went to Monty Bartlett. He had called me before and said he had the capacity. We tapped out Sedgwick, if I am not mistaken. All I know is that at the 11th hour the aviation department came to me."

Mr. Bartlett says he then asked John Daniel Insurance Brokers in London, a brokerage from whose offices Mr. Bartlett sometimes worked, to place \$1.25 million of the coverage. That coverage was placed with underwriters in London, and A&A's Mr. Redmond says these insurers paid their portions of the Westar claim.

Mr. Bartlett says he brokered the other \$1 million of the risk to International Risk Managers Ltd. in New York, where Mr. Hoskie, who is now a St. Eustasius vp, and George Zerlanko were then vps.

Mr. Hoskie, who was not connected with St. Eustasius at the time the coverage was placed, and Mr. Zerlanko are now vp and president, respectively, of another intermediary, Countach Intermediaries in New York.

A \$500,000 portion of the Westar coverage was then placed with St. Eustasius. Mr. Zerlanko and Mr. Hoskie say that coverage was ac-

tually placed by another London broker, though Business Insurance could not reach that broker to confirm the placement.

Mr. Zerlanko and Mr. Hoskie say Mr. Zerlanko then asked National Business Brokers Ltd. in Greenlawn, N.Y., which produced business for Mission, to place the remaining \$500,000 in coverage with Mission.

However, Mr. Zerlanko says that only \$200,000 was eventually placed with Mission, adding that he believed the other \$300,000 was placed with Midland Insurance Co. of New York.

However, Harold Moran, president of National Business Brokers, says that Mr. Zerlanko only asked him to place \$200,000 of coverage with Mission. He says National Business Brokers did not place any other coverage for the Westar.

George Vallone, vp and director of litigation at Midland, says the insurer wrote \$1 million of primary-layer coverage for the Westar and paid its portion of the claim. That coverage was brokered by wholesale broker Montgomery & Collins Inc., he says.

Mr. Vallone says his records indicate that Midland did not write \$300,000 portion of the Westar coverage that was produced either by International Risk Managers or National Business Brokers.

For its part, Mr. Poole of Sedgwick Aviation is surprised that any coverage was placed with another London broker besides Sedgwick. He says there was no need for A&A to seek another broker because Sedgwick Aviation could have found the extra \$2.25 million in coverage.

Mr. Redmond agrees that Sedgwick may have been able to find the extra cover.

"But at what price?" he asked. ■

update

N.Y. changes surety bond rule

Continued from page 2
 authorized reinsurer.

In order to do business with unlicensed reinsurers, he said, property/casualty insurers have typically arranged for reinsurance to guarantee payment through either a letter of credit or the establishment of a trust account. Less frequently, they obtain a surety bond.

The recent ruling reverses a 1962 opinion by the department that said surety bonds could be used to guarantee reinsurance payments.

Aetna drops municipal liability

HARTFORD, Conn.—Aetna Casualty & Surety Co. has ceased writing all new municipal liability business and starting Jan. 1 will not renew existing municipal liability policies when they expire.

Aetna insured a few hundred public entities, a spokesman said. Aetna made the decision because in recent years, municipal operations, including police, have increasingly been targets for lawsuits, the spokesman said (BI, Oct. 8).

Aetna was concerned about the potential for future losses rather than current ones, he said.

Another factor was court decisions that have held public entities' insurers liable for gradual pollution exposures, although policies were written to exclude all but sudden and accidental pollution.

Oil firm to take over Optimum

NEW YORK—Optimum Holding Corp., the publicly held affiliate of Ideal Mutual Insurance Co., has reached an agreement in principle to be acquired by Delaware Oil Holdings and its affiliate, Macmillan Ring-Free Oil Co.

Under terms of the agreement released last week, Delaware and Macmillan will pay at least \$30 million in exchange for at least 80% of Optimum's outstanding common stock, an Ideal spokesman says. Ideal owns about 51% of Optimum stock.

However, a spokesman said late last week that the deal was being renegotiated and would not comment on what changes could be made.

Delaware Oil Holdings, which is based in Wilmington, Del., is a diversified holding company. New York-based Macmillan refines and markets petroleum products. If approved by the New York and Illinois insurance departments and other regulatory authorities, the agreement is expected to be consummated by the end of the year.

The Ideal spokesman noted that because Ideal is a mutual company and cannot be acquired, eventually it will split off from Optimum with an independent board and management. Under the current arrangement, Optimum Insurance Co. of Illinois, an Optimum Holding subsidiary, assumes 49% of Ideal's business and the companies operate under the same management.

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Insurance Management vps, directors, managers of insurance, risk, benefits compensation, safety, security, etc.	7,254
Associations	1,069
Government, Unions	
Educational Institutions	860
Commercial Consumers	
Sub-Total	24,416
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Insurance Cos.	5636
Financial Institutions	403
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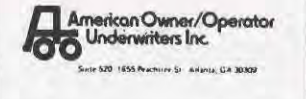
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Judge rules against Keene

Continued from page 1
had gone the other way."

Absent an appeal, Judge Green's recent ruling wraps up the last unresolved issue in Keene's litigation with its primary insurers.

Keene went to court in 1978 seeking a declaratory judgment on how its insurers should respond to asbestos injury claims, and in 1981 won a landmark ruling from the U.S. Court of Appeals for the District of Columbia affording coverage under what is now called the "triple-trigger" theory.

In that decision, the court ruled that all Keene's liability insurers between 1961 and 1981 were liable for asbestos injury claims if they were on the risk at any point from the time of a victim's exposure to asbestos to the time an asbestos-related disease manifested itself, including the latency period between exposure and manifestation.

INA, a CIGNA Corp. unit, was Keene's primary insurer from December 1961 to August 1968. Aetna Casualty & Surety Co. was on the risk from August 1968 to August 1971; Hartford Accident & Indemnity Co. from August 1971 to October 1974; and Liberty Mutual Insurance Co. from October 1974 to October 1980.

Keene amended its complaint against the four primary insurers in 1982, seeking compensatory and punitive damages for bad-faith

conduct in fighting the triple-trigger coverage theory.

But earlier this month, Keene reached settlement agreements with the four insurers after Judge Green found that INA could not be sued for punitive damages under controlling Pennsylvania law (*BI*, Nov. 19.)

The only issue left unresolved in the agreement with INA was the insurer's duty to defend on pre-1966 policies. Both Keene and INA had filed cross-motions for summary judgment on this issue, and proposed in their agreement to withdraw the cross-motions if they could resolve the dispute through the asbestos claims facility.

However, Judge Green ruled Nov. 19 in INA's favor on the cross-motions.

In arguing for an unlimited duty to defend, Keene had cited three previous decisions in asbestos-related insurance litigation: the Raymark ruling, decided in 1982 in the Cook County Circuit Court in Chicago; *Commercial Union Insurance Co. vs. Pittsburgh Corning Corp.*, decided in 1981 in the U.S. District Court for the Eastern District of Pennsylvania; and *AC&S Inc. vs. Aetna*, decided in 1983, also in the federal court in Pennsylvania.

In the AC&S and Commercial Union decisions, the court had found the pre-1968 and pre-1966 policy language, respectively, re-

garding defense cost coverage ambiguous and interpreted the policies broadly in the policyholders' favor.

Judge Green disagreed with those rulings, though, and found the policy language unambiguous.

"INA agreed to 'defend any suit' brought against Keene, but specifically limited that duty 'with respect to such insurance as is provided by (the) policy,'" Judge Green wrote. "The issue is whether that duty is limited only by the nature of the claim or also by the amount of indemnity provided under the policy. The court finds the language susceptible of only one reasonable interpretation: The policies limit the duty to defend to both the nature and the amount of insurance provided."

"Keene suggests that it reasonably could have expected the defense duty to continue long past INA's payment of the policy limits. This construction would remove any connection between the duty to defend and the payment of insurance premiums," the opinion states.

"In the instant case, the duty to defend is limited additionally by the policies' introductory sentence, which provides that the parties enter into the insurance contract 'subject to the limits of liability, exclusions, conditions and other terms of (the) policy,'" Judge Green wrote.

Even if the policy language were ambiguous, the court's opinion wouldn't be different, Judge Green added, noting that if the language

were ambiguous, the court would then have to determine the intent of Keene and INA in negotiating the insurance policies.

"Keene's conduct in the instant case belies Keene's assertion that INA's duty to defend continues after the exhaustion of policy limits. Keene purchased excess insurance coverage that included an obligation to defend, which indicates no reliance on INA's continuing duty. No reasonable insured would pay twice for the same coverage," Judge Green wrote.

She added that the federal courts in Pennsylvania never attempted to determine intent in the AC&S and Commercial Union decisions and inaccurately predicted trends in state law on the defense costs issue.

Keene had also cited a number of non-asbestos rulings supporting an unlimited duty to defend on pre-1966 policies.

"These decisions can be distinguished on their facts, however," Judge Green wrote. "None involved an insurer who had defended the insured in good faith until the policy limits were paid by judgment or settlement. Rather, the insurer in most cases tendered the policy limits into court before conducting any defense. The courts' concern was that by tendering the limits, the insurer would avoid all burdens of defense, even those associated with the payment of policy limits."

INA, by contrast, had defended Keene in good faith up to the policy limits, Judge Green found.

Judge Green also dismissed Keene's argument that it would be damaged by the shifting of the defense burden to its excess insurers, whose policies include defense costs in the liability limits.

"The possible financial burden of which Keene complains... does not constitute the legal prejudice required to invoke judicial protection," the opinion states.

Insurers already are planning to use Judge Green's decision in their appeals of previous rulings against them on the defense costs issue.

Aetna has sent a copy of the decision to the 3rd U.S. Circuit Court of Appeals in Philadelphia, which is reviewing the AC&S ruling, says Stephen Nightingale, a Washington attorney for Aetna.

"I think it will be very helpful to us," added George McKeon, general counsel for Travelers Corp. Travelers, which insured Pittsburgh Corning along with Commercial Union, was held liable for unlimited defense costs on pre-1966 policies in an interlocutory order from the U.S. District Court in Philadelphia. Travelers may appeal that order after other procedural

entanglements are straightened out, Mr. McKeon said.

The AC&S appeal is likely to be the first test of whether Judge Green's decision will carry over to other jurisdictions, lawyers agree.

If it is adopted elsewhere, more asbestos producers and insurers may join the proposed asbestos claims facility, insurance company lawyers predict.

"The facility agreement is more favorable to producers than this decision" because it provides for joint lifetime funding of defense costs once primary and excess insurers' duty to defend ceases, Mr. McKeon said. "You can assume that producers would be inclined to go the facility route if it appears that the decisions coming down would be less favorable."

"What (the decision) should do is encourage any excess insurers that have a defense duty under their policies to seriously look at the facility rules," added John F. Shea, Aetna's senior vp and claims counsel.

If the defense burden is shifted from the primary insurer to excess insurers sooner—as it would be under Judge Green's ruling—the excess insurers may find the litigation cost savings offered by the facility more attractive, he explained.

Keene, which is trying to decide whether to join the facility, still has several objections to its rules, Mr. Mileaf noted.

One of these is the lack of a clear explanation of how the lifetime defense fund would operate. The facility has provided only "vague" statements about how the defense duty will be handled, Mr. Mileaf said. Clarification of this issue is expected.

Mr. Mileaf added that as long as the Pennsylvania court decisions in favor of an unlimited defense duty stand, Judge Green's ruling probably won't affect participation in the claims facility. But a reversal of the rulings by the 3rd Circuit Court of Appeals would provide an "impetus" for companies to join, he said.

Other asbestos producers are preparing for a fight, though.

"I could not provide our management and shareholders with any rationale for joining the facility when the effect would be to hurt us financially," said Raymark's Mr. Day.

Raymark would be penalized in joining the facility, since its excess insurance limits would be depleted by defense costs, he explained.

An appeal by Raymark's primary insurers of the ruling granting it unlimited defense coverage under pre-1966 policies has been filed in state court in Illinois, but the appeal hasn't yet been argued, he said.

Regulators seek funds for Cherokee

Continued from page 2

motion to stay a lower court's approval of the settlement.

Beacon is now being rehabilitated by the North Carolina Insurance Department.

Mr. Weed says that he notified Dana in early November of the Tennessee Insurance Department's intention to draw on the letter of credit, but that Dana asked that it be allowed to pay \$4.2 million outside the letter of credit to avoid bank charges connected with drawing down on the letter of credit.

Mr. Weed said that he was "agreeable" to this initially, but that Dana then demanded that the \$4.2 million be reduced by amounts it said Cherokee owed to other Dana subsidiaries.

These amounts included payments that Cherokee allegedly owes to The Summit Fidelity & Surety Co., another Dana unit, on expected losses from a book of real estate time-share business that was written by Summit and 100% reinsured by Cherokee, according to Mr. Weed.

Also included were payments due to a Dana automobile leasing subsidiary that leased cars to Cherokee but whose contracts were canceled when Cherokee was placed in rehabilitation, he added.

In all, the offsets sought by Dana against the letter of credit proceeds ranged from \$500,000 to \$1 million, Mr. Weed said.

Mr. Weed, who objected to these demands, says he presented the \$4.2 million letter of credit to Continental Illinois on Nov. 13. But when payment from the bank was due three days later, Diamond Financial Holdings Inc., an intermediate holding company of Dana, sought and was granted a temporary restraining order by Judge R.J. Holzer of Cook County Circuit Court in Chicago, according to Mr. Weed.

In its lawsuit seeking the restraining order, Diamond Financial charged that the rehabilitator's presentation of the letter of credit for payment was "false and fraudulent," arguing that funds from the letter of credit were not properly due and payable.

credit, according to Diamond Financial, was to temporarily fill in for another letter of credit that was to have been furnished on behalf of Universal Marine to cover its obligations to Cherokee.

But, "as of the present date, there is no default by any party on any obligation to pay its proportionate share of reinsurance claims due and payable by Cherokee," Diamond Financial's complaint reads.

Mr. Weed said that Cherokee hasn't received any money owed by Universal Marine.

Mr. Weed says he warned Diamond Financial's attorneys before they filed for the temporary restraining order that if they sought to block payment, Cherokee's rehabilitators would file a motion in Chancery Court in Nashville to have Diamond Financial, its officers and its attorneys held in contempt of court.

The contempt motion, filed on Nov. 20, was based on an earlier Chancery Court order prohibiting attempts to interfere with Cherokee's assets in any other court, Mr. Weed said.

On Nov. 21, the Chancery Court ordered Diamond Financial to show cause why it should not be held in contempt, and a hearing is set for Dec. 13.

Hospital seeks to dismiss suit

SANTA MONICA, Calif.—Santa Monica Hospital Medical Center is seeking to dismiss a \$21 million negligence suit filed by a former patient who was sexually assaulted in her hospital bed while under the influence of medication.

The assault on Brigitte L. Kratochvil was a criminal attack by a third party and the attack on Ms. Kratochvil was not caused by any conduct of the facility or its employees, the medical center claims in papers that it filed recently in Los Angeles County Superior Court in Santa Monica.

The institution, which is owned and managed by the Lutheran Hospital Society of Southern California, was sued Aug. 29 by Ms. Kratochvil, who claims that the hospital was negligent in maintaining a safe premises.

Since the filing of the contempt motion, Dana and rehabilitators have been negotiating a settlement of the dispute. An agreement, which was still being discussed last week, will probably provide for a withdrawal of the contempt motion as soon as Diamond Financial withdraws its lawsuit in Chicago and allows Continental Illinois to pay the \$4.2 million into the Chancery Court, Mr. Weed said.

An attorney for Dana, who asked that he not be named, confirmed that an agreement was being discussed, but would not comment on specifics of the dispute.

"(The agreement) hasn't been put to bed yet," the lawyer said. "Until it is, we really cannot say anything more about it."

Mr. Weed said that if the contemplated agreement is reached, Diamond Financial would have to take its claims—including its argument that it should receive offsets from the letter of credit proceeds—to Chancery Court for settlement.

Mr. Weed added that he would oppose such claims as representing preferential treatment of Dana over other Cherokee creditors. "If Dana has some claims, or thinks they have, they can litigate them here."

She might not have been assaulted, she claims, if the hospital had reported a previous attack on a patient. That previous attack was allegedly by the same man (*BI*, Oct. 1).

In its response, the hospital claims that even if it had pursued criminal charges in the previous attack, "there is no guarantee that (the assailant) would not have been at large on the date of (her) alleged injuries."

Punitive damages in the case are unwarranted, the hospital also states, since California law prohibits such awards for negligence. Ms. Kratochvil seeks \$21 million in exemplary and punitive damages, and is asking the court to determine general damages.

A hearing in the case is set for Dec. 14.

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Dated: November 16, 1984
Insko Limited
By: Noel C. Turner
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Tax proposal

Continued from page 1

for benefits, like long-term disability and group health benefits, are not taxed.

Under the Treasury Department's proposal, employers still could make tax-deductible contributions to VEBAs, but income earned on VEBA assets would be taxable.

Also, employers would no longer be able to reap as many financial advantages when they terminate overfunded defined benefit pension plans to recapture excess assets. The proposal calls for imposing a 10% excise tax on reversions from overfunded terminated plans.

The Treasury Department proposal, which would lower basic personal and corporate tax rates by eliminating or reducing hundreds of other tax breaks and deductions, is only the latest in the series of attacks—both from the Reagan administration and Congress—on employee benefits.

For example, the Deficit Reduction Act of 1984, enacted last summer with administration support, imposed limits on the reserves that can be held by VEBAs and froze limits on maximum contributions that can be made to defined contribution plans and maximum benefits that can be offered by defined benefit plans (BI, July 2).

But the restrictions in DEFRA pale in comparison with the potential impact the Treasury's proposal would have on employee benefits.

"This makes DEFRA look like small potatoes," said Edward J. Davey, vp of technical analysis at Johnson & Higgins, the New York-

based insurance broker and benefit consultant. "The employee benefit provisions are dramatic."

At the least, enactment of the Treasury Department plan probably would necessitate a revamping and scaling back of employer-provided plans, consultants say.

"So much of what is in place is because of the tax laws that permit tax-free benefits," said Lance Tane, manager of The Wyatt Co.'s flexible compensation team in Washington.

To prevent employees from being taxed on benefits they might never use, employers probably would scale back their benefit plans to provide an essential core of benefits to protect workers from being bankrupted by health care bills, Mr. Tane says.

Employers would continue to offer other, less-important benefits, like educational assistance or group legal benefits, but employees would purchase the coverages with after-tax dollars.

Enactment of the proposal would place new pressures on employers to improve employee benefits that aren't so directly affected.

For example, if 401(k) plans are eliminated, employers probably would be pressured to improve their defined benefit plans and more frequently boost benefits to protect retirees from inflation.

"If 401(k) plans are choked off, there will be more pressure to improve pension plans," said William Chip, a Washington attorney representing the 162-member Employers Council on Flexible Compensation.

And, some believe the Treasury Department proposal, if enacted, ultimately could destroy the way

employers currently provide benefits.

Sen. Robert Packwood, R-Ore., who will become chairman of Senate Finance Committee next year, has said that some employees will drop their benefit coverages if benefits become taxable (see related story).

Employees who drop benefit coverages, like health insurance, risk financial ruin if they incur enormous medical bills. When that happens, a public outcry could develop that ultimately could lead to the establishment of a compulsory national health insurance system funded through payroll taxes, Sen. Packwood has said.

Many doubt that the entire Treasury Department tax package will be accepted by President Reagan, who is now reviewing it, or by Congress.

But there is real fear that if the full package is not accepted, the proposed employee benefit changes could become part of yet another deficit-reduction bill.

"Treasury's 'laundry list' of changes in the benefits area could be put on the table for (inclusion) in a deficit reduction bill," said Dallas Salisbury, president of the Employee Benefit Research Institute, a Washington-based benefits think tank.

If a deficit reduction bill does move forward, Congress and the administration will look carefully at how employers respond.

"Those who scream the loudest, those who care the most and those who come up with the best defenses" will be most successful in protecting their interests, said Mr. Chip of the Employers Council on Flexible Compensation.

But some believe that employers will be more likely to concentrate their lobbying resources to protect other tax code provisions—like accelerated depreciation schedules and investment tax credits—instead of fighting to preserve the tax-favored status of employee benefit plans.

"The lobbying will be more intense on other issues," said Richard Fay, a partner in the Washington office of Reed, Smith, Shaw & McClay, a Pittsburgh-based law firm.

"Given the choice between repealing accelerated depreciation or fighting to protect employee benefits... employee benefits will be thrown to the wolves," a benefit lobbyist worried.

It will be up to companies to alert their employees to what the Treasury Department has proposed and get them involved in the lobbying effort, said Wyatt's Mr. Tane.

Of all the benefit changes in the Treasury package, none shocked

benefit experts more than the proposed elimination of 401(k) salary reduction plans. Several surveys by consultants reveal that 401(k) plans are the fastest-growing employee benefit.

Employers like the plans because they are relatively inexpensive to provide. Employees have flocked to the plans, which allow workers to reduce their pretax salaries by up to \$30,000 a year, because it cuts their taxes and allows them to funnel assets into an account where they earn interest tax-free.

The Treasury Department says it opposes 401(k) plans because they are not available to all workers. As a result, taxpayers subsidize a benefit that is not available to everyone, a senior Treasury Department official said.

Instead, the Treasury wants to expand annual contribution limits to IRAs, which are available to all workers, to \$2,500 from \$2,000.

However, increasing IRA contribution limits is a "trivial concession" compared with the sacrifice of 401(k) plans, said Lloyd Kaye, a principal with William M. Mercer-Meidinger Inc., the New York-based benefit consultant.

The new annual IRA contribution limits should be at least \$5,000 to make up for the loss of 401(k) plans, Mr. Kaye added.

Employers that want to try to save 401(k) plans may be fighting by themselves; pension activists and labor groups say they will not join the battle.

"We are encouraged by the proposed 401(k) repeal," said Karen Ferguson, director of the Washington-based Pension Rights Center. "The Treasury Department is sensitive to the fact that the plans are not realistic retirement income vehicles."

"We see 401(k) plans as a weakening of employer-sponsored (defined benefit) plans," said Alan Reuther, associate general counsel for the United Auto Workers in Washington. "They are tax-avoidance devices for the wealthy."

But, unions will side with employers in a fight against the Treasury proposal to tax employers' contributions to health care plans that exceed \$70 a month for individual coverage and \$175 a month for family coverage.

For example, autoworkers, who are covered by some of the most generous and expensive health care plans in the country, would pay between \$300 and \$375 in taxes, estimates Mr. Reuther.

To avoid such taxes, workers probably would select inadequate coverages that could expose them to big medical bills that they could not afford to pay, worried Bert Seidman, director of Social Secu-

rity for the AFL-CIO in Washington.

"Employees will start playing Russian roulette and try to get by with inadequate coverages," Mr. Seidman said.

Employers have their own reasons to fear a health care tax. Companies that self-insure their programs would find it difficult to compute their costs on a per-employee basis.

For example, would the salary of a benefit manager, who also has risk management responsibilities, be included when a self-insured company tries to compute its health care costs on a monthly per-employee basis?

"Putting a value on health care benefits would lead to horrendous difficulties," said Mercer-Meidinger's Mr. Kaye.

Since nearly all benefits would be taxed, the Treasury Department suggests that there no longer would be a need for Section 125 of the tax code, which permits employees in cafeteria benefit plans to choose from a menu of taxable and non-taxable benefits.

Thus, cafeteria plans and flexible plans that qualify under Section 125 would be eliminated by the proposal.

The end of Section 125 would mean that "companies that spent a lot of money of cafeteria plans will find that a valuable investment will have to be abandoned and they will have to go back to the old way of providing the same benefits to everyone, whether or not they need the benefits," Mr. Chip said.

The Treasury proposal, however, notes that "employers and their employees may find non-tax reasons such as lower insurance rates for groups and the accommodation of different preferences for allowing employees to select from a menu of taxable fringe benefits. Cafeteria plans might continue for this purpose."

The Treasury's plan to tax investment income earned by VEBAs would eliminate the most important advantage the trusts offer to employers.

As a result, employers would either pay for more costly commercial insurers or simply pay benefit claims as they are incurred.

"Companies have made good use of VEBAs to control costs. It is a cost-saving approach. It would be a shame if that approach were taken away," said Fredrick Rumack, director for tax and legal services for Buck Consultants Inc. in New York.

"It would seem that the last thing the government would want to do is to discourage the pre-funding of benefits," said the UAW's Mr. Reuther.

Dole win may aid benefit fight

WASHINGTON—The employee benefit community did receive one bit of good news last week when Sen. Robert Dole, R-Kan., was elected Senate majority leader to replace the retiring Sen. Howard Baker, R-Tenn.

Sen. Dole, an advocate of taxing employee benefits, now will give up the chairmanship of the Senate Finance Committee and will be replaced by Sen. Robert Packwood, R-Ore., who has championed the need for retaining the tax-preferred status of benefits.

As chairman of the Finance Committee—the starting point for tax legislation in the Senate—Sen. Packwood will be in the right place to try to stop legislation that attacks employee benefit plans.

"Sen. Packwood understands the importance of employee benefit plans," said Theresa Stuchiner, a partner at benefit consultant Kwasha Lipton in Fort Lee, N.J.

"Sen. Packwood's election is welcome. He has been one of few supporters of employee benefits in the Senate," added Edward J. Davey,

vp of technical analysis at Johnson & Higgins in New York.

However, it may be too soon to celebrate Sen. Dole's election as majority leader and Sen. Packwood's elevation as Finance Committee chairman, observers say.

"While a committee chairmanship is important, a committee chairman is not all powerful and is not all-important," noted Lance Tane, manager of The Wyatt Co.'s flexible compensation team in Washington.

Indeed, Sen. Dole, one of the Senate's most skilled legislative craftsmen, often was not able to convince his Finance Committee colleagues to accept his positions.

And Sen. Packwood, who observers say is a far less-accomplished politician than Sen. Dole, had a notable lack of success this year when he tried to convince a House-Senate conference committee not to impose restrictions on reserves held by tax-exempt Voluntary Employee Beneficiary Assns, also known as 501(c)(9) trusts (BI, July 2).

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Plan also affects property/casualty tax rules

WASHINGTON—The Treasury Department's tax proposal also would change the tax rules governing the funding and insurance of property and casualty risks.

The proposal would:

- Eliminate a tax benefit for multinational companies using captives domiciled in tax havens.
- Eliminate tax breaks for employers self-funding black lung risks in special trusts.
- Force property/casualty insurers to discount their loss reserves.

Currently, multinationals benefit from rules governing excess foreign tax credits by forming a captive insurer in a country that does not tax corporate income.

High foreign taxes paid in one country may be used by a taxpayer to offset the U.S. tax on income earned in a low-tax country. For multinationals with captives in countries that do not tax corporate earnings, the multinational offsets the tax due on certain of the captive's income with excess foreign tax credits.

The Treasury Department wants to stop this, according to an outline it released last week.

"Such an approach distorts investment decisions. The taxpayer has an incentive to generate low-taxed foreign income to utilize excess foreign tax credits. As consequence, investments may be shifted from the United States to low-tax countries. The U.S. tax base is eroded and capital may be allocated to less productive uses for tax reasons.

"The proposed reduction in the U.S. corporate tax rate will greatly increase foreign tax credits," Treasury notes. "This will correspondingly increase the incentives to divert investment and income to low-tax countries, if the overall limitation is left intact.

"It is therefore proposed that the foreign tax credit limitation be changed to apply country by country, and that certain source rules be modified to reflect more closely the economic substance of the transaction."

The last tax reform act limited

the use of excess foreign tax credits by recharacterizing the income of offshore captives (BI, April 23).

Now, only the earnings of a captive related to the insurance of foreign-based risks are considered foreign source income for the parent company against which excess foreign tax credits can be applied.

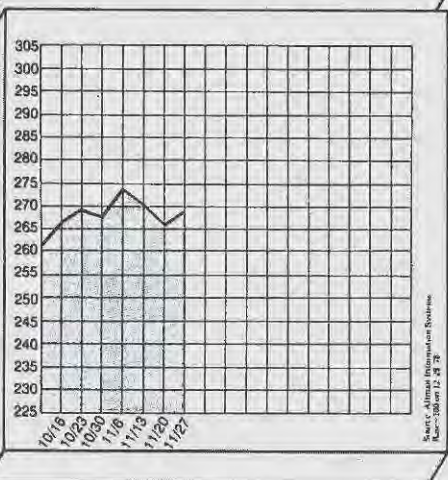
In addition, the Treasury Department wants to see repealed the tax-free status of special trusts that employers can now set up to self-fund black lung disability benefits.

And, the proposal calls for property/casualty insurers to discount the reserves they establish to pay future claims.

Finally, except for the lowest-paid workers, disabled employees would be taxed on the workers compensation benefits they receive.

More information on how the simplified tax plan would affect property/casualty risk funding and insurance will be available this week when the Treasury Department publishes a detailed explanation of its proposals.

BI Insurance Index



The Business Insurance stock index recovered for a slight gain in the period ending Nov. 27, after two straight weeks of decline. The BI index of insurance industry stocks closed at 268.8 on Nov. 27, up 3.8 points from 265.2 on Nov. 19. A total of 34 stocks posted gains, eight issues were down and 19 stocks were unchanged. The largest gains were posted by Fremont General Corp., up 10.3%; Mission Insurance Group Inc., up 9.8%; USF&G Corp., up 8.9%; CIGNA Corp., up 8.5%; and Continental Corp., up 7.8%. The biggest losses were posted by Integrated Resources Inc., down 12.9%; Carolina Casualty Insurance Co., down 7.7%; Avemco Corp., down 4.5%; Jefferson National Life Insurance Co., down 4.2%; and Foremost Corp. of America, down 3.6%. The Business Insurance index rose 1.4% for the period ending Nov. 27. This compares with a rise of 1.8% by the New York Stock Exchange composite and an increase of 2.9% for the Dow Jones 30 Industrials for the same period.

Property/casualty results show the price still not right

By MYRON M. PICOULT
Special to Business Insurance

THE PROPERTY/CASUALTY industry continues to suffer from "profitphobia"—the fear of making an underwriting profit. The malady was again confirmed by the third-quarter numbers.

Without exception, third-quarter operating results and underwriting experience were worse than expected. The poor underwriting performance developed despite a significant respite from catastrophe/weather-related losses in the quarter. This fact serves to underscore the price deficiency of the basic book of business.

The most noteworthy factors of the third-quarter debacle were the poor results reported by both General Reinsurance Corp. and American International Group Inc.

In particular, AIG commented that it was walking away from business because it did not meet specific underwriting and/or pricing characteristics. We suspect that at least part of AIG's problem was its inability to obtain sufficient reinsurance coverages. However, another factor may be that AIG cannot yet get the price it wants because of the willingness of other insurers to write business that they believe is becoming more attractively priced.

The quarterly results clearly indicate that the market for commercial insurance coverage is tightening. However, the primary market may not yet be as drum-tight as some observers believe.

Furthermore, the amount of rate relief being garnered may not be sufficient to reverse underwriting trends in 1985 to any meaningful degree, and it could perhaps portend some further slippage.

Myron M. Picoult is senior vp and senior insurance analyst with Oppenheimer & Co. in New York. He is the past president of the Assn. of Insurance & Financial Analysts and a member of the New York Society of Security Analysts. His column appears the fourth Monday of every month.



Mr. Picoult

We find the pricing pressures, reserve shortages, capital shrinkage and the loss of deferred tax credits to all be very positive factors. In general, however, we still have a problem relating current stock prices to evolving fundamentals.

There are, of course, some exceptions that will become increasingly evident before too long.

Our data base includes 17 of the major publicly held underwriters and accounts for a little more than 40% of the property/casualty industry's total premium volume.

For the three months that ended Sept. 30, our survey of these underwriters revealed the following:

- Net premiums written, on the average, rose 6.4%. However, excluding Kemper Group because of a pooling change effective this past July, the average gain was 11.5%, which is well ahead of the 5.5% and 9% gains registered in the first and second quarters. Excluding Kemper, nine of the companies were above the average and seven of the companies were below.

- Declines in premium volume were posted by AIG, Fireman's Fund Insurance Cos., The Home Insurance Co. and Kemper. The strongest volume gains were reported by CNA, which was up 30.4%, and USF&G, which was up 27.5%.

- It is obvious that premium rates are moving up. However, some managements seem to be deluding themselves into believing that the substantial increases being garnered on some casualty lines are the overall average increases that can be secured.

- We have a long way to go before rates approach sufficiency. Some companies, we believe, may not last long enough to see the event occur.

- Pretax net investment income expanded 8.8%. This figure is below both the first- and second-quarter increases of 10.4% and 9.9%, respectively. The lack of cash flow is finally coming home to roost. Eight companies were above the average, eight companies were below the average, and one was even.

- Although strong gains of 20% or better were registered by such underwriters as Chubb Corp., Continental Insurance Co. and The St. Paul Cos. Inc., there were declines posted by AIG, Fireman's Fund and The Home.

- The aggregate combined ratio, after policyholder dividends, rolled in at 119.7%, com-

pared with 113.3% in the third quarter of 1983. All of the deterioration was in the loss ratio, as the expense ratio actually improved about a point. Eight companies were above the average, eight companies were below and one was virtually flat.

Only GEICO Corp. came in below 100%. And, as was the case in the second quarter, only Continental was able to see an improvement relative to the 1983 third-quarter results.

- Loss reserves, on average, expanded 10.8%—virtually unchanged from the second-quarter increase. A few underwriters appear to be addressing the deficiency, but most remain in Never-Never Land.

- In fact, it appears that too many underwriters cannot afford to properly address their reserve problem. Maybe somebody should tell the regulators about this!

- Cash flow, defined as written premiums less expenses and paid claims, still looks sickly for most companies. A few look like they are clawing their way back.

- However, one wonders if in fact that good old game of "cash-flow underwriting" is being reborn. It is perhaps the only way for some of the faithful to stay afloat until help arrives.

- Finally, property-casualty operating earnings were only down 54% in the quarter. However, from the point of view of earnings quality, there was virtually none.

Financial briefs Reinsurers' results

The U.S. reinsurance industry posted an aggregate combined ratio of 127% for the nine months ending Sept. 30, according to an informal survey of 79 reinsurers conducted by the Reinsurance Assn. of America. This compares with a 113.3% combined ratio for the comparable period a year ago.

The nine-month results were slightly worse than the first-half combined ratio of 126.2% that was reported by the RAA in a survey of a similar, but not identical, group of firms.

The RAA said that for the nine months, reinsurers had a loss ratio of 95.8% and a 31.2% expense ratio. Premiums written during the period were \$4.69 billion, a 13.8% increase from the \$4.12 billion reported during the comparable period in 1983.

James M. Shamberger, the RAA's senior vp, commented, "The business is not getting better, and perhaps it's a little worse." While the 0.8 percentage point decline in the combined ratio is not material, he added, it is disappointing that it is not getting any better, despite the absence of any catastrophes during the third quarter.

Mr. Shamberger said also that reinsurers are not "exuding great optimism" over any expected significant improvement during the fourth quarter, either.

Great Lakes Reinsurance

Great Lakes Reinsurance Co. of Toronto has increased the surplus of its U.S. branch by \$10 million, bringing the total to \$20 million. The U.S. branch of Great Lakes is located in New York.

Colonial Penn Group

Colonial Penn Group Inc. has declared a quarterly cash dividend of 35 cents a share, payable Jan. 10 to stockholders of record Dec. 27.

Frank B. Hall

Frank B. Hall & Co. Inc. has declared a regular quarterly dividend of 25 cents per common share payable Feb. 11 to shareholders of record Jan. 18.

St. Paul

The St. Paul Cos. Inc. declared a regular quarterly dividend of 75 cents per common share payable Jan. 17 to shareholders of record Dec. 28.

British Issues

27 Nov Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low	
					High	Low
Comm Union	173	N/M	16.9	9.7	173	167
Genl Accident	536	53.6	27.1	5.1	536	503
Gdn Royal Exch	693	18.5	32.9	4.7	693	673
Royal	552	84.9	32.6	5.9	552	516
Sun Alliance	432	27.0	20.0	4.6	432	415

Brokers	Price	P/E	Div. pence	Yield %	1 Week High—Low
CE Heath	517	9.4	24.3	4.7	517—493
Hogg Robinson	215	11.6	9.7	4.5	215—205
JH Minet	199	13.7	7.4	3.7	199—192
Sedg Grp	313	14.6	11.5	3.7	313—293
Stew Wrightson	440	12.6	21.4	4.9	440—428
Willis Faber	523	18.7	30.0	2.9	523—495

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

BI Industry Stock Report

NOV. 27, 1984 11/21/84 THRU 11/27/84

Insurance Cos.	Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol. (000)	
Aetna Life & Cas Co	NYSE	36.00	4.0	18.5	2.64	7.3	36.13	36.63	1,239.8
American Bankers Ins Group	OTC	11.50	2.2	7.1	0.50	4.3	11.50	11.13	409.9
American General Corp	NYSE	24.88	4.7	9.2	0.90	3.6	25.00	24.00	1,143.4
American Indty Finl Corp	OTC	17.25	0.0	0.0	1.12	6.5	17.25	17.25	0.4
American Intl Group Inc	NYSE	66.50	3.1	13.0	0.44	0.7	66.50	64.75	517.3
American Natl Ins Co	OTC	29.00	3.6	8.0	1.08	3.7	29.00	27.75	76.7
Aneco Reins Ltd	OTC	1.38	0.0	4.0	0.00	0.0	1.38	1.38	10.1
Avenco Corp	AMEX	18.63	-4.5	12.5	0.60	3.2	19.63	18.63	16.5
Banks Iowa Inc	OTC	43.50	0.0	13.7	1.56	3.6	43.50	42.50	5.4
Bitco Corp	OTC	6.75	3.8	0.0	0.40	5.9	7.00	6.75	28.7
Carolina Cas Ins Co	OTC	3.00	-7.7	0.0	0.00	0.0	3.00	3.00	0.0
Chubb Corp	NYSE	48.63	4.0	12.4	2.20	4.5	49.13	47.25	245.7
Combined Intl Corp	NYSE	35.50	1.8	9.0	2.08	5.9	35.50	34.50	86.4
Continental Corp	NYSE	34.38	7.8	22.9	2.60	7.6	34.38	32.75	713.4
Crawford & Co	OTC	18.50	1.4	11.9	0.66	3.6	18.50	18.25	3.1
Crown Life Ins Co	OTC	116.00	0.4	7.6	4.00	3.4	116.00	115.50	0.4
Employers Cas Co	OTC	36.25	0.0	8.3	1.20	3.3	36.25	36.25	0.7
Equipax Inc	NYSE	32.75	2.3	13.2	1.70	5.2	32.75*	32.15	17.2
Farmers Group Inc	OTC	50.75	3.0	10.9	1.52	3.0	50.75*	49.25	715.2
Foremost Corp Amer	OTC	26.50	-3.6	15.5	0.96	3.6	27.00	26.50	58.4
Fremont Gen Corp	OTC	16.00	10.3	22.9	0.48	3.0	16.00	14.75	446.5
Great West Life Assurn Co	OTC	310.50	0.0	8.3	12.00	3.9	310.50	310.50	0.0
Hanover Ins Co	OTC	28.00	0.0	13.3	0.56	2.0	28.25	28.00	18.6
Hartford Steam Boiler Insnptn	OTC	58.00	0.0	28.3	3.00	5.2	58.00	58.00	31.3
Jefferson Natl Life Ins Co	OTC	20.13	-4.2	9.5	0.44	2.2	20.63	20.00	10.5
Kemper Corp	OTC	41.63	3.1	29.5	1.80	4.3	41.63	40.38	93.7
Lincoln Natl Corp Ind	NYSE	39.25	4.7	9.1	1.84	4.7	39.75	37.75	124.7
Mission Ins Group Inc	NYSE	8.38	9.8	0.0	0.50	6.0	8.38	8.13	498.9
Northwestern Natl Life Ins	OTC	26.00	0.0	10.1	0.80	3.1	26.00	25.13	392.5
Ohio Cas Corp	OTC	42.38	3.0	16.1	2.68	6.3	42.38	41.13	137.2
Old Rep Intl Corp	OTC	32.75	0.0	6.6	0.88	2.7	33.00	32.75	23.8
Orion Cap Corp	NYSE	22.38	0.6	0.0	0.76	3.4	22.63	22.25	22.1
Preferred Risk Life Ins Co	OTC	26.00	0.0	10.2	0.74	2.8	26.00	26.00	1.4
Provident Life & Acc Ins Co	OTC	79.00	-1.3	7.4	2.88	3.6	79.50	79.00	18.3
St Paul Cos Inc	OTC	49.63	3.7	101.3	3.00	6.0	49.63	48.25	249.4
SAFECO Corp	OTC	30.88	6.0	8.6	1.50	4.0	30.88	29.50	207.3
Sri Corp	OTC	17.25	3.0	14.3	0.68	3.9	17.25	17.13	39.3
Seibels Bruce Group Inc	OTC	20.75	1.2	0.0	0.80	3.9	21.00	20.75	65.6
Statesman Group Inc	OTC	5.38	0.0	8.0	0.15	2.8	5.38	4.88*	105.1
Tokio Marine & Fire Ins Co	OTC	139.00	1.6	28.1	1.05	0.8	139.00	135.00	9.7
Travelers Corp	NYSE	36.75	2.8	9.3	1.92	5.2	36.75	36.13	478.7
United Fire & Cas Co	OTC	17.00	0.0	0.0	0.80	4.7	17.00	17.00	0.0

*Record high/low since Jan. 1, 1984

NOV. 27, 1984 11/21/84 THRU 11/27/84

United States Fid & Gty Co	Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol. (000)	
United States Fid & Gty Co	NYSE	26.00	8.9	8.4	2.08	8.0	26.00	24.50	765.3
United Svcs Life Ins Co	OTC	28.13	-1.7	8.0	1.20	4.3	28.75	28.13	28.0
Unife Corp	NYSE	34.75	2.6	9.7	1.04	3.0	34.75*	33.25	963.8
Washington Natl Corp	NYSE	21.88	4.8	12.1	1.08	4.9	22.00	21.00	86.2
Zenith Natl Ins Corp	OTC	11.25	-2.2	8.9	0.88	6.0	11.25	11.25	12.3
INSURANCE COMPANIES									
AVERAGE									
13.3 3.9									
Agents/Brokers									
Alexander & Alexander Svcs	NYSE	24.38	1.6	0.0	1.00	4.1	24.63	24.25	127.9
Baldwin & Lyons Inc	OTC	42.00	0.0	14.7	0.80	1.9	42.00	42.00	0.8
Corroon & Black Corp	NYSE	28.00	0.0	37.3	1.00	3.6	28.25	28.00	69.5
Crump E H Cos Inc	OTC	18.00	0.0	16.1	0.44	2.4	18.13	17.88	9.0
Emett & Chandler Cos Inc	OTC	11.00	0.0	0.0	0.00	0.0	11.00	11.00	0.6
Gallagher Arthur J & Co	OTC	27.25	0.9	19.5	0.22	0.0	27.25*	27.25	32.9
Hall Frank B & Co Inc	NYSE	24.25	1.0	29.9	1.00	4.1	24.50	24.13	67.3
Integrated Res Inc	AMEX	16.00	-12.9	6.2	0.00	0.0	18.50	16.00	72.8
Marsh & McLennan Cos Inc	NYSE	52.63	0.7	25.4	2.40	4.6	53.00	50.50	573.5
Poe & Assoc Inc	OTC	5.75	0.0	0.0	0.00	0.0	5.75	5.75	0.8
Reed Stenhouse Cos Ltd	OTC	13.25	1.0	25.5	0.60	4.5	13.25	13.00	47.3
AGENTS/BROKERS									
AVERAGE									
24.6 2.8									
Conglomerates Holding Cos.									
American Express(Fireman's Fd)	NYSE	36.88	6.9	19.2	1.28	3.5	37.38	35.63	3,302.3
Anderson (Clayton/Ranger/PanAm)	NYSE	34.63	2.6	16.3	1.32	3.8	34.75*	34.25	50.9
Armco Inc	NYSE	10.00	-5.9	0.0	0.00	0.0	10.63	10.00	467.9
CIGNA Corp	NYSE	41.50	8.5	34.3	2.60	6.3	41.50	38.88	1,058.7
City Investing Co. (Home Ins.)	NYSE	38.13	3.7	9.2	2.00	5.2	38.13	37.25	554.6
CNA Finl Corp (CNA)	NYSE	29.25	0.4	14.3	0.00	0.0	29.63	29.13	23.9
Control Data (Coml. Credit)	NYSE	35.38	1.4	12.7	0.66	1.9	35.75	35.13	1,642.3
General Re Corp	NYSE	61.13	4.3	21.3	1.44	2.4	61.13	58.25	325.5
ITT (Hartford Group)	NYSE	27.13	4.3	7.4	1.00	3.7	27.13	26.25	2,612.3
Optimum Hldg Corp	OTC	2.50	0.0	0.0	0.00	0.0	2.50	2.50	0.5
Sears Roebuck & Co. (Allstate)	NYSE	32.38							

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