

DECEMBER 5, 1983

update

Air crashes could lead to aviation rate hikes

LONDON—Two air crashes last week, coupled with a tightening reinsurance market, may push up aviation rates, a leading Lloyd's of London underwriter predicts.

"I am expecting to see rate increases at the end of the year for airlines," said Eddie Simms, underwriter for the Ariel Syndicate, a leading aviation syndicate at Lloyd's.

"It may be tough now for under-
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business insurance

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

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National Union told to pay \$5.6 million to policyholder

By RHONDA L. RUNDLE

HOUSTON—National Union Fire Insurance Co. of Pittsburgh, Pa., must decide by Dec. 29 whether to appeal a \$5.6 million jury verdict against it stemming from the insurer's denial of two business interruption claims.

Crown Central Petroleum Corp. in Baltimore, Md., which won the award, had sued National Union for recovery of revenues that it claimed were lost because damages from two separate fires in 1980 at its Pasadena, Texas, refinery reduced the volume of gasoline it was able to produce.

National Union, an affiliate of American International Group Inc. in New York, argued that its policyholder could not have sold more gasoline even if it had been produced because of depressed market conditions. Therefore, Crown Central did not suffer a reduction in revenues due to the damaged refinery, it claimed.

However, a jury in the U.S. District Court for the Southern District of Texas in Houston rejected the insurer's reasoning and rendered its verdict Sept. 21 in favor of Crown Central.

The award includes \$4.7 million for recovery of principal damages and \$1.2 million in prejudgment interest calculated over about two years from the date that proofs of loss were filed until the judgment was entered by the court Nov. 29.

Also included in the award is \$130,000 in attorneys' fees, plus \$25,000 in additional legal fees that would be paid to Crown Central if the verdict is appealed to the Fifth Circuit Court of Appeals and Crown Central wins and another \$15,000 if the case goes to the state

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Insurers ordered to fund Raymark asbestos claims

By STEPHEN TARNOFF

CHICAGO—After five years of fighting for insurance coverage for asbestos claims, Raymark Corp. has access to \$1.5 million a month to pay defense and claims costs.

Three of Raymark's primary insurers were ordered by Cook County Circuit Court Judge James C. Murray last month to begin funding the claims on an interim basis.

Raymark of Trumbull, Conn., has paid out more than \$20 million from its own funds to cover defense and indemnification costs in asbestos litigation, after the three primary insurers refused to pay.

Raymark, which is facing 19,000 claims from asbestos victims, says it has more than \$400 million of insurance coverage.

Zurich Insurance Co. of Schaumburg, Ill., Raymark's primary insurer since 1969, has paid out more than \$40 million on Raymark's behalf, exhausting its limits. Although Zurich is exempted from Judge Murray's order, it will continue to handle Raymark's claims on a fee basis to maintain continuity.

Insurers that will have to contribute to the trust fund include Commercial Union Insurance Co. of Boston, Mass.; Globe Indemnity Co., part of The Royal Insurance Group of New York City; and Federal Insurance

Co., part of the Chubb Group of Warren, N.J.

CU and a predecessor company, Employers' Liability Assurance Corp., wrote \$3.5 million in primary coverage for Raymark under policies from 1941-1945, 1947-1950 and 1967-1969. Prior to the court order, CU had paid \$300,000 on Raymark's behalf in defense costs.

Federal, which wrote \$9.7 million in coverage for Raymark under policies between 1951 and 1967, had paid \$3.2 million, \$322,000 in claims costs and the rest is defense costs.

Globe Indemnity, which insured Raymark from 1950-1951 for \$600,000 but whose policies were only discovered in 1981 by Federal, had not paid any money on Raymark's behalf.

The indemnification order comes two months after Judge Murray granted broad coverage to Raymark in a dispute with its insurers over the nature and scope of its insurance coverage.

His decision, in *Zurich Insurance Co. vs. Raymark Industries Inc.*, said coverage is triggered both during the period when a victim inhales asbestos and during the time when the disease is manifested in the victim, often many years later (*BI*, Oct. 10).

Despite the broad ruling, Raymark was back in court recently asking Judge Murray for the interim funding from its insurers, contending it could not re-

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Fireworks firm's losses may not be covered

By BILL DENSMORE

BELLPART, N.Y.—The New York Pyrotechnic Products Co., owned by the famous Grucci family, apparently is not insured for any business interruption losses stemming from a Nov. 26 explosion that destroyed its Long Island fireworks facility.

And, the property coverage for the company's fireworks inventory could depend on what caused the fire.

Fireman's Fund Insurance Cos. insures the inventory and First State Insurance Co., the Boston-based surplus lines affiliate of Hartford Insurance Group, is the liability insurer for New York Pyrotechnic Products. Two employees were killed in the blast and 27 nearby residents were injured.

Several days after the explosion, authorities were still assessing damage to an estimated 130 homes near the 13-acre site that contained the fireworks facility. About 17 homes with an estimated value of \$50,000 each were destroyed, officials said.

The Gruccis self-insured the 12 buildings, valued at under \$1 million, that were destroyed at their sole manufacturing and assembly facility, said Raymond J. Rueger, a broker at National Coverage Corp. in Seaford, N.Y., which brokered insurance coverage for the Gruccis.

The contents of the buildings, including a storehouse of completed fireworks and materials to manufacture others, were covered under a Fireman's Fund ocean marine policy written through an American Pyrotechnics Assn. program. It is administered by Roanoke International Agency Inc., a New York City brokerage.

The Fireman's Fund policy contained a "warehouse endorsement" to cover physical loss and damage to materials in transit or damage to materials in stock caused by an "external cause," said Gerd W. Rosenow of Roanoke International. Officials say they have not determined the cause of the fire.

The association property policy did not

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Photo: Wide World

The Grucci family fireworks facility was destroyed by an explosion Nov. 26.

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update

Air crashes could drive up rates

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writers to renew reinsurance treaties and for airlines to renew policies," he added.

Lloyd's and London companies reinsured much of the insurance covering the two crashes late last month—one in Madrid and the other in Nigeria. The crashes pushed hull losses for the year to more than \$200 million and estimated liability losses to more than \$80 million.

Insurance for the two crashes was led by The British Aviation Insurance Co. Ltd., but BAIC underwriter Ivor Story was unavailable for comment. Ariel's share of the two crashes last week is insignificant, if there is any, noted Mr. Simms.

In Madrid, a 747 owned by Scandinavian Airlines Systems and leased to Aerovias Nacionales de Colombia S.A. (Avianca), crashed Nov. 27 within sight of the Madrid airport, killing 183 of the 192 people on board. The hull loss, paid by Avianca's insurers, is the largest of the year at more than \$50 million, confirmed J.R. Smith, chief executive of Avianca's Lloyd's brokers Wigham Poland Ltd. About 60% of the hull insurance is reinsured in the London market through Colombia's national insurance company, La Nacional.

Underwriters are setting up liability reserves of \$10 million to \$20 million for the crash. Avianca has \$400 million of liability insurance for any one loss.

In Nigeria, a Nigeria Airways Ltd. Fokker F28 crashed Nov. 28 while landing in Enugu, killing 68 of the 71 people on board. The \$12 million hull loss, insured by the National Insurance Co. of Nigeria and reinsured with Nigeria Reinsurance Co., is mostly retroceded to London through Lloyd's insurance brokers Willis Faber P.L.C. Information regarding liability insurance was unavailable.

Bermuda liquidates Ajax

HAMILTON, Bermuda—The Supreme Court of Bermuda has ordered regulators to liquidate Ajax Insurance Co. Ltd., a property/casualty and marine insurer here.

The Nov. 17 court order, delivered at the request of A.S. Wikborg & Co. (Ltd.), a Bermuda marine insurance brokerage which represented Ajax, said the insurer owes policyholders, brokers and several other insurers at least \$1 million in claims and brokerage commissions payable in several foreign currencies.

The major United States creditors include Fremont Indemnity Co. of Los Angeles (\$97,423) and Pine Top Insurance Co. of Schaumburg, Ill., (\$87,919), with whom Ajax had reinsurance agreements.

Ajax, now owned by a Panamanian company—Talbot Investments Inc., was formed in 1969 as a joint stock captive insurer to underwrite marine risks for Chandris (Hellas) Ltd., a Greek shipping company, the court order says. The insurer began underwriting third-party marine risks in 1975 and entered the property/casualty market in 1978.

Ajax ceased writing marine insurance in 1981 and halted underwriting of non-marine risks in late 1982, the court order says.

RICO suit allowed to proceed

CHICAGO—The U.S. Supreme Court has declined to review and thus let stand an appeals court ruling that permits the Illinois Insurance Department to sue the former directors and officers of Reserve Insurance Co. and related defendants under the federal Racketeer Influenced and Corrupt Organizations (RICO) Act.

Reserve Insurance Co., an affiliate of American Reserve Corp. in Chicago, was declared insolvent in May 1979 and ordered into liquidation by an Illinois court. In 1981, the Illinois Insurance Department filed suit against former directors and officers of Reserve and its parent company, three independent auditors and several reinsurance brokers and companies, charging that they concealed information concerning the insurer's true financial condition.

If the Illinois Insurance Department can prove its contentions in court, Reserve's policyholders and creditors could recover treble damages of up to \$300 million under a provision of the RICO Act.

The significance of the Supreme Court's action transcends the Reserve case because it confirms for the first time the availability of RICO as a civil tool for deterring illegal practices in the insurance industry in Illinois.

Mercer and Meidinger to merge

NEW YORK—William M. Mercer & Co. and Meidinger Inc. say they will merge and expand their employee benefit consulting operations. The new company, which will be called William M. Mercer-Meidinger Inc., will be based in New York.

A letter of intent to merge was signed last week. Mercer, the world's largest consulting firm on compensation and employee benefits with 2,100 employees in 70 cities, is owned by Marsh & McLennan Cos. Inc. Meidinger, based in Louisville, Ky., with 650 employees in 22 cities, is employee owned.

Late last month Meidinger terminated talks to merge with Touche Ross & Co. because "circumstances didn't seem right."

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Underwriters settle claim for \$40 million gold heist

By STACY SHAPIRO

LONDON—Lloyd's of London underwriters are now the legal owners of most of the \$40 million in gold and diamonds stolen from a security company warehouse at London's Heathrow Airport late last month.

Insurers already have begun to pay the unidentified owner or owners of the gold and gems under a manuscript "specie" insurance policy purchased by Brinks-Mat Ltd., the security firm, according to Stewart Wrightson (Surety & Specie) Ltd., Brinks-Mat's broker.

By settling the claim just four days after the Nov. 26 robbery, believed to be the second-largest in history, the insurers will assume ownership of the gold and the diamonds if they are ever recovered, confirmed W.D. Engeham, chairman of Stewart Wrightson (Surety & Specie).

Brinks-Mat, which is owned by Brinks Inc. of the United States and Mat International Group in London, is believed to have at least \$100 million in specie coverage, or legal liability coverage, for carriers of precious cargo. The \$50 million primary layer, which includes a "negligible" deductible, according to Lloyd's sources,

was led by Stephen Merrett, chairman of Merrett Holdings P.L.C.

A spokesman for Lloyd's confirmed that 60% of the primary layer is underwritten by various Lloyd's syndicates. The vast majority of the remainder of the primary layer is underwritten by London-based insurers, though unidentified U.S. insurers may have a slight participation.

Excess coverage above the primary layer is not expected to be tapped.

Although the insurance to cover the loss of the gold and diamonds is known, many mysteries still surround the heist, including the identity of the owner or owners of the gold.

Newspaper reports published early last week identified the Trade Development Bank in London, a subsidiary of American Express Co., as the owner of the gold, but an American Express spokesman in New York firmly denied those reports.

Sources in London now speculate that more than one company owned the gold, including bullion dealers Darby & Co. and Johnson Matthey. Spokesman for both

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Howden says more money was diverted

By STACY SHAPIRO

LONDON—More than a year after Alexander Howden Group P.L.C. accused former officials of diverting \$56 million in company funds for their own use, it appears that almost \$2 million more may be missing in a newly discovered set of transactions.

Two weeks ago, Alexander Howden (Underwriting) Ltd. filed a suit in High Court demanding that former Lloyd's of London underwriter Colin Leonard Roy Hart return more than \$1.83 million to members of Syndicates 502/64 and 868/35, which were managed by Howden. Mr. Hart was a Howden underwriting official until 1980.

Howden—which filed the suit on behalf of the syndicate members—claims that the money was "unlawfully diverted from and/or not returned to members" between 1974 and 1979.

Instead, the court papers claim, the money was filtered into accounts at the Geneva, Switzerland, branch of the Banque du Rhone et de la Tamise for the personal use of

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Committee wants rate hike for rig construction coverage

By STACY SHAPIRO

LONDON—Companies building offshore drilling platforms may see substantial increases in insurance rates and deductibles next year for construction coverage if Lloyd's of London and other London marine underwriters follow the London Rig Committee's advice.

The committee, which is composed of marine underwriters participating on the master oil drilling rig insurance contract, is asking members to combat hefty claims rising from the construction of offshore rigs.

In a letter recently sent to all its members, the committee spelled out the loss record for construction risks over the past 10 years and urged underwriters to do something about it (see chart, page 36).

"The figures on all classes (of offshore construction risks) are regularly monitored and there can be no reason to be optimistic at current trends," the letter said.

"It is hoped that underwriters, including reinsuring underwriters, will support the rig committee in its efforts to combat the present unsatisfactory situation."

Peter Wingett, a Lloyd's underwriter and chairman of the committee, believes underwriters can take several actions to improve underwriting results for offshore construction risks.

"It is obvious that the premium level is not high enough," he said. "But there are 20 or 30 calculations involved in figuring out a premium rate, so we cannot just say bang the premium up."

"But underwriters can do a combination of things: look at deductibles or the terms of the insurance contract, or change premium rates on certain parts of the risks."

At the moment, a Lloyd's broker says that about a half-dozen offshore platforms are being constructed but he will not name the projects or say if this report will affect them.

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Electric utility group organizes Tennessee association captive

By JERRY GEISEL

CHATTANOOGA, Tenn.—The organizers of the first association captive formed in Tennessee hope that utility companies will plug into the program for premium savings and long-term market stability.

Distributors Insurance Co., the sixth captive insurance company domiciled in Tennessee, will provide comprehensive general liability, auto liability and workers compensation coverages to members of the Tennessee Valley Public Power Assn., a Chattanooga-based trade association whose members distribute power generated by the Tennessee Valley Authority.

Comprehensive general liability and auto liability policies with limits of \$1 million will be available through the captive, along with coverage with statutory limits for workers compensation.

Marsh & McLennan Inc. of Atlanta, which is managing the captive, can also arrange for umbrella liability coverages of more than \$25 million through other markets.

"Tennessee's captive insurance company law was a key factor in setting up in the state," said Dennis Yocum, secretary/treasurer of the Tennessee Valley Public Power Assn. "In addition, Bermuda was too remote."

The TVPPA, which has 158 members, including 110

municipal-owned utilities and 48 rural electric cooperatives, began to consider forming a captive insurer several years ago after members of the 37-year-old trade association found they were being short-circuited in the commercial insurance market.

Some utilities had difficulty obtaining coverage, while others said that their premiums were not based on experience. "Utilities thought they were not being treated fairly," Mr. Yocum said.

By setting up their own insurance company, the utilities will have rates based on experience and the opportunity to cut insurance costs if the captive is profitable, he said. Profits could be distributed in the form of

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Benefit consultants directory

Employee benefits consultants that wish to be listed in *Business Insurance's* annual directory of benefit consulting firms—but have not yet filled out a questionnaire—should call *Business Insurance* Editorial Assistant Diane Kastiel today at 312-649-5398.

The directory will be published in the Dec. 19 issue.

spotlight report

France

Government programs supply most benefits

By ANDRE MELLY

PARIS—In France, employee benefits are mostly managed by a state-run social security organization on a principle of "social solidarity" rather than of "insurance."

Therefore, benefits like medical, death and disability coverages and pensions are paid for partially by the state and partially by contributions paid by employers and employees to the social security system.

However, the disbursement of social security services is not based on individual contributions. Whatever the amount contributed, from salaries and income, everyone has a right to benefits.

As with the U.S. Social Security system, the French social security program does not provide pensions equaling full salary. And, like its U.S. counterpart, the French system is having difficulties in financing benefits on a pay-as-you-go basis, with too few funds paid by today's contributors to fund benefits for retirees.

With rising unemployment reducing the number of contributors while increasing the number of non-working citizens eligible for the socialized benefits, the system is suffering from an increasingly large deficit, which is a serious concern to all workers under age 60.

Social security is trying to absorb this deficit in two ways: by increasing contributions, which are calculated as a percentage of employees' salaries, and by reducing services.

The exact amount the employee contributes depends on his or her salary level.

Currently, non-professional employees, who earn 4,500 French francs per month (the minimum wage per month, which is about \$548.80) to a maximum 7,870 per month (\$960), pay 15.7% of their salary toward social security. Employers contribute about 30% of salary for these employees, who are said to be in "Bracket A."

The employee's contribution breaks down to 4.7% toward pension benefits, 5.5% toward death and disability benefits and 5.5% toward health and maternity benefits.

The employer pays 8.2% toward pensions, 13.45% toward death and disability and 8% toward health and maternity.

The managerial bracket, or "Bracket B," includes employees earning more than 7,870 francs (\$960) per month to 31,480 francs (\$3,839). Employees pay a 15.7% tax on the portion of their salary that falls into Bracket A, plus a percentage of their salary that exceeds 7,870 francs monthly (\$960).

An employer generally contributes 40% of the salary of these employees.

Employees earning more than 31,480 francs (\$3,839) per month are categorized in so-called "Bracket C" and pay taxes on their total salary.

Reductions in social security services to save money include floating reimbursement rates for medical care. Although there are general ranges for reimbursement, such as 75% toward physician charges, they can change monthly or every other month.

In addition to pensions provided under social security, French employees are paid an additional pension under plans mandated by the

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Underwriters operate under liberal regulation

By ANDRE MELLY

PARIS—At first glance, the French insurance market appears to fit right into the international perception of France as a nationalistic and very protectionist country.

Regulations are abundant, and insurance company organizations—like the French Federation of Insurance Companies, Federation Francaise des Societes d'Assurances (FFSA)—are very powerful.

But, as Americans here confirm, the French insurance market is one of the most liberal in Europe, much more so than, for instance, the West German market (see story, page 31).

Foreign insurers underwrite 27% of commercial premiums in France, which is the highest market share held by foreign insurers in any European market.

This proves, contrary to indications, that the French insurance buyer, whether commercial or personal, is absolutely not nationalistic when it comes to insurance.

More often than not, it is an insurance buyer—and not a risk manager—negotiating the insurance purchase. The concept of risk management in France lags behind the United States by about 10 years, according to Jacques Lesobre, risk and insurance manager of Matra Corp. in Paris.

During the 1970s, large French companies were hit with substantial increases in rates and heavy fire losses, he notes. "These companies realized that buying insurance and protection of property should be coordinated by one person, specializing in that job" (*BI*, Nov. 22, 1982).

Many insurance buyers worked to enlarge their scope of action to be actual risk managers. One roadblock they have encountered, though, has been their inability to report to upper management or boards of directors. "This handicap is resented more and more by some insurance managers who are trying to enlarge the scope of their function," Mr. Lesobre notes.

Insurance buyers' attempts to change the corporate status quo are still unfolding in the 1980s. But resistance to change and closed lines of communication will be difficult for them to overcome.

The French insurance market is attractive to foreign insurers looking for markets. And, the election of the Socialist government in 1981 has not changed this attraction.

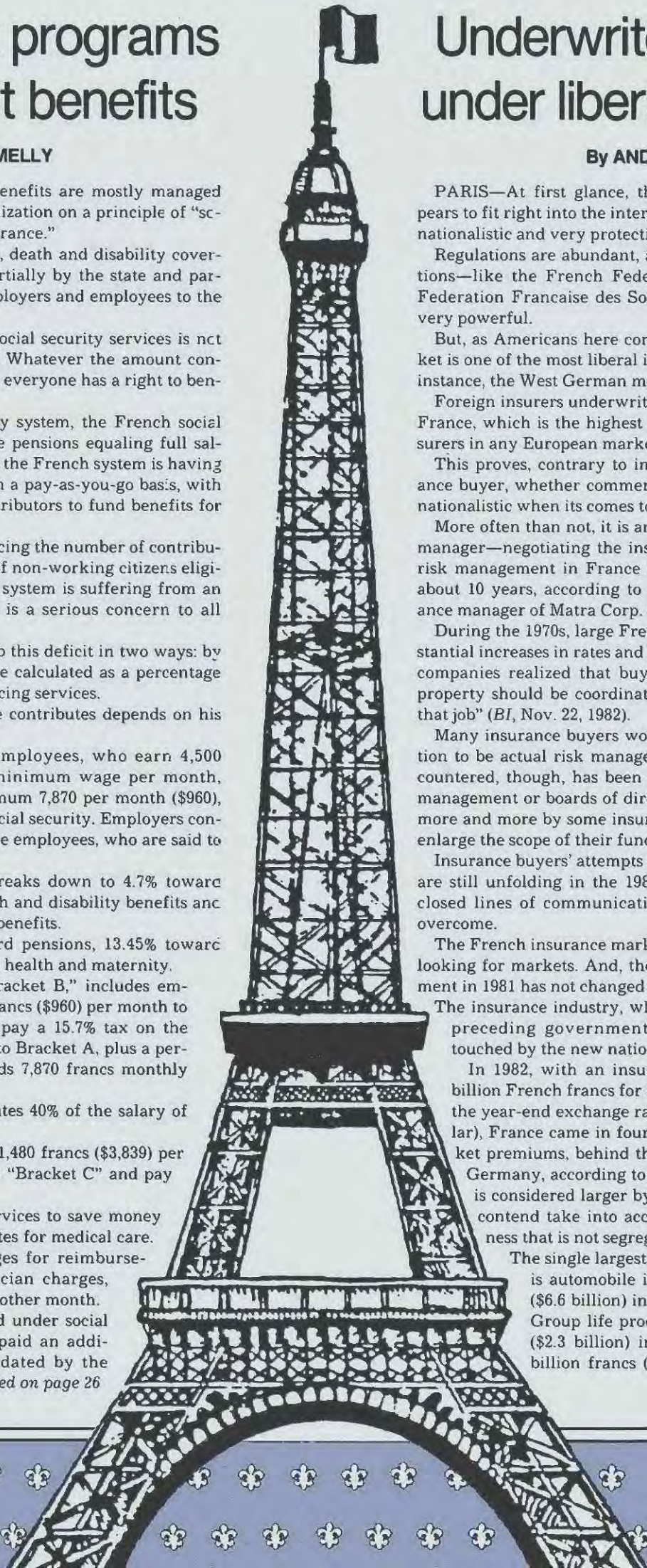
The insurance industry, whose nationalization dates back to preceding governments, beginning in 1945, was not touched by the new nationalization measures.

In 1982, with an insurance premium income of 140.6 billion French francs for its domestic market, (\$21 billion at the year-end exchange rate of 6.7 French francs to the dollar), France came in fourth place in world insurance market premiums, behind the United States, Japan and West Germany, according to a report by FFSA. (Great Britain is considered larger by other reports, which the French contend take into account Britain's international business that is not segregated from domestic business.)

The single largest line of direct insurance in France is automobile insurance with 44.4 billion francs (\$6.6 billion) in premiums, or 32% of the market. Group life products follow at 15.7 billion francs (\$2.3 billion) in premiums, or 11%, fire at 14.8 billion francs (\$2.2 billion) and ordinary life at

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Graphic: Amy Palmer



National Union hit with \$5.6 million award

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Supreme Court and it rules in Crown Central's favor.

The total amount of the verdict is reduced by \$450,000, which National Union had advanced to Crown Central for payment of the business interruption claims prior to its decision to deny them.

"Sometime within the next 30 days National Union will decide whether it will appeal the verdict," an attorney with Cowles, Sorrels, Patterson & Thompson, a Dallas law firm representing the insurer, said last week. The attorney declined to discuss National Union's position or to discuss the verdict.

National Union paid "reasonably promptly" for the property losses caused by the two fires, reports Harold L. Loftis, Crown Central's risk manager. Fire damage, ex-

tended coverage and business interruption were insured through the same National Union policy, he explains.

The first fire, which took place August 16, 1980, was caused by a seal failure on a pump and caused about \$386,000 in damage. The second fire Sept. 3 resulted in a \$591,000 loss and started after a tube failed in a coker unit. No one was hurt in either accident, said Mr. Loftis.

Crown Central calculated the extent of its business interruption loss through use of a computerized linear programming model, Mr. Loftis explains. Conceptually, this is done by figuring the value of the output from all units of the refinery and comparing the result with the actual output obtained with two damaged units.

"It's a very complicated procedure because the damage to the units forces the refinery to alter its overall operation," explained Mr. Loftis.

Crown Central retained an outside consulting firm, Greene & Associates in Dallas, to help it quantify its revenue losses resulting from the reduction in operations caused by the two fires. Working together, the two companies determined that the refiner had sustained an actual loss of \$4.9 million.

"We had suffered similar losses in the past and the same approach was used to calculate claims that were paid—by other insurers," said William R. Snyder, vp-administration for Crown Central. However, the 1980 business interruption claims were the first submitted against National Union, which had

underwritten the risk since March, 1979.

Despite the fires, Crown Central was able to meet all requests for sales, National Union contends in a joint pre-trial order submitted to the court. As a result of the fires, "Crown Central sustained no actual loss or reduction in gross earnings," the insurer sums up.

"The basic issue was: Would Crown have produced the additional gasoline if it had the capacity?" says Raybourne Thompson Jr., an attorney with Vinson & Elkins in Houston, which represents Crown Central.

"We proceeded on the argument that (without the fires) we could have made it (gasoline); we could have sold it; and there was a market for it," he continues. There is no language in the policy that spe-

cifies how a business interruption loss would be calculated, he noted.

Another issue in the suit was the amount of Crown Central's gross earnings during 1980. The premium paid by the corporation was tied to this figure and National Union charged that its policyholder had paid too little premium because it had underreported its earnings.

There is language in the policy that defines how gross earnings are to be calculated, said Mr. Thompson.

National Union contended that Crown had underreported its revenues by 100%. But, the jury found that Crown had underreported its revenues by only 4%.

The principal damages recoverable under the business interruption policy were proportionately reduced 4% in the judgment to \$4.7 million from \$4.9 million, the amount that Crown Central had calculated to be its actual loss.

Even if National Union decides not to appeal the decision, its litigation with Crown Central will continue. That's because the two companies are headed toward trial next year in another similar suit stemming from a 1981 accident, insured under a different National Union policy.

"The suit also involves recovery of losses from a plant that was unable to operate at full capacity because of an explosion and fire," reports Crown Central's Mr. Snyder.

The company's loss experience is not unusual when considered over the long-term period since 1970 when the Pasadena refinery came on-line, Mr. Snyder added. The exposures are great in a 24-hour operation where heat and high pressure are always present, he added.

"We are very conscious of the environment in which our people work," he stressed. "We think we had a good safety program before these fires took place, including periodic reviews of the fire protection programs and equipment that automatically shuts down the operation when a fire breaks out."

Without these programs, the fires might have been much more severe, he observed.

Crown Central Petroleum Corp. is an independent refiner and marketer of petroleum products, including gasoline and home heating oil, with 1982 revenues of \$1.8 billion.

Maryland asked for comp rate cut

ANNAPOLIS, Md.—The state's workers compensation insurers have requested a 5.2% reduction in premiums for Maryland businesses, the National Council on Compensation Insurance says.

Maryland Insurance Division Commissioner Edward Muhl is expected to make a ruling in the next few weeks on the rate request, which would take effect Jan. 1.

The rate reduction request was made because of recent favorable recent loss experience, said Joanne Porter, director of government, consumer and industry affairs for the NCCI.

"Claims are trending down," she said, "so we won't need the kind of premiums we collected this year."

The state average weekly wage rose from \$283.24 in 1982 to \$309.02 in 1983. This figure determines the maximum weekly workers compensation benefit paid. Without this 9.1% increase, the requested rate reduction would have been greater, Ms. Porter said.

By industry group, the average requested rate changes are an 8% decrease for manufacturing classifications, a 0.5% increase for contracting classifications and a 7.8% decrease for all others.



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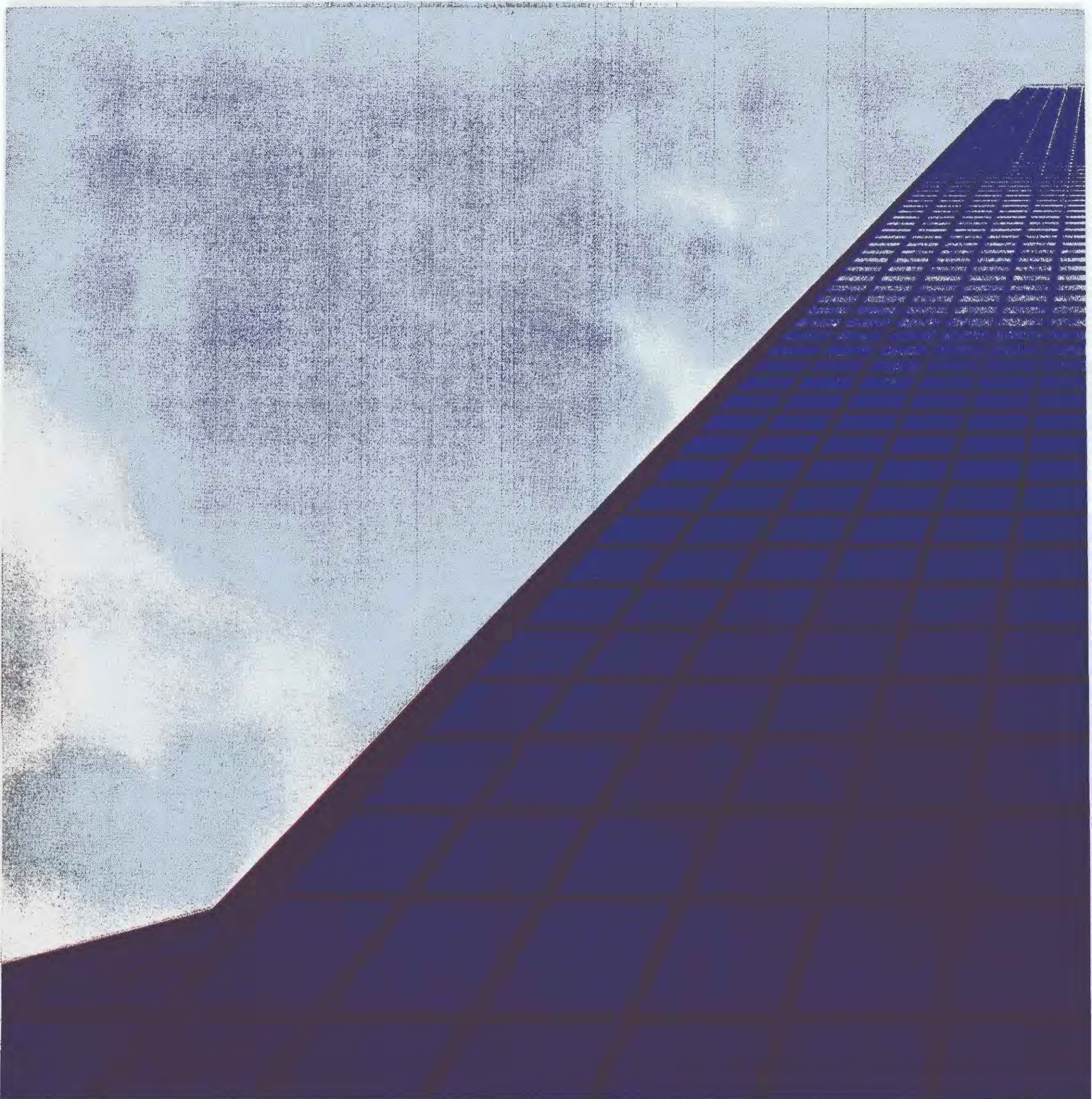
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We've expanded our already profitable life and health operations with such recent specialized acqui-



LOOKING AT CONTINENTAL.

sitions as William Penn Life and CPI Pension Services.

We've even broadened our international base. In the Asia-Pacific region, by acquiring a majority interest in the Lombard Insurance Group. And in Canada, where we're planning to combine our property/casualty operations with those of Phoenix Assurance.

And in the midst of all this expansion, we've shrunk a little, too.

We've divested operating units that don't fit our

new strategy. Cut our expense growth rate from 12% to zero in just two years.

And strengthened our independent agency force by focusing on just those agents who can meet realistic expectations.

What are the results so far?

Our best estimates indicate a significant increase in earnings for the coming year.

And that alone should tell you one thing.

Exactly where we're headed.



Continental
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opinions

An eye-opening drama

DO YOU REALLY KNOW what happens once you give your retail broker an order or an opportunity to bid for a tough insurance program?

Unless you are among the risk managers who go out and market their insurance themselves, or you accompany your broker throughout the marketing process, you may think it's a dull, routine process. After hearing so much about competition among insurers, you may even think that the broker has to bar the doors to keep out the hordes of underwriters anxious to write your insurance.

A very creative and clever panel of insurance industry representatives at the annual convention of The National Assn. of Professional Surplus Lines Offices drew back the curtain on the behind-the-scenes marketing of a tough risk (see story, page 15).

We casually suggested to the panel that they should present their drama at a meeting of risk managers. We suggested it would be an eye-opener to many insurance buyers and risk managers who do not realize how much thought, analyses, creativity and marketing savvy can go into placing a tough risk in the insurance marketplace.

There was a glimmer of excitement in the eyes of a few, and then fallen faces.

They expressed fear that the risk managers would view their drama with disdain, concluding that there are too many players along the so-called daisy chain of risk distribution who are taking more than their fair share of the premium dollar for make-work instead of productive work.

Now, we have in the past strongly criticized needless passing of premium dollars through too many hands,



leaving the ultimate risk bearer with too little premium to pay losses. Using two brokers to market one risk when one broker will do is wasteful. And, retrocession upon retrocession upon retrocession from reinsurer to reinsurer to reinsurer does strain one's respect for the concept of risk distribution.

But, we also are willing to give the broker, underwriter, surplus lines broker, underwriting manager, reinsurance broker and reinsurer their due when they earn their commissions and share of the premium dollar by improving an insurance program and finding and providing the needed capacity to insure big and difficult risks.

We think risk managers are willing to do the same.

letters

Suggestions for evaluating political risks

To the editor: Regarding the article, "Study political risks in every country, risk manager says" (BI, Nov. 14), allow me to offer the following suggestions to risk managers concerned with political risks:

- Avoid being overly preoccupied with questions of "political instability." Instability does not necessarily constitute a good barometer by which to gauge the level of political risk. Changes in the political environment do not always constitute a problem for the investor or for the overall business climate. Frequent or unscheduled changes in political leadership may have little or no impact on the business environment. Political discord, characteristic of a vocal parliamentary regime, may appear disturbing from afar when in reality it is part of the accepted political routine. How many governments has Italy had since the close of World War II?

- Differentiate a risk event from a risk effect. A risk event may be defined as some occurrence in the political environment of a host country, the implications of which may have potentially dangerous or detrimental consequences for the foreign investment. A risk effect is the actual occurrence of some action that in fact hinders the profitability and/or operation of the foreign investment.

For example, a risk event such as an increase in the political popularity of fervent nationalism might occur in a host country. One would grant that such a political movement may be an important event; however, what is significant for the investor is not so much the movement in and of itself as much as the consequences of the movement for the government policy directed toward foreign investment.

- Understand that political risks beyond war, revolution, expropriation and inconvertibility of currency—risks that multinational corporations frequently insure against—are joined by less insidious but more common obstacles to successful foreign operations like tariffs, quotas, div-

idend remittance restrictions, capital repatriation restrictions, nationality restrictions on management, price controls, increased taxation, export commitments, content, sourcing and manufacturing requirements, financing restrictions, geographic limitations on investment, economic sector limitations and pressure for local participation.

Further, such restrictive host government policies as these are frequently not related so much to xenophobic nationalism as to characteristics of the foreign investment operation, such as sector of the economy (primary, industrial, service), organizational structure (vertical integra-

No statements made

To the editor: The article on the Shell Oil case (BI, Nov. 7) purported to report observations made by the environmental impairment liability manager of The Home Insurance Co. in New York. The report was in complete error and totally misleading.

The Home Insurance Co. environmental liability manager made no observations, statements or references whatsoever to the Shell Oil matter during his telephone conversation with your reporter, which was on a different subject entirely.

The Home Insurance Co. does not publicly interpret its coverage with regard to pending litigation. The existence or lack of a pollution exclusion is a matter of public record as to each standard general liability policy.

Charles Abruzzo
Product Line Manager
Commercial Casualty
The Home Insurance Co.
New York

■ We stand by our story, based on comments made during an interview primarily regarding the general subject of environmental impairment liability insurance.

tion, horizontal integration, conglomerate), technological sophistication (science-based vs. non-science-based industry), labor intensity, capital intensity, ownership patterns (wholly owned vs. partially owned), etc.

Certain types of investment activity are subject to unfavorable political treatment for reasons having more to do with governmental, political and economic objectives than with political turmoil or instability of one kind or another.

David A. Schmidt
Corporate research
Combined International Corp.
Northbrook, Ill.

Right scene, wrong act

To the editor: Please refer to my letter, which you published (BI, Nov. 21).

In referring to "Iago's words about reputations," I forgot his earlier, statement to Cassio, Act 2, Scene 3, which you quoted. Unfortunately, this quotation makes exactly the opposite point I wanted to make. The right quote is in Act 3, Scene 3:

"Good name in man and woman, my dear Lord, is the immediate jewel of their souls: Who steals my purse steals trash...but he that filches from me my good name robs me of that which not enriches him and makes me poor indeed."

Garrett Redmond
President
G. Redmond Inc.
San Francisco

■ Our apologies. "Shakespeare Said It," by William Dodge Lewis, refers only to the quote from Act 2, Scene 3.

Business Insurance welcomes letters from its readers. Please keep your comments as brief as possible. We reserve the right to edit letters for clarity or space. We will not publish unsigned letters. Send your comments to Letters to the Editor, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611.

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We're justifiably proud of our range of products, local authority, capacity and service. We've got what it takes to be the biggest specialty underwriter in the world. In fact, do you know a bigger one?

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FIREMAN'S FUND
Insuring the future.

NAPSLO conference

E/S companies told cooperation key to survival

By STEPHEN TRANOFF

CHICAGO—Surplus lines insurers and brokers will have to work together more closely, providing innovative insurance products more efficiently, if they are to survive.

That's the prescription for the ailing surplus lines industry given by a panel of experts at the National Assn. of Professional Surplus Lines Offices Ltd.'s annual conference held Nov. 17-20.

The panel included Kevin P. Brooks, vp of North Star Management Co. in New York; Joseph T. Olson, president of Great Southwest Fire Insurance Co. of Scottsdale, Ariz.; and Kenneth W.

Woods, president of California Union Insurance Co. in Los Angeles.

Citing increased pressures from the admitted market and state regulators, panel members painted a generally bleak picture for the future, unless insurers and brokers strive to work in tandem.

"To the extent we are both able to survive in the new regulatory and new expense climate, that partnership will have to increase," suggested Mr. Brooks.

"We have an opportunity to strengthen a valuable and mutually

'It is imperative we join together' to maintain a profitable environment, Mr. Woods says.

beneficial partnership," Mr. Woods added. "It is imperative we join together to maintain the healthy and profitable business environment we have enjoyed in the past."

Mr. Brooks cited a number of problems and changes with which the industry has been plagued during the past few years and will con-

tinue to face in the future.

These worries include higher combined ratios, increasing expenses, more stringent state regulations, increased competition from standard markets, more mergers and acquisitions, technological changes and the increasing number of insurers in rehabilitation and receivership.

In 1978, NAPSLO members averaged an expense ratio of 24.5% and a combined ratio of 88.7%, Mr. Brooks said. In 1982, those figures climbed to 33.9% and 115.4%, respectively.

And things aren't getting any better, he added. Surplus lines insurers won't see combined ratios in the high 80s again, nor will there be

the freewheeling rate increases of the late 1970s, he said.

Brokers, meanwhile, also will face increased regulatory pressure and competition from national brokerage houses, as well as increasing operating costs, Mr. Brooks added.

To adequately face those changes, the partnership between brokers and companies will have to grow closer, Mr. Brooks said. They will have to re-establish a need for the continued existence of the surplus lines industry.

In addition, they will have to deliver specialty products in an efficient and economic manner.

"That's the major difficulty," Mr. Brooks noted.

Brokers and insurers will have to control costs to function in a time of reduced commissions and higher operating expenses, he added.

"The companies and brokers that address those problems together—in some type of partnership or in some type of mutual discussion—they're the ones who are likely to be in existence on a solid financial basis for a period of time," Mr. Brooks said.

California Union's Mr. Woods also emphasized the need for E/S insurers and brokers to work more closely and for the surplus lines industry to offer better products in a more efficient manner.

"While the excess/surplus industry was growing, the wholesalers and their companies worked very closely and profitably in putting together the new products and coverages and structuring new packages and new programs," he said.

But, during the exceedingly competitive market of the past five years, "This wholesaler-company relationship has suffered greatly," Mr. Woods said. "Price shopping has replaced cooperative and enterprising development efforts."

Mr. Woods also said that increased pressures on the E/S industry caused by tougher regulations, competition from London insurers, the three U.S. insurance exchanges and the admitted market are having a negative effect.

"There can be no doubt about the threat to the excess/surplus industry that these and other changes are bringing to bear," he said. "The question is, how do we respond?"

Noting that some have said the market changes are the beginning of the end for the surplus lines industry, Mr. Woods said, "It may be, but it need not be."

The industry must make as its highest priority the ease and effectiveness in which companies serve the full range of excess/surplus insurance needs of its clients, Mr. Woods added. The industry will be judged how effectively, quickly and conveniently it can serve these customers.

He said surplus lines insurers and brokers must spend more efforts in encouraging the development of new products and new approaches to satisfy their clients.

In addition to delivering a better and more consumer-oriented product, they will have to deliver it more quickly and less expensively, he added.

The technology needed to reduce costs through the use of electronic communications and data processing is readily available, he added. Companies and brokers must pool their resources to develop compatible automation systems for submitting and tracking business, issuing policies and collecting premiums.

"In short, we can no longer delay our entry into the information age and we must learn to do things cheaper, better and faster," Mr. Woods said.

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Statement of Position for auditing property and liability reinsurance.

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Balance Sheet

	1983	1982
ASSETS		
Cash on hand and in banks	\$808,177,856	\$761,406,806
Investments	128,161,600	102,198,807
Real estate	43,209,458	41,945,896
Building and equipment	979,650,914	905,551,509
Premium balances and notes receivable	5,639,788	2,178,874
Reinsurance recoverable on claims	20,195,058	16,726,065
Deferred policy acquisition costs	87,701,232	84,961,839
Other assets	22,000,000	14,604,795
	74,000,000	76,760,076
	34,632,732	33,783,668
Total Assets	\$1,224,347,567	\$1,134,566,826
LIABILITIES		
Reserves for losses and loss expenses	\$527,518,242	\$488,291,595
Unearned premium	235,738,020	226,186,945
Reserve for dividends payable to policyholders	8,742,531	12,141,412
Federal and foreign income taxes:		
Current	1,858,396	3,235,423
Deferred	25,751,855	34,070,783
Other liabilities	83,213,800	75,354,860
	772,844	839,281,018
Total Liabilities		
SHAREHOLDERS' EQUITY		
Capital stock, paid up	\$6,397,677	\$6,397,677
Authorized but unissued	51,322,446	51,322,446
Additional paid-in capital	3,420,169	3,420,169
Retained earnings	1,582,000	1,582,000
Unrealized gain on investments	336,480	336,480
Federal income tax expense	85,800	85,800
Unrealized gain (loss) on investments		
Accumulation, net of tax		
Total Shareholders' Equity		

How Digital develops nobody can h

If there's one thing that can make a computer company hot under the collar, it's watching millions of dollars worth of high technology products go up in smoke.

Fortunately, that's one experience Digital Equipment Corporation will probably never go through, thanks to two things.

A very innovative risk management department. And a very innovative insurer. Arkwright-Boston.

RESPONSIVENESS WAS THE HOT BUTTON.

So, why does the world's second largest computer company pick an insurer like Arkwright-Boston to protect their computers?

Well, look at it this way. Digital is a leading supplier of personal computers and small business systems. With total revenues of more than \$4 billion, from operations in 39 countries on five continents, Digital needs an insurer that can react. And fast.

Which is precisely what we did when Digital asked us to help with a major challenge.

It seems that Digital, in an effort to protect their computers and peripheral equipment, packs them in foam plastic cushioning.

A very good idea as far as shipping is concerned. A very flammable one as far as storage and fire hazards are concerned.

So we're working with Digital's own risk management and distribution teams, to put our knowledge of fire hazards to good use. We're testing a fire-resistant packaging they developed, which will be called, logically enough, the-box-that-doesn't-burn. Using the latest sprinkler technology and our years of fire research, the tests are rather extensive.

In the end, we expect Digital's solution to be quite a breakthrough. For one thing, the new boxes will have low combustibility and will be a lot less expensive to manufacture. And because the packaging materials are expected to be FDA approved, there may be other applications outside the high tech industry.

Now, if you think the only thing Digital will end up with is a very effective way to protect their products from the ravages of a catastrophic fire, think again.

ped a package that old a candle to.



You see, when the company starts protecting their computers in the new containers not only will distribution costs of warehousing be dramatically lower, insurance costs will be a lot less too.

Which just goes to prove what we've been saying all along. Arkwright-Boston is not only a company that insures you. It's a company that protects you.

WHY OTHER INSURERS ARE FEELING THE HEAT.

Let's face it.

Even a fire-resistant box like the one we're helping Digital create is no guarantee that the company will never suffer losses in a fire.

But if they ever do, one thing is for sure. They'll never get burned by their insurance company. Because Arkwright-Boston would be there to cover them every step of the way.

With blanket fire and extended coverage, boiler and machinery, and DIC. Coverages that Digital has worldwide.

And though it sounds expensive, it isn't. In fact, you'll find our pricing is competitive. And our financing plans, flexible.

But don't take our word for it. Ask French's mustard. American Greetings.

Or WestPoint Pepperell. They're all our clients.

So if the idea of an insurance company with this sort of dedication and creativity intrigues you, call or write us. But do it soon. Because if a disaster hits before we get together, your company could get burned.

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Solve coverage problems in advance: Panel

By STEPHEN TARNOFF

CHICAGO—Better service for buyers and less litigation will result if insurers and brokers work out potential problems with policyholders before they occur, a panel of claims professionals suggests.

Knowing the policyholder's needs can lead to fewer problems after a claim is filed, three industry representatives told the annual conference of the National Assn. of Professional Surplus Lines Offices Ltd.

But, the panelists agreed that liti-



Mr. Crisafulli

gation between insurers and policyholders is on the rise.

Nino D. Crisafulli, senior vp of Harbor Insurance Co. in Los Angeles, said that some of the factors contributing to this litigation boom are insurers' increasingly liberal underwriting principles—or even a lack of principles.

The burgeoning cost of handling this litigation "defies imagination," he noted. "We just can't cope with it much longer. Something must be done."

Litigation could be reduced and better service could be provided to policyholders if insurers and wholesalers are aware of the insured's needs, said Nicholas M. Briante, vp of Dryden & Co., a Chatham, N.J., underwriting manager.

For example, it is important that

policyholders be made aware that claims personnel do not treat a deductible and a self-insured retention in the same manner, Mr. Briante said, adding that the two are accompanied by substantially different obligations.

With a deductible, it's the insurer's obligation to defend, investigate and settle the case in good faith to protect the assets of the insured, Mr. Briante said. But, if the insured has a self-insured retention, those obligations are assumed by the insured until the claim pierces the retention.



Mr. Briante

An insured's obligation under a deductible is to give prompt notice, cooperate, supply records and witnesses and do what the insurance company believes is necessary to dispose of the claim, Mr. Briante explained.

Also, the insurance company will want to know the financial condition of a policyholder with a deductible. Insurers will also want to know the reserving policies of the insured to see if the company will reserve the full amount of the deductible, he said.

But, if the insured opts for an SIR, insurers will also want to know if the insured has the ability to handle the loss, details about the insured's claims staff and their experience, whether proper claims procedures are in place and whether it uses proper accounting

procedures to record and track claims.

A big area of confrontation that arises in the use of a retention is when should the insured give the insurance company notice of a loss, Mr. Briante said. Is it required on every loss, when the loss is about to exceed the SIR or when the SIR is exhausted? he asked.

Other issues include questions over who assigns the adjusters, which adjusters and defense counsel are to be used and who has control over them.

"You have to talk about it upfront," Mr. Briante advised the NAPSLO members. "These things have to be discussed beforehand so problems will be minimized."

The third panelist, John B. Deiner, senior vp and assistant general counsel of Ormond Re Group Inc. of Ormond Beach, Fla., pointed out at least two areas where litigation can be avoided.

First, he explained that excess policy layers often do not follow the effective dates of the primary layer, particularly where there are aggregate limits in the underlying policies.

Thus, if a primary policy has aggregate limits for a certain time period and

the dates of the excess policy do not coincide, the excess insurer may not respond because of the non-concurrence of the policies, he said.

Wholesale brokers must realize that they could be hit with an errors and omission suit if this should occur, Mr. Deiner added.

Also, he continued, problems may be triggered when the wholesale broker renews an excess policy without checking the rest of the policyholder's coverage. In too many cases, brokers do not update these policies to conform with the rest of the coverage, he said.

Thus, despite changes in the underlying coverages, a broker might place the policy with the same terms and conditions, creating a number of potential problems, Mr. Deiner said.

Both Mr. Briante and Mr. Deiner emphasized that the broker has responsibility beyond marketing the policy. They are responsible for checking policy details and making sure the policyholder is aware of all the coverage details, as well as any changes in the policy. ■



Mr. Deiner



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Attendance sets record

CHICAGO—More than 1,200 persons registered for the National Assn. of Surplus Lines Offices Ltd. annual convention Nov. 17-20 in Chicago—a record registration for the organization.

NAPSLO includes several categories of membership to encompass wholesale brokers, surplus lines underwriters, reinsurance companies and intermediaries and corporations serving wholesale broker and insurance company members. It has 613 members today: 368 wholesale brokers, 97 insurance company members, 88 affiliate members and 60 supporting members.

NAPSLO's next meeting will be held Sept. 20-23, 1984, in Los Angeles.

For more information about the organization, contact NAPSLO, P.O. Box 1507, Roswell, Ga. 30077; 404-998-9075.



Surplus programs altered during marketing process

By KATHRYN J. MCINTYRE

CHICAGO—The insurance program a retail broker sets out to place probably is not what the risk manager will finally buy.

It could be better, if a surplus lines broker comes up with some innovative ideas.

But it probably won't be as innovative as the surplus lines broker would like because underwriters won't write it as proposed.

And even the underwriting manager isn't going to write what he is inclined to offer because the needed reinsurance may not be available on the proper terms.

A retail broker's order from a risk manager is only the beginning of the marketing of a complex commercial risk, a panel of insurance industry representatives dramatically portrayed during a session at the annual convention of the National Assn. of Professional Surplus Lines Offices Ltd. last month.

A surplus lines agent, an underwriting manager, a reinsurance broker and reinsurers all are involved in shaping the type of commercial insurance program that is delivered to a company. And, they were all represented on the panel and acted their parts, revealing how they shape insurance programs.

"Let me write some business," pleaded Richard J. Ruhe, president of Illinois R.B. Jones in Chicago, opening the drama.

Answering his telephone, he is offered the excess casualty and marine program



Mr. Ruhe

for the mythical Black & White Coal Co. by an unidentified retail broker.

The coal company's underlying casualty program includes:

- A \$1 million combined single limit comprehensive general liability policy for a \$985,000 premium.

- A \$1 million combined single limit auto liability policy, the premium for which is included in the CGL premium.

- An employers liability policy including maritime risks with a \$100,000 per-occurrence limit for a \$150,000 premium.

- An excess employers liability policy of \$900,000 per-occurrence excess of \$100,000 for a \$200,000 premium.

- A \$3 million per-occurrence workers compensation policy excess of a \$300,000 self-insured retention for a \$250,000 premium.

- A \$7 million workers compensation policy excess of \$3 million for a \$95,000 premium.

The underlying marine program includes:

- Collision and towers' liability to hull value for a \$50,000 premium.

- Protection and indemnity cover to hull value for a \$250,000 premium.

- Excess insurance over the collision and towers' policy and P&I cover. The excess insurance is in three layers: \$2 million excess of the primary policies for \$50,000; \$8 million excess of \$2 million for \$40,000; and \$15 million excess \$10 million for \$15,000.

The program as presented by the retail broker calls for a \$25 million casualty umbrella and a \$25 million excess policy over the marine coverage, an employers liability policy excess of \$1 million and workers compensation insurance excess of \$10 million.

Mr. Ruhe studies the program for

a moment and suggests to the retail broker that the casualty and marine be combined in a single form with a single \$25 million limit; that the employers liability drop down to \$100,000; and that the workers compensation excess policy drop to \$3 million.

"This should produce some savings," he suggests to the retail broker, admitting that it may be a little tough because there are underground mines, and underwriters may not like employers liability including maritime risks.

"Have I got the time?" he asks, repeating the retail broker's question. "All I've got is time," he says in aside, which drew laughter from an audience of surplus lines bro-

Continued on page 18

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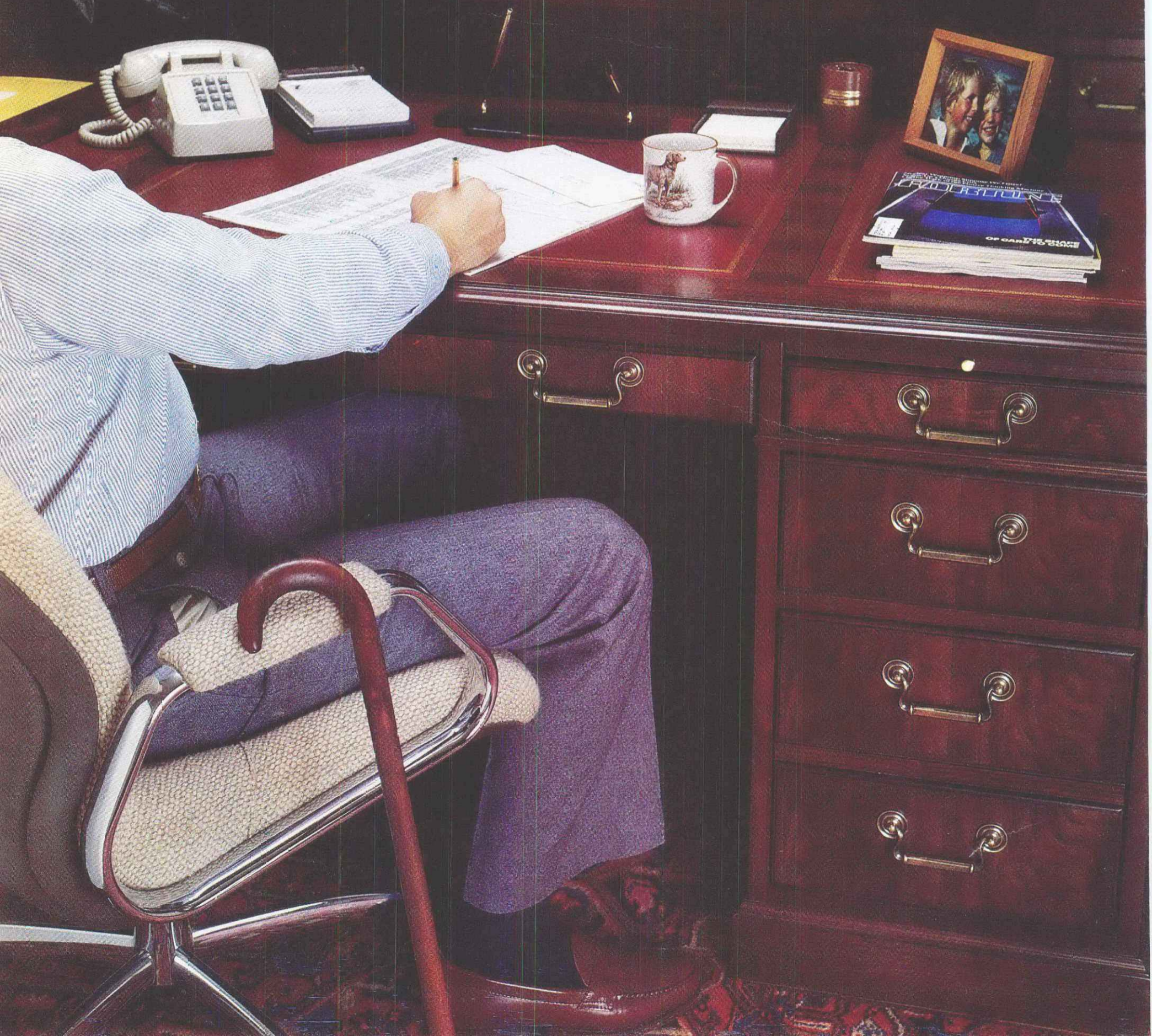
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*Source: Employee Benefit Plan Review, April, 1983



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BI 10/24/83

Surplus program altered during marketing

Continued from page 15

kers, who complain that the standard markets have taken many of the risks they once marketed.

Mr. Ruhe dials his phone and asks for Richard Foss.

The president of National Underwriting Agency Inc. in Chicago, which celebrated its fifth anniversary just the week before, assumed the role of the underwriter in this scenario.

"Did you get the proposal?" Mr. Ruhe asks Mr. Foss.

"I don't write this stuff," Mr. Foss answers. "Why should I get in-



Mr. Foss

involved?"

"It's the first submission this month," Mr. Ruhe reminds him, suggesting he just may like to write some business. "It's only a little incidental marine," Mr. Ruhe adds.

"Two hundred barges and seven tugboats and you call that a little incidental marine program?" Mr. Foss barks back incredulously.

"I don't hold much hope," Mr. Foss says of writing the program, but promises to consider it.

"Thanks for your usual encouragement," Mr. Ruhe says.

After deciding what he can accept for his markets and under his own reinsurance treaties, and what he wants to write, Mr. Foss dials his facultative reinsurance broker, Patrick T. Meagher, vp of Nova Reinsurance Brokers in Chicago.

Mr. Meagher is looking at the

Mr. O'Connor wants Mr. Foss to keep 20% of the marine coverage to put his feet in the fire.

proposal and Mr. Foss instructs, "Reinsure the marine 100%."

He also asks for full reinsurance of the \$900,000 excess of \$100,000 on employers liability and the first \$2 million excess of \$3 million on the workers compensation.

He decides to divide the \$25 million liability excess policy, seeking reinsurance for 50% of the \$5 million excess of underlying and 50% of the \$15 million excess of \$10 mil-

lion. He wants to keep 100% of the \$5 million excess of \$5 million because that's where the premium is."

Recognizing that this isn't going to be an easy order to fill, Mr. Meagher asks in a sarcastic tone, "And you want a 28 1/2% cede?"

NUA generally seeks a 28 1/2% ceding commission, of which 17.5% is paid to the surplus lines broker, who in turn has to share some commission with the retail broker. NUA keeps 5.1% and pays the insurers for which it underwrites 6.15%. In the case of



Mr. Meagher

Transit Casualty, for which NUA underwrites, Transit must pay 3.5% to 3.8% of its share for state taxes.

Mr. Meagher says he will try to get a 25% ceding commission.

Mr. Meagher phones John B. O'Connor, vp of Triad Underwriting Management Agency Inc. in Chicago.

Mr. O'Connor agrees to reinsure 80% of the marine risk, requiring Mr. Foss to keep 20%. "Foss has to put his feet in the fire," Mr. O'Connor remarks.

He also agrees to take just 50% of the employers liability, and only for \$750,000 excess of \$250,000.

He declines entirely the workers compensation program. However, he decides, "For what I'm doing up top, I ought to have a piece of the \$5 million excess of \$5 million" casualty program, which generates the most premium.

Mr. O'Connor quotes 50% of \$5 million excess underlying policies, 50% of \$5 million excess \$5 million and 33 1/3% of \$15 million excess \$10 million.

And, he says he will pay a 27.5% ceding commission on the liability insurance, but nothing on the other policies.

When Mr. Foss is told of the reinsurance acquired, he admits that it is the best he expected to get. But, he tells Mr. Meagher to negotiate a flat 25% ceding commission, 15% of which he will pay Mr. Ruhe, who will negotiate the retail broker's share.

Mr. Foss adjusts the program based on the available reinsurance and telephones Mr. Ruhe.

"This is not exactly what you wanted," Mr. Foss warns, and offers:

- \$25 million combined casualty and marine, which eliminates all separate excess marine placements, as Mr. Ruhe wanted.

- Employers liability excess of \$250,000, which drops below the current \$1 million but not to \$100,000 as Mr. Ruhe wanted.

- Workers compensation excess of \$5 million, which is \$5 million more in protection than the retail broker had suggested but not down to \$3 million as Mr. Ruhe had suggested.

"Do you ever do what a broker asks you to do?" chides Mr. Ruhe.

But, he admits in an aside, "It worked again. Ask for a mile and you get a yard."

The drama ends with Mr. Ruhe relaying the good news to the retail broker and a final plea to the heavens, "Let me write this."

The panelists noted later that the drama was unrealistic in limiting the underwriter to Mr. Foss and the reinsurance to Mr. O'Connor. Many more underwriters and reinsurers would have been tapped for the program.

"I probably would have needed 25 reinsurers," noted Mr. Meagher. And, marine specialists would have been needed to reinsure the marine risk, he noted.

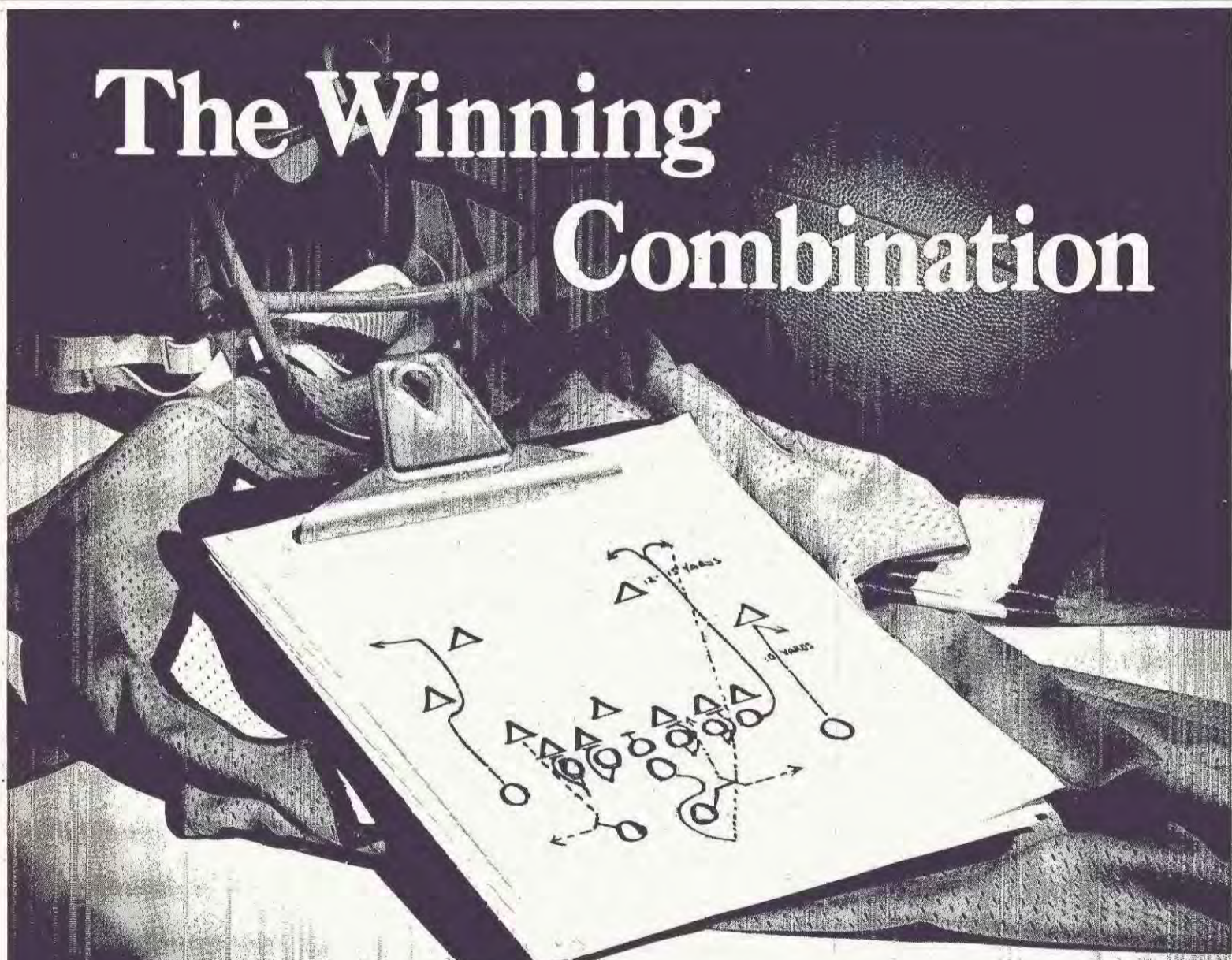
In addition, not discussed was Mr. Ruhe's advice to the retail agent that additional excess insurance be purchased above the \$25 million combined casualty and marine excess layer to provide a higher combined limit.

What was realistic, all the panelists agreed, was how the insurance program was shaped by the surplus lines broker, the underwriting manager and the reinsurance company.

And, they all do spar with one another in the course of a day's work. ■



Mr. O'Connor



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Agents with surplus licenses still tap wholesalers

By LEN STRAZEWSKI

CHICAGO—Retail agents and brokers may have the power to shop the surplus lines markets, but they usually prefer to use surplus lines brokers, according to a panel of agents.

Four Illinois retail agents told the National Assn. of Professional Surplus Lines Offices Ltd.'s annual convention that even though they hold surplus lines brokerage licenses, they prefer to use surplus lines brokers for their expertise.

And although tapping another brokerage stretches commission dollars a little further and moves a risk a little further from a retail agent's control, most retail agents don't really find problems with sub-broker relationships.

"If you bring your special expertise and relationships with your markets to us as a solution to our client problems... we have no problems," remarked Robert L. Slaughter, senior vp of Corroon & Black of Illinois Inc. and moderator of the panel on agent/wholesaler relations.

"So long as we do what we do in partnership with our clients, we have a sound relationship," he said.

Mr. Slaughter says his brokerage evaluates wholesalers according to three major criteria: professional qualifications (college degrees, professional designations and years of experience), financial strength and the speed and accuracy of their submissions.

Theodore J. Adams, president of T.J. Adams & Associates, a construction industry specialist in Oakbrook, Ill., agreed. His retail brokerage also has a surplus lines license, but it uses wholesalers for special risks outside the construction field.

The suburban Chicago agency directly represents 18 licensed and excess/surplus insurers but does business with 32 wholesale agents and brokers, Mr. Adams noted.

"We do business directly with several excess/surplus lines carriers, but sometimes we just don't want to go direct because we need the wholesaler's expertise."

T.J. Adams also evaluates wholesalers according to their financial strength and performance, but stresses a wholesaler's responsiveness and dependability, he added.

"We probably should evaluate a wholesaler's professional credentials more thoroughly, but our general consideration for using a wholesaler is whether or not it can do something better than we can in terms of market access, leverage and understanding of a particular type of risk."

The firm also depends upon wholesalers for analyses of insurers' financial conditions and education relating to unusual risks, Mr. Adams said. "One criteria we look for in a wholesaler is tolerance for our ignorance."

Robert D. Hughes, vp and marketing director for Alexander & Alexander Inc. in Chicago, looks for creativity and aggressiveness in coverage marketing from the 44 wholesalers used by his office, he said. And, in general, he says he is not disappointed.

Although A&A in Chicago also has a surplus lines brokerage license and uses it to develop mass-marketed specialty products and programs, 15% to 20% of the office's premium volume or \$15 million to \$20 million is funneled through excess/surplus lines brokers and managing general agents.

In particular, Mr. Hughes taps wholesalers that are specialists in a particular industry or type of risk, that have access to excess capacity that A&A occasionally needs for jumbo clients or that have exclusive relationships with specialty in-

surers.

The office will not place business with any insurer that is rated lower than B-plus (very good) at Best's Class X size (\$7.5 million to \$12.5 million in policyholder's surplus), but it also depends upon wholesalers for advanced financial evaluation of insurers who meet these cri-

teria but who otherwise may be unsuitable for their clients.

Wholesalers, however, are also subject to professional evaluation. They must show a minimum of \$2 million in errors and omissions coverage, bank references and a copy of their current balance sheet.

Thilman & Filippini, another

Chicago agency, also has a surplus lines brokerage license but rarely goes direct to surplus lines insurers, says partner Thomas Filippini.

However, Mr. Filippini is not perfectly satisfied with his use of wholesale agents and brokers. Too often, he said, wholesalers are not checked out by independent agen-

cies, like his own, that rely upon sub-brokers for special risk expertise.

"Too often credentials are misunderstood," he says. "And there seems to be a growing number of wholesalers who lack expertise for one reason or another, including high turnover."

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Lloyd's changes to make it responsive: Sir Peter

By STEPHEN TARNOFF

CHICAGO—Increased disclosure of information and more self-regulation at Lloyd's of London will make it more responsive to buyers and less prone to insurance scandals, says the outgoing chairman of the 300-year-old marketplace.

Speaking at a conference of the National Assn. of Professional Surplus Lines Offices, Sir Peter Green described how the changes should bring about a closer relationship with U.S. buyers and producers, greater efficiency in the marketing of insurance and a more responsible marketplace.

Sir Peter, who will step down as chairman Dec. 31, also decried cash-flow underwriting and the combination of U.S. financial services firms into "financial supermarkets," which he called a "prima facie conflict of interest."

Sir Peter's wide-ranging speech touched on what he described as "the many changes taking place aimed at strengthening the Lloyd's market internally and externally."

One important change will be an increase in the amount of information that will be disclosed, both to comply with the duties of an agent to his principal and to avoid conflicts of interest.

As a first step toward increased disclosure, Lloyd's earlier this year issued a pamphlet on the security behind its policies. The market also published its 1982 global results in a new, easier-to-understand form, he said (BI, Sept. 5).

"These new 'globals,' as we call them, give a great deal of new information about Lloyd's overall trading," Sir Peter said. "In fact, they give more information than most, if not all, U.K. insurance companies' annual reports."

Lloyd's has also decided that syndicates' annual reports to their members will be centrally filed at Lloyd's and be open to public inspection, beginning with those issued after Dec. 31 (BI, Oct. 10).

These reports will contain all relevant information on the underwriting accounts for the policy year currently being closed, 1981, and the two open years, 1982 and 1983. They will also contain a "fair representation" of all material insurance interests of the underwriting agents, Sir Peter added.

This "information explosion" will be a major benefit to buyers of insurance, he said.

"In the future you will have far more detailed facts and figures on which to base a judgment and this is no more than your due, bearing in mind present uncertainties in international insurance and reinsurance."

In addition to increased disclosures of information, Sir Peter said that improved service and increased efficiency will make Lloyd's better able to compete and more responsive to buyers.

Sir Peter said Lloyd's is trying to improve its service to U.S. policyholders and producers, acknowledging that it "falls somewhat short of the high standard you have every right to expect."

A step in this direction came with Lloyd's recent purchase of Toplis & Harding Inc., a Chicago-based adjusting firm.

Lloyd's will also compete better through the use of the latest electronic data processing equipment, which will be installed in the new Lloyd's building that is scheduled to be completed in 1986.

The data processing system

should eliminate most of the paperwork in transactions between underwriters and brokers as well as among insurers, Sir Peter said.

Another recent major emphasis by Lloyd's has been in the area of self-regulation, arising out of the Sasse and Savonita scandals in the late 1970s and which resulted in the Fisher Report on self-regulation published by Lloyd's in 1980.

A self-regulation bill was subsequently introduced in Parliament, an amended version of which was passed as the Lloyd's Act of 1982,

Sir Peter noted.

Among other things, the act established a new Council of Lloyd's made up of 16 working members, 8 external members and four non-members. Since its inception, the council has created a disciplinary framework to replace outdated provisions and "an intensive program of rule making" that will result in a more flexible constitution, Sir Peter said.

"It is, in every sense, a critical exercise," he said. "If the rules are drawn too tightly, underwriters

and brokers might become hide-bound and we could lose our innovative ability, which by common consent is one of our most important assets.

"If (rules) are too lax, we could, before long, see a recurrence of...unfortunate events."

Sir Peter said that the new laws governing the market will consist of bylaws dealing with matters of basic principle, regulations for applying and interpreting the bylaws and finally codes of conduct that give general guidance to brokers,

underwriters, underwriting agents and members.

Turning to the world insurance market as a whole, Sir Peter also warned against reliance on cash-flow underwriting and the dangers posed if it continues.

"There is a real danger...that if the present situation continues, our business will exist for the sole purpose of generating cash flow," he said. "Were this to occur, and there is evidence that in some cases it may already have done so, under-

Continued on facing page



Sir Peter



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Continued from facing page writing skills—so painstakingly acquired—could begin to atrophy and future generations might not even bother to obtain them.”

Sir Peter noted that while Lloyd's managed to increase premium volume and market share in 1980, the latest year for which complete results are available, it had a pure underwriting profit of a little more than \$33 million, or less than 1% of premium. Moreover, this profit disappeared when management expenses were taken into account.

It was only when other factors were taken into account—including capital appreciation and investment earnings—that overall profit

increased to \$396 million, the largest in Lloyd's history, he added.

The outgoing chairman also said he does not agree with the conglomeration of companies into a financial supermarket, a practice now gaining ground in the United States. He explained the new financial services giants create serious conflict of interest problems.

Any conglomerate is going to be more effective in some departments than others and it makes sense to employ a specialist rather than a jack-of-all-trades, he said.

In addition, the conflicts of interest created could at some point in the future become irreconcilable, leading to companies having to divest some of their holdings. ■

Lawyers ask insurers for asbestos solution

CHICAGO—Attorneys for the insurance industry and the plaintiffs' bar are asking the industry for a solution to the problem of compensating asbestos disease victims.

Four attorneys, participants in a panel discussion at the National Assn. of Professional Surplus Lines Offices Ltd. convention, differed on the approach the insurance industry should take, but agreed that the current method for handling asbestos litigation was a nightmare.

Both the litigation brought by victims against asbestos defendants and the litigation between these

companies and their insurers are inefficient and tremendous wastes of resources, the attorneys agreed.

The insurance litigation, according to John P. Arness, an insurance company attorney with the Washington firm of Hogan & Hartson, is “a garbage pail of waste and ineffective action.”

“We are still in a rather hopeless state of acrimonious confusion,” Mr. Arness said.

Robert Buell, vp of claims for Fireman's Fund Insurance Cos., described how waste and inefficiency occur in the underlying liti-

gation so that, according to one study, it costs \$95,000 to pay the plaintiff \$35,000.

Much of the expense comes in attempting to manage litigation. Mr. Buell cited an example of 14 defense attorneys attending one deposition, often asking the same questions or perhaps sitting around reading newspapers and doing crossword puzzles.

“It's a crime that this is occurring and contributes to the enormous expense,” Mr. Buell said.

Mr. Buell is a member of the Asbestos Claims Council, a group of major insurance companies that is attempting to resolve the disputes between asbestos companies and their insurers and set up a claims facility for handling the underlying litigation more efficiently.

While the group has been meeting since last fall, Mr. Buell's prognosis was not optimistic.

“The patient is rather ill, but not necessarily terminal,” he said, noting he was still hopeful a solution could be achieved.

Also on the panel, Anthony M. Lanzone, a defense attorney with the New York firm of Lanzone & Associates, said that the solution to the asbestos litigation problem must come from within the insurance industry.

“We're not dealing with an asbestos problem,” Mr. Lanzone said. “We are dealing with a slow, eroding sickness that has infiltrated the insurance industry for the past 30 years.”

“We're not equipped to deal properly with a problem of this magnitude,” he added.

Mr. Lanzone said that one result is that primary insurers, excess insurers and reinsurers are “not necessarily marching to the same drum” and are suing each other.

A solution to the problems must come from the insurance industry, he stressed, adding that the federal government should not step in.

But, Mr. Lanzone said the attitude of many insurance company leaders will have to change before a solution will be reached.

“Something has to be done, but it can't be done within the present judicial system and with the attitude of many of the leaders of the insurance industry,” he said.

Plaintiffs' attorney Michael Thornton of the Boston firm of Thornton & Early said that insurers and defendants should stop litigating and start settling cases because companies will not prevail using the defenses they are now employing.

Mr. Thornton said the main defense used in asbestos cases so far is that the defendants weren't aware of the dangers of asbestos prior to studies published in 1964.

But, he noted, plaintiffs have obtained documents and letters that show companies had full knowledge of the dangers of asbestos dust going back to the 1930s and have resulted in verdicts of substantial damages against defendants.

“Yet companies to this day continue to say they knew nothing about it prior to 1964,” he added. “I will never know why companies continue to use this defense. There is no factual defense to liability in these cases.”

Mr. Thornton said that a “much more rational” defense is for defendants to concede liability and address how ill the plaintiff really is. A large percentage of the cases are filed because the statute of limitations will expire soon and these plaintiffs often have little or no impairment, he said.

He also suggested that an insurance policy be made available that allows plaintiffs to return for future compensation if impairment increases. The insurance industry has refused to consider such a policy, he added. ■

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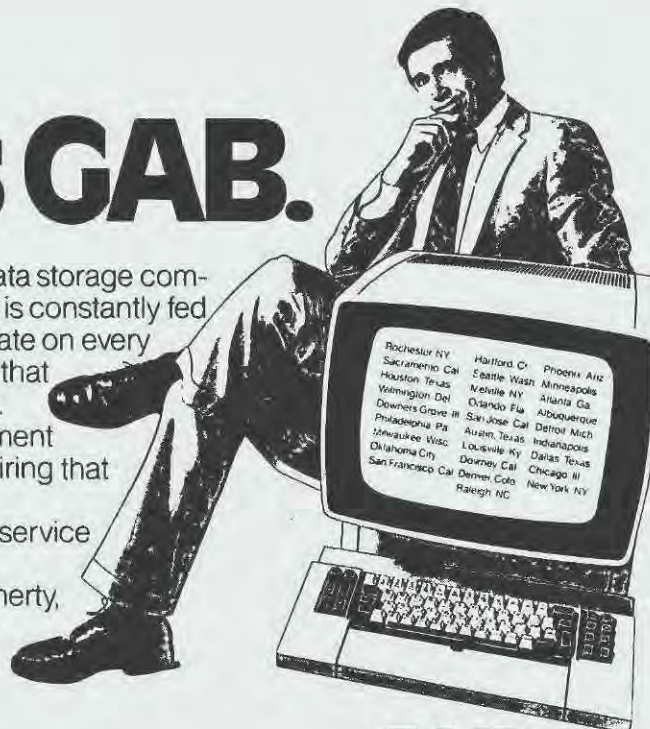
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CLAIMS MANAGEMENT SYSTEMS

Risk managers' computers are only as good as the numbers put into them

By William Berglund

THE RISK MANAGER can reap benefits from using computer-based risk management information systems, including improved cost controls, selected data analyses and greater management effectiveness. Systems have been designed to assist in four primary areas: cost allocation, risk financing, loss control and claims management.

Basically, every advanced claims management system has a computer with a display screen that is connected to a central data base. You can select the information you need from a "menu" on the screen.

Depending on how the system is programmed, the available information ranges from total company trends to very specific pieces of information.

The success of the claims management system depends on many factors.

Of critical importance are the extent and detail of the data fed into the system, the accuracy of the data and the ways in which the data can be used.

The ways data is used forms the basis of selecting a proprietary computerized claims management system, adapting such a system to your own special requirements or developing a system with a staff of programmers, software designers, system analysts and communication specialists.

Perhaps the greatest benefit in using a claims management system is the ability to identify potential problem areas or trends before they get out of hand, enabling you to take remedial action with attendant potential savings.

In addition, you can examine your loss reserves, payment patterns, settlement practices, legal management, medical vendors and other areas that can affect claims.

The following are attributes of an effective computer-based claims management system that you can use to evaluate a system for your company:

- **Efficiency.** A key element in your decision is the results you wish to achieve by using the system as a claims management tool.

What type of claim problems have you experienced that could be better controlled by using such a system? How easy is the system to learn and use? What is the turnaround time, once you have decided what information you desire? The efficiency of the system is directly related to how well it meets the needs and concerns of your company's claims manager.

- **Reports.** What is essential here is, how selective can you be on information you want to see in reports?

To effectively monitor claims, especially if you have a large volume of them, you should be able to review claims of significance, such as those with high reserves or those involving severe injury. The more you have to grind out

data to get the exact report you need, the poorer the system.

Therefore, a system that delivers the information you want in the fewest number of steps should be considered.

You also should determine how you want to physically generate reports. Do you want hard copy on computer paper, letter-quality hard copy on 8½-by-11-inch sheets, on magnetic tape or disks, or on a terminal with a screen or printer?

- **Reserve concepts.** Most systems allow you to select claims to review by reserve amount.

While this is very useful, you may want to choose a system that can provide a list of claims that have had reserve claim changes made within the quarter.

- **Workers compensation.** If you experience unusual frequency or severity activity, your system should be able to separate losses into categories in order to isolate problem areas.

This separation into categories requires careful planning and analysis on your part to establish definitions for future preventive measures for the loss prevention and safety department. You may want to retrieve claims data based on employee's age, type of injury, plant location, or department.

In addition, if you can discover specific pieces of machinery involved in accidents, you can provide in-depth safety training or develop safety features on the equipment. This information could also be used as a basis for subrogation,

hospitals. A number of possibilities exist. A doctor involved in an unusual number of claims or a particular type of claim may require investigation.

Costs for treatment of identical conditions among hospitals could indicate which hospitals are more cost-effective in treating such cases.

- **Monitoring daily activity.** If you use the system for day-to-day progress of claims files, the system should have the capability to establish a diary or suspense date on the individual files. This enables the risk manager to review a general listing of claims that have a specific diary date.

The general listing could call up only a minimum of information, such as the reserves, claimant's name, file number, and so forth, but it should be able to show the entire claim if you want it.

- **Technical capabilities.** Once the risk manager determines what the claims management system should achieve, it is necessary to make sure the acquired system will perform in the company environment.

This calls for an evaluation of the technical and training support from the proprietary vendor, analysis of security requirements of the data, establishment of user controls within the company and thorough documentation of the claims management system.

Obviously, the system will have to be compatible with your company's hardware.

Management of the system will have several other requirements, including a data base backup (to protect your information against loss of the "working" data); provisions to control additions, deletions and changes of the data; and if necessary, integration of data with other corporate information systems.

Be sure to obtain a timetable for installation of the system, training and commencement of operations.

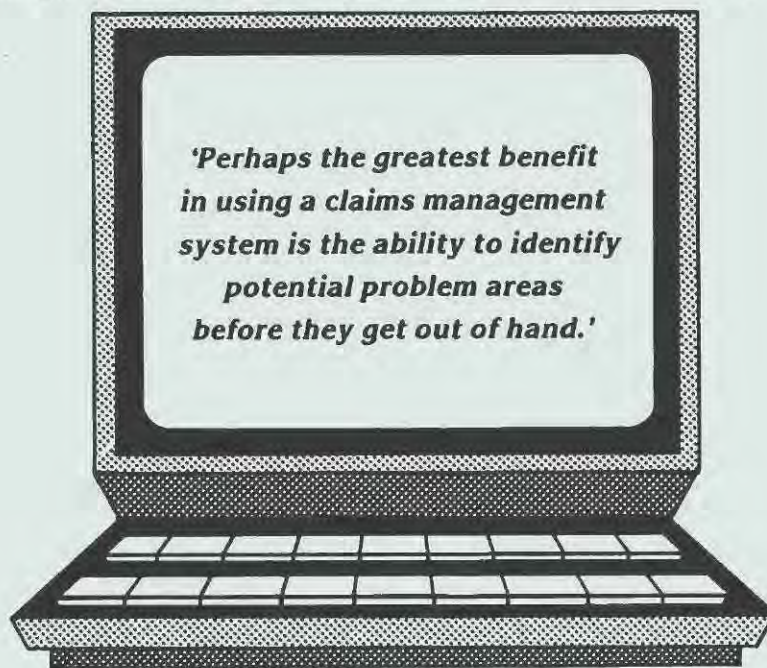
Claims management is growing in complexity, cost and information to handle. A computer-based claims management system, properly selected to reflect your organization's needs, can provide a number of advantages for any insurance buyer.

Many proprietary systems can be tested for the potential user to obtain insights on the ease of access, service on claims and operating use.

It is also possible to modify or enhance existing systems to answer special requirements.

With the managerial and cost control advantages that these systems offer, the prudent risk manager should determine if claim activity warrants these computer-based tools.

If claims can justify purchasing a system, these guidelines may help in screening those now available on the market.



Or you may wish to have your system pick claims that have not had any payment activity within a certain time period. This feature helps identify claims that should be closed.

Another helpful feature is being able to isolate old files that have had recent reserve adjustments.

Since most claims are accurately reserved within 90 days, older files that have been recently adjusted should be researched. These exceptions might uncover a change in liability, or an underinsured co-defendant.

You also should be able to review aggregate claim development. By examining this, you can determine if reserves have been increased across the board by the insurer before year-end or before the retro adjustment period.

Reasonable reserves should be initially established; otherwise, discussion with the insurer may be called for during renewal negotiations.

Another important aggregate inquiry feature is the ability to select claims by injury classification.

This lets you review serious injury cases to determine if reasonable reserves have been established at the outset. A file involving a death claim in litigation may be underreserved at \$1,000, regardless of the liability picture. It is better to identify potentially high-settlement cases as soon as possible, rather than substantially increasing reserves at some later date.

should the equipment then be found defective.

You should be able to retrieve a file for indemnity claims that have had no payment activity within the last 90 days. This indicates the employee has returned to work but possibly there are outstanding medical payments, the adjuster is waiting for an injury to heal, or the adjuster has lost the file.

- **Litigation management.** Since litigation can be a costly area, you may want to analyze the cost effectiveness of defense counsel. This could include tracking court dates and suit settlement dates, as well as auditing law firms in specific areas and cases for payments made and services rendered.

Depending upon the number of law firms that may be involved, you may want to use an open narrative field to list general legal information in order to conduct an alphabetical search for a law firm that may not be coded on your system.

You may want to generate cost-effectiveness comparisons for major law firms in certain areas or for certain cases. All this could lead to improved cost control of claims settlements.

- **Medical vendors.** The same basis of coding and information can be generated for medical vendors.

By proper coding of vendors, the system can provide cost comparisons among specific clinics, doctors or

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

Government plans supply many French benefits

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 state.

Nevertheless, as a result of decreasing social security benefits, private employee benefits insurers and mutual companies are expected to grow considerably in the upcoming years.

Another factor will most likely contribute to this development: The increasingly heavy tax burden is being placed on individual French taxpayers, to such an extent that a number of workers will soon be willing to refuse certain wage increases in return for increased employee benefits.

The initial form of French social security appeared in 1930 as a partial system of socialized benefits limited to salaried employees in industry and commerce who earned less than a fixed income.

The original program was expanded and transformed in 1945, when the current social security system came into being. The system was amended in 1972, 1978 and earlier this year.

The pension benefit paid under social security varies according to age, duration of contributions and average annual salary based on the employee's highest-paid 10 years. However, under no circumstances does social security pay more than 33,050 francs monthly (\$4,030).

To be eligible for a full pension equaling 50% of highest salary, one must:

- Take one's retirement after age 60 but before age 70.
- Have contributed for 37.5 years (or 150 quarters).

Partial pensions are paid to those not meeting these requirements, which is calculated on the number of years worked.

As of July 1983, the minimum annual pension for employees having contributed a minimum of 60 quarters or 15 years was 11,752 francs (\$1,433). Since this amount is less than the minimum monthly level of income for poor people, the pensioner would be eligible for other benefits.

Pensions are paid at the end of

each quarter and are re-evaluated twice a year (Jan. 1 and July 1) according to the official price index issued by the Institution of Consumers, a government department.

Provisions exist for spouses of deceased employees to receive a portion (generally 50%) of the worker's pension under certain circumstances. For instance, the spouse must be 55 years old or older and the couple must have been married for at least two years for the spouse to be eligible.

The state social security program also provides for a lump sum, equal to three months' salary (up to a fixed ceiling)—to be paid to dependents under certain conditions.

For health care costs and disability benefits, the French social security system places special emphasis on the distinction between nonoccupational accidents and work-related accidents and illnesses, with higher benefits paid to those suffering work-related accidents.

For non-occupational illnesses, there are two types of benefits: cash benefits to compensate salary loss and reimbursement of medical expenses.

Cash benefits are payable only to the insured employee. Eligibility depends on the number of hours worked prior to the illness. The employee must have worked at least 200 hours in the preceding quarter to qualify for up to six months of benefits. A minimum 800 work hours in the preceding year, plus social security registration, is required for at least 12 months of benefits.

A daily cash indemnity, equal to 50% of daily remuneration (subject to a fixed ceiling) is paid as of the fourth day of absence, the employer being responsible for paying the first three days to those workers with monthly salaries. Most French employees are paid monthly.

Permanent or long-term disability benefits are provided for under much the same conditions as the short-term disability allowance.

French social security defines the state of permanent disability as: "A disability which reduces earning capacity by at least two-thirds; that is, which prevents the insured from earning, in any profession whatsoever, a salary greater than one-third of the normal remuneration in the same region, for the same category of workers and in the same profession being pursued at the time of work stoppage due to disability..."

Social security recognizes only those occupational illnesses specifically listed in their schedule of payments (like allergy problems resulting from fumes or dangerous industrial products, etc.). Work-related injuries, however, are more broadly conceived as any accident occurring on the premises of employment during, or even in transit to or from, work.

There are two types of cash benefits. Entitlement to those benefits depends on whether the work-related disability is determined to be temporary or permanent.

For a temporary work-related disability, a daily indemnity equaling 50% of daily salary is paid over the first 28 days of illness. This is increased to the equivalent of two-thirds pay after that limit and is re-evaluated every three months. The ceiling is higher in this instance than that of normal illness.

An employee declared permanently disabled as a result of work-related injury or illness is entitled to a special pension. The pension is calculated according to the degree of disability and salary.

In both cases, all medical expenses are reimbursed at a rate of 100%.

Major French life and capitalization insurers in 1982 (in millions of French francs*)

Companies	Gross premiums	Net assets	Profit
UAP (life & capitalization)	7,825	4,195	508
AGF	5,291	1,788	113
GAN (life & capitalization)	4,090	1,739	294
Soravie	1,787	70	10
Abeille-Paix	1,376	294	114
France	1,236	191	1
Cardif	987	85	15
MGF	966	542	59
Vie Nouvelle	942	173	14
Mondiale	913	121	45

*6.7 French francs : \$1 U.S. at year-end 1982.

In case of death due to work-related injury or illness, funeral expenses are reimbursed (up to a ceiling) and a pension equaling between 30% and 50% of the deceased's earnings is awarded the surviving spouse.

Upon remarriage, the spouse receives a final lump sum equaling three years' pension payments.

There also is an orphan's pension for children under age 16 (or age 20 for students) totaling between 10% and 20% of the deceased's salary, depending on the number of children and whether there is a surviving parent.

Medical coverage is another important segment of French social insurance.

Medical expenses reimbursement is available to insured employees as well as to all of their uninsured dependents, with eligibility also determined by hours worked.

Medical expenses are normally paid by the insured employee to the medical facility and the employee is reimbursed afterward by social security.

The amount of reimbursement ranges from 40% to 100% depending on the type of medical service or medicine provided.

For example, there is 100% reimbursement for surgery all types, except cosmetic surgery, 75% for doctors' fees and 70% for abortions.

Maternity benefits are a special category. The insured must have been registered with the social security for at least 10 months prior to the expected delivery date (one month before pregnancy is presumed to have begun).

If the insured is a working mother, she is entitled to 90% of her salary during a total of 16 weeks: six weeks prenatal leave and 10 weeks postnatal leave. For a third child, maternity leave totals 26 weeks: 8 weeks prenatal and 18 weeks postnatal.

The insured can be the husband—either legal or common-law—of the working mother. Women receive the same medical benefits whether they are insured themselves or are insured through their husbands.

All medical expenses connected with pregnancy, as well as follow-up care for the child during the first two years, are reimbursed 100%.

Expectant mothers also qualify for a maternity grant under the Family Allowance program.

In addition to social security, French employees are paid pensions under mandated private pension plans. These plans are operated by over 7,000 mutual companies to which employers and employees contribute more than 20 billion francs (\$2.4 billion) annually. They are known collectively as *Mutualite* 45 and are managed by employers and

employees. They own an impressive number of private clinics and convalescent homes.

These plans were once complementary arrangements designed to provide benefits to supplement those provided by social security.

There are two kinds of these supplementary, obligatory pension plans: AGIRC for salaried employees and ARRCO for non-salaried. Although it initially seems confusing, this split system for benefits for different groups of employees is a logical evolution of certain historic and economic conditions of post-war France.

AGIRC covers generally executive employees, who are junior, middle and senior management employees. ARRCO covers blue-collar workers, including skilled, unskilled and clerical workers.

Contributions to these plans are based on three fixed-salary brackets: Bracket A, the basis for ARRCO contributions; Bracket B for AGIRC; and Bracket C for senior executives' voluntary pension plans.

In ARRCO and AGIRC, contributions equal a minimum 4% and as high as 16% of Bracket A earnings, with that percentage paid 60% by the employer and 40% by the employee.

A 16% contribution of earnings is fairly rare, and is a result of union negotiations with employers for significant benefits. Generally, these contributions rarely exceed 8% for Bracket A, ARRCO-category employees.

Actual pension levels vary from year to year, but effective April 1983, the pension amounts to a minimum of 20% of the average career pay for employees who have contributed to the system for at least 37.5 years.

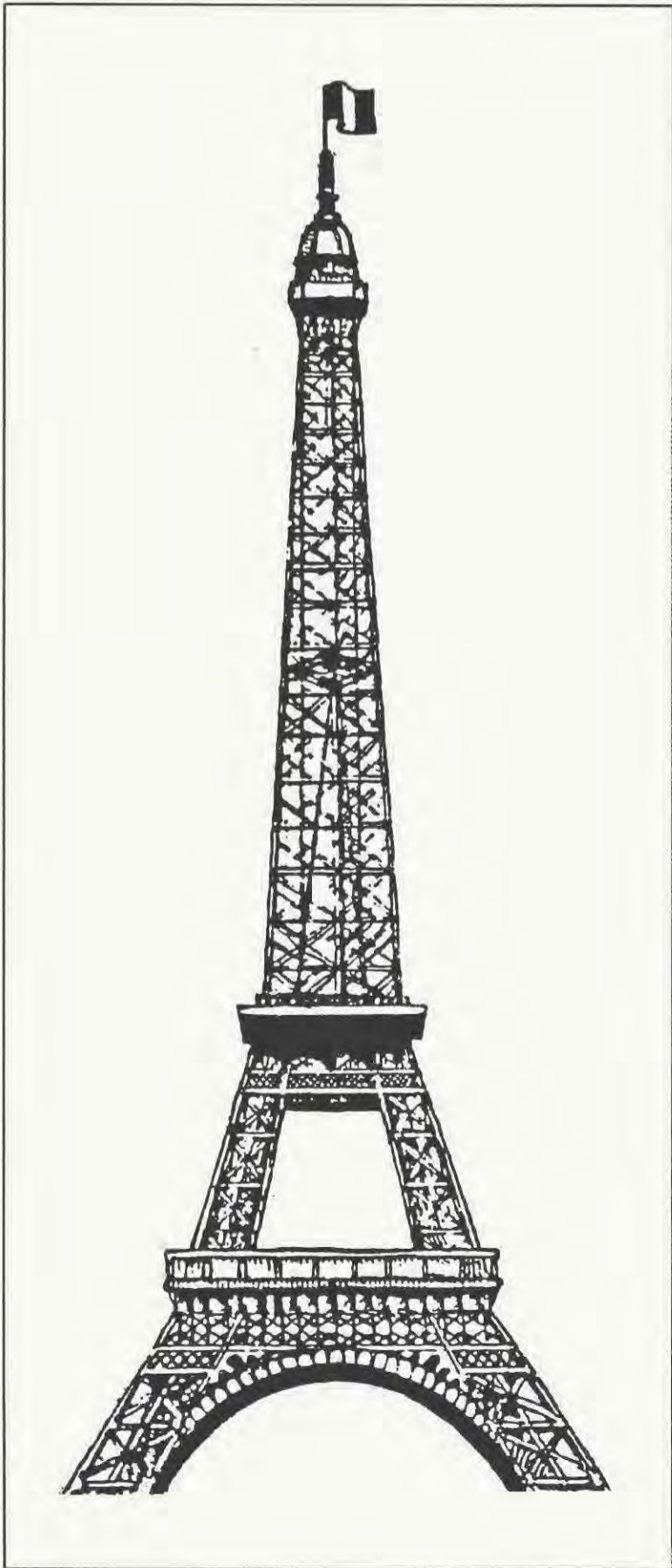
ARRCO also offers widow/widower pensions, orphan's pensions and pensions for ex-spouses.

AGIRC, created in 1947, is basically the same as ARRCO, covering executives whose salary falls into Bracket B, 7,870 francs (\$960) per month to 31,480 francs (\$3,839) per month.

The next bracket, Bracket C, is for executive pensions. Salaries in that group range from 31,480 francs (\$3,839) to 47,220 francs (\$5,759) monthly.

Under AGRIC, the contribution rate is a minimum of 8% of the Bracket B portion of salary (or 12% minimum for companies created after Jan. 1, 1981). This Bracket B contribution is paid 75% by the employer and 25% by the employee.

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Andre Melly is a freelance writer living in Paris who specializes in reporting on the insurance business.

Continued from facing page
ployee. Contributions can exceed 8%, up to 16%, in which case they are then shared on a 50-50 basis.

The AARCO and AGIRC pension programs provide benefits according to the number of quarters worked and salary, not strictly on what an employee and employer have paid into the system.

The plans also function on a pay-as-you-go system, and as a result, the coverage levels are usually inadequate. Rates are standardized and based on all subscribing companies rather than on the demographics of each group, and there is no possibility of profit-sharing if positive experience-rating results.

Although they offer group benefit plans at extra cost, AARCO and AGIRC plans must be seen only as an extension of social security benefits with substantial gaps in lump-sum deaths, survivors', disability and medical benefits, which must be filled by private insurance.

Thus, a typical French employee benefits package will focus on coverage provided completely outside the standard pension plan of social security and AARCO or AGIRC.

Profit sharing is another mandatory part of French benefits.

A law passed in 1967 made a form of profit sharing compulsory for businesses employing more than 100 people and optional for smaller companies. The program becomes obligatory the first year the company averages 100 employees or more.

The percentage of a company's aftertax profit that it must contribute to the profit-sharing fund, known as a RSP, varies yearly depending on the level of dividends the company pays its shareholders.

In most cases, an employee cannot dispose of his or her share of the RSP for five years. There are some exceptions to this: in case of death (employee or spouse), marriage, disability, retirement, or dismissal.

Upon voluntary termination or acceptance of a new job before five years' service, the employee is entitled to his share of the RSP in full.

Since French social security does not cover 100% of medical, death, disability and pension expenses, that leaves room for complementary programs.

Death benefits, for example, can be enhanced with an additional plan.

To provide additional death benefits, employers contribute an amount totaling at least 1.5% of Bracket A earnings. This percentage applies to Brackets B and C salary levels, but usually the cost is shared on a 50-50 basis.

Generally, the additional death benefit would be a lump sum of 150% of salary in brackets A and B for a single person, 200% for a married person and 50% for each dependent child.

As for disability benefits, it is customary for executive benefit

packages to provide from 75% to 90% of salary for short-term and long-term disability. These levels would include the social security benefits, so the employer's plan would actually be paying from 25% to 40% of salary.

For medical expenses, social security reimbursements (ranging from 40% to 100% of costs incurred) are often considerably less than the actual expenses. This is especially true of dental fees and optical expenses. Insurance companies provide plans to supplement these social security benefits.

For supplementary plans, benefit and contribution levels usually are negotiated between employers and labor unions. Contributions range from 1% to 3% of pay, depending on coverage, and are usually split 50-50 between the employee and the employer.

Employer and employee contributions to supplementary plans are tax deductible. ■

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Personnel officials buy most benefits

Who is responsible for buying employee benefit plans in France?

Mainly personnel directors, who have traditionally taken care of signing up employees with social security for various benefits.

In some instances, the company's financial director might do so, and risk managers may, in rare cases, assist the personnel director on a consultation basis.

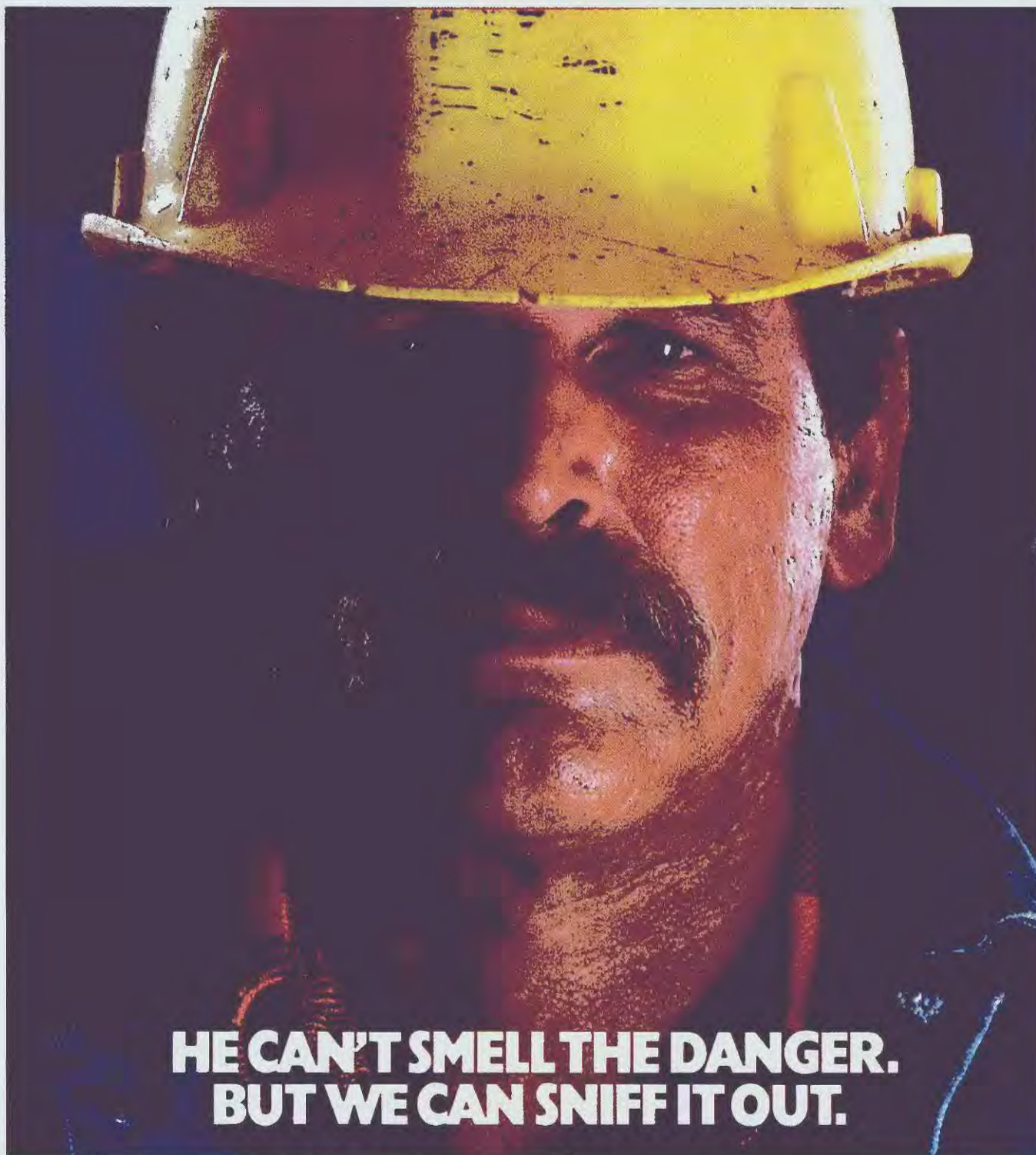
Brokers handle large employee benefits portfolios. These can be medium-sized brokers exclusively specialized in this field, like Cabinet Carbonel, or large brokers, like Gras Savoye, Assurances Verspieren, Groupe Faugere & Jutheau and S.G.C.A. (BI, June 27).

But Gras Savoye, without a doubt, is the broker handling the largest portfolio of benefits business.

In France, more than 2 million households have some form of group life insurance arranged by Gras Savoye. One hundred people are employed in the brokerage's employee benefit department, which includes a team of in-house actuaries—unique among French brokers.

Gras Savoye belongs to two international networks, Euroben and Unison, enabling the broker to work out worldwide programs for multinational clients.

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French insurance

Continued from page 3

12.7 billion francs (\$1.9 billion).

With 14.04 billion francs (\$2.1 billion) in foreign income, France is the world's third-largest insurance exporter following Great Britain and Switzerland, according to a report from the French government. The United States is France's sixth-largest insurance client, ahead of West Germany.

As of Dec. 31, 1982, there were 483 insurers authorized in France. Of these, 400 were authorized to write property/casualty lines and 83 life and private retirement/pension plans or annuities, called capitalization plans in France. By type of company there are:

- Nationalized companies, 10.
- Limited (private) companies, 127.
- Mutual companies, 169.
- Foreign companies, 168.
- Other, or specialized companies, nine.

The French insurance market is characterized by a large nationalized sector, created in 1945 and 1968. This sector represents 43.3% of life and capitalization lines, not including the Caisse Nationale de Prevoyance (CNP)—the National Insurance Fund—which holds 13.9% of the market.

In the property/casualty lines, the nationalized sector underwrites 27% of all premiums.

For all classes of business combined, private limited companies hold the greatest share of the market, 32.5%, ahead of nationalized companies with 31.2%. Mutual companies hold only a 12% share, but this percentage is a poor indication of their actual importance in certain branches, particularly in automobile insurance, where they dominate with 40% of the market.

Foreign companies now hold 3.8% of the total property/casualty market, including personal lines.

Foreign companies also control 7.2% of life and capitalization lines.

In property/casualty lines, foreign companies operate almost exclusively in industrial risks, where they handle more than 27% of the commercial market, excluding personal lines. American insurance companies take third place in terms of premium income, behind British and Swiss companies.

A comparison of the 1982 results for the major U.S. insurers shows how they rank (see chart, page 32).

Foreign insurers have flourished in France, despite the nationalized nature of the industry. In 1981, not one restrictive legislative reform was made. On the contrary, reforms toward widening the insurance industry's scope of action are presently being reviewed, although most reforms will affect personal lines.

The French insurance market is severely regulated; the laws and regulations governing the insurance industry are compiled in the Code des Assurances.

All activities carried out by insurance companies in France come under the supervision of the Direction des Assurances, a government office that has considerable power and a wide scope of action. It employs 450 civil servants and is directly attached to the Ministry of Economy and Finance.

The Code des Assurances and the Direction des Assurances regulate the following areas:

- Licensing, supervision and liquidation of insurance companies operating in French territory.
- Insurance operations, including policies and contracts.
- Obligation to insure locally, with French companies.
- Compulsory insurances.

The Direction des Assurances first intervenes at the creation of an insurance company in France. Administrative authorization is granted by the Ministry of Econ-

omy and Finance, which allows the company to engage in insurance operations. The authorization must be obtained by the company before its begins operation; it also must obtain authorization for any branch offices.

There are two types of authorization to operate:

- Insurers based in France or in one of the nine other countries that are members of the European Economic Community receive an administrative authorization after submitting a plan of operation to public authorities, in accordance with agreements among EEC countries.

Only companies specializing in reinsurance are exempt from this requirement.

- Special authorization is required of insurance companies based in countries outside of the EEC. The Direction des Assurances can require these foreign insurers to meet specific requirements in

order to operate.

Whether from an EEC country or not, all foreign insurers must have an authorized agent who represents them before they can sell insurance in France.

Moreover, the Direction des Assurances may request all foreign-based insurers to provide a surety bond.

Companies whose headquarters are not located in an EEC nation must also post a supplementary reserve, which is 30% greater than the reserve normally required of other companies.

Therefore it is much easier for an American company to establish itself in France through an intermediary of a subsidiary or division located in an EEC country than to do so directly from the United States. The U.S. company can benefit from the liberal conditions set up within the EEC countries.

No insurance company, however, can carry out life and property/cas-

ualty business at the same time on French territory.

This principle of specialization is applicable to any new company establishing itself in the EEC since the directive of March 5, 1979.

The Direction des Assurances also reviews the ongoing business of insurance companies. "Commissaires controleurs," or supervisory comptrollers, examine each company's accounts and verify that laws concerning technical reserves and investments are observed. There are 40 comptrollers in France; on average one visits a French insurer every six years.

In addition, since a July 1973 EEC directive, these comptrollers also are responsible for verifying that companies have a net worth equal to 16% of their premium income.

This rule is applied to all Common Market companies, but inasmuch as standardized accounting methods do not exist among Euro-

pean countries, seemingly equal treatment of companies in each country can vary.

France requires each insurance company to publish its accounts according to identical, very detailed forms called "Etats A."

The Direction des Assurances intervenes when a company stops doing business or is in financial difficulty. The Direction des Assurances handles recovery or liquidation measures, mergers or portfolio transfers.

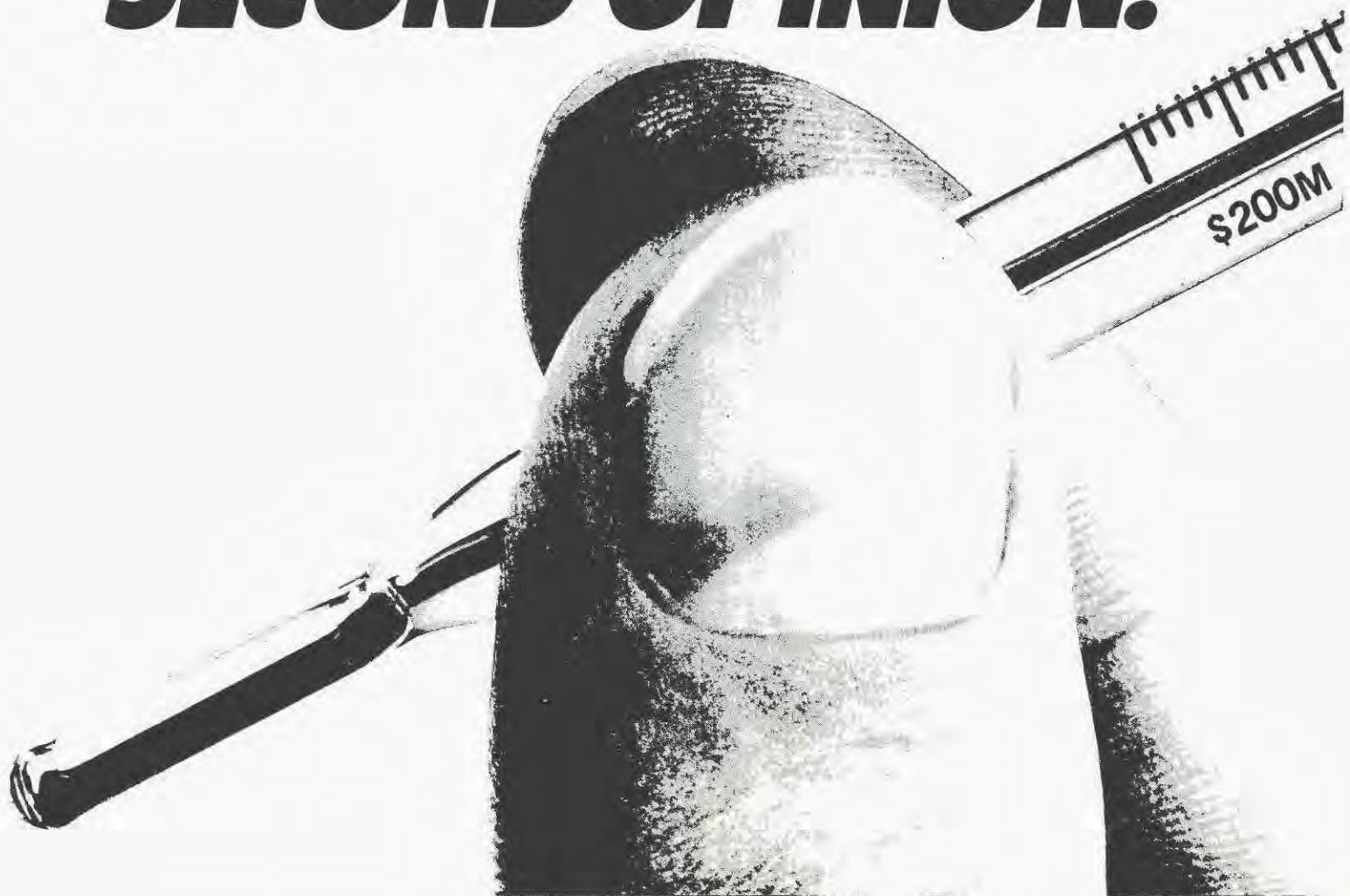
The Direction des Assurances also has a part to play in restricting insurance operations. This is a peculiarity of the French and West Germans among the EEC members, which has caused controversy with Great Britain during negotiations on the freedom of companies to provide services within the EEC.

In France, the insurance contract is governed by legislation codified by the Civil Code and the Code des

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Assurances. Most of the provisions of the Code des Assurances relating to contracts are mandatory and each company must comply. To be legally valid, the general conditions of insurance contracts and all documents destined for the public must be submitted to the Insurance Control Board, a department that is controlled by the Ministry of Finance.

Risks in France must be insured with companies whose operations have been approved in France. Foreign companies established in France must submit to the same regulations as French insurers.

These rules are a source of numerous conflicts between France and the EEC Commission. The commission, referring to the Van Binsbergen Act and the Treaty of Rome, says the French insurance regulations are contrary to the agreements made among the EEC

Continued on next page

Major French property/casualty insurers in 1982 (in millions of French francs*)

Companies	Gross premiums	Net premiums	Combined ratio
UAP	12,111	10,370	114.5%
AGF	7,107	6,150	117.1
MGF	5,866	5,177	118.1
GAN	5,537	4,918	115.6
Preservatrice Fonciere	4,259	3,442	118.8
MAAF	3,771	3,634	111.9
GMF	3,716	3,633	112.3
Groupe Drouot	3,662	2,960	118.0
Abeille-Paix	3,556	2,888	114.3
MACIF	3,467	3,415	111.1

* 6.7 French francs: \$1 U.S. at year-end 1982.

French brokers place most commercial risks

PARIS—In France, large brokers play the most important role in placing commercial insurance.

Numbering approximately 3,000, brokers place more than 60% of all French industrial risks.

And, the 20 largest French brokerages produce nearly 80% of total brokerage income in France.

Most of the large French brokers have commercial or financial agreements with the largest U.S. brokerages (BI, June 27).

Under French regulations, brokers are entitled to produce all categories of insurance business. They act as consultants for policyholders, arranging and negotiating insurance contracts with insurance companies. In most cases, they act as

agents of the buyer for execution of contracts and the settlement of losses.

The rules of professional conduct for brokers are laid down in a written declaration between the insurer and the broker, with special stress being put on the principle of equal treatment for producers by insurers and on the right to commission during the whole period of the contract.

However, the title of insurance broker is not safeguarded by regulation. Furthermore, there is no statute for governing brokers.

Along with brokers, France has three other types of insurance producers. The producer system is outlined in specific provisions in the Code des Assurances—the French law that regulates the insurance industry—that refer specifically to the production of insurance business.

The three other types of insurance producers are:

- General agents of the insurance companies for which they handle business. Their statute entitles them to produce insurance business and to administer insurance contracts underwritten within the scope and under the conditions specified by territories assigned to them.

The general agents, in turn, reserve their production exclusively for their principal. Only such business as cannot be accepted by their principals may be placed with other insurance companies.

In reality, a number of general insurance agents carry on brokerage activities, which for the last few years has posed problems and has led some to suggest that the statute be revised.

These general agents handle the other 40% of the industrial risks not placed by French brokerages.

There are statutes governing the professions of life and non-life general agents. In France, there are 26,000 general insurance agents who employ another 4,000 persons. This is the major system of insurance distribution, with about 45% of the total premiums, but these general agents mainly serve personal lines buyers.

- Salaried producers, 25,200 in number, specialize in the sale of specific contracts such as life insurance and capitalization, or private retirement plans. These plans resemble the annuity plans sold in the United States.

- Agents (not to be confused with general agents) are independent workers appointed by an insurance company to produce contracts. Often, this activity is not carried on full time.

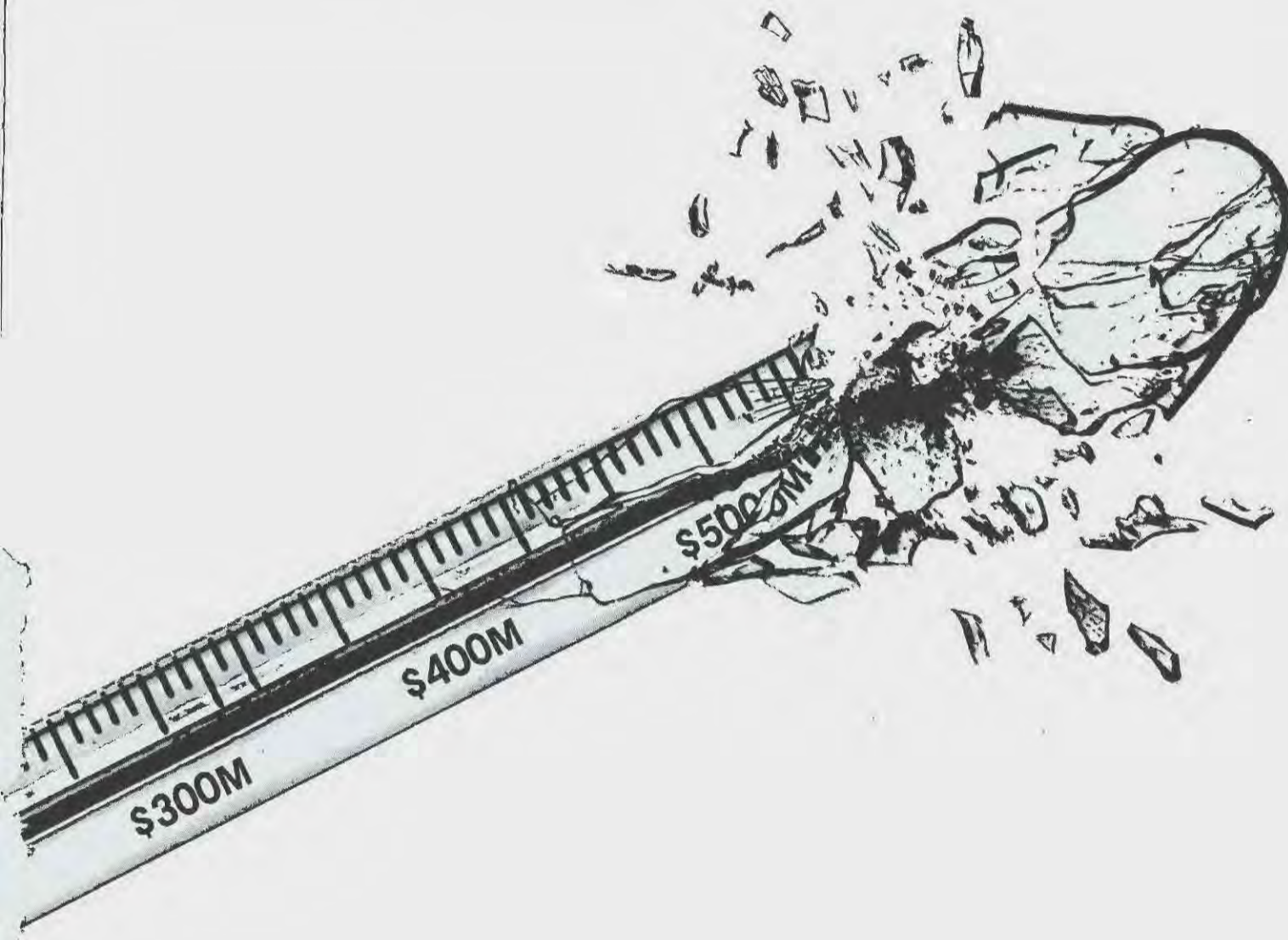
The difference between a general insurance agent and an agent is an essential one. The former is protected by a statute, while the latter is only bound to the company by a contractual agreement that can be terminated at any time.

Certain uninformed foreign companies rather hastily confer the title general insurance agent to their underwriters without realizing to what extent they commit themselves on the French market.

Finally, some companies use the direct-selling system, accepting business directly from a buyer either at its head office, its regional offices or by mail order—without the use of an intermediary.

This form of distribution is especially used in automobile insurance by certain mutual companies, which are responsible for 40% of premium income for this class of insurance.

—By Andre Melly



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French insurance

Continued from previous page
countries.

France, however, is unwilling to lift these barriers until some standardized regulations have been introduced, especially concerning contract law. A conflict here is still under discussion among the EEC countries (BI, Nov. 14).

Reinsurance operations though, are entirely free of these restrictions.

Although there are compulsory insurance coverages in France, there is no complete governmental list of the required coverages. Such a list would be quite difficult to draw up. A review of French insurance law revealed 73 compulsory coverages, including automobile insurance and professional liability for barristers, accountants, driving schools, bonded warehouses, construction projects and certain sports and recreational activities.

In addition, there are indirect compulsory coverages, such as those found in the trucking industry, whose rules include an insurance clause that is not based on any legal text.

Before a business can operate in France, it must have proof of compulsory and indirect compulsory coverage.

Since June 1982, some types of coverage must be included in certain insurance policies.

For instance, the law calls for including coverage for natural catastrophes in all fire, automobile and homeowners policies (BI, March 28).

An industry agreement, made at the request of public authorities, requires similar compulsory coverage of material damage due to acts of terrorism.

Coverage for natural catastrophes came about when victims of natural disasters complained about not being compensated. This coverage is not subject to any technical rating chart; its cost is spread over all industrial, automobile and homeowner policies written in France. The cost is usually added as a surcharge to those policies, of about 9% of premium.

Claims can be filed only by policyholders in an area designated as a disaster area under a ministerial decree.

The floods of November 1982 and April 1983, the severe storms of December 1982 and thunderstorms this summer caused damage in 88

of France's 94 regional departments, which are similar to state divisions.

According to present insurer figures, total claims for natural catastrophes will be more than 3.5 billion francs (\$427 million at current exchange rates) by the end of 1983, while premium income will reach only 2 billion francs (\$244 million in 1983 exchange rates).

Since the loss experience is so hard to predict and claims have exceeded premiums, reinsurers have refused to reinsure this risk. A state-owned company, the Caisse Centrale de Reassurance, is now the main body that handles reinsurance of natural catastrophes in France.

With its nearly 73 types of compulsory insurance, France has by far the greatest number of any of the European countries. France is followed by Belgium (33) and West Germany (22).

Among these types of compulsory insurance, personal auto insurance is the most important, because it alone represents 27% of total premium income for personal property insurance in France.

Compulsory construction insurance, required since January 1979 but whose rules were revised in 1982, is unique to the French market.

Construction insurance has a two-part obligation:

- Obligation for the owner who is building to insure itself against any damage likely to affect the building under construction.

This type of property insurance accelerates claims payment to the insured before determining responsibility of a third party. Payment is made within 150 days after the claim has been filed.

- Obligation of all other parties involved in construction, such as architects and even certain manufacturers, to insure themselves against liability. This coverage is a kind of professional liability insurance. It pays the builder or an insurer if one of these parties were found responsible for the damages or injury.

The liability insurance is valid for a period of 10 years.

A single construction policy (police unique de chantier) has been marketed to fulfill both obligations. This policy, which can be written by one insurer, contains all compulsory coverages related to construction insurance. It is usually purchased by the building owner who then makes an agreement with contractors and other involved in construction for premium payment.

In 1979 alone, premiums for construction insurance increased four times. By 1982, about 3.7 billion francs were paid for this coverage (\$552 million at year-end 1982), compared with 4.6 billion francs for marine transport (\$687 million) and 6.1 billion francs for liability insurance (\$910 million), for example.

Although the Code des Assurances and the Direction des Assurances guides the French insurance market, professional organizations also research risks and disperse information to the market.

As in all countries, there is a rather well-developed professional association called the Federation Francaise des Societes d'Assurances (FFSA). This association coordinates various classes of business, is in charge of performing technical studies and researches statistics that insurance companies use to help them set their rates.

The technical committees of the FFSA are:

- APSAIRD (Assemblee Pleniere des Societes d'Assurances contre l'Incendie et des Risques Divers) or Fire Offices Committee. Since 1980, rates on commercial premiums published by the APSAIRD are done so only as a reference basis. Previously, insurers used these as guides for fire rates.

- AGSAA (Association Generale des Societes d'Assurances contre les Accidents) or General Assn. of Accident Insurance.

Likewise, the rates provided by the AGSAA are only reference points because of pricing freedom in automobile insurance instituted in France on Jan. 1, 1979.

- La Reunion Vie or Life Insurers' Assembly, which prepares mortality tables for determining rates, rates of interest and loadings.

- CCAMF (Comite Central des Assureurs Maritimes de France) or Central Committee of French Marine Insurers. These French marine insurers are guaranteed business because French law requires ships flying the French flag to be insured for at least 80% of the hull value with French insurers.

The other 20% may be insured with non-French insurance companies.

The CCAMF says that this enables the payment of claims in record time.

- Groupement Technique de la Branch Capitalisation, or The Technical Committee of Capitalization. The group organizes and conducts professional seminars for capitalization companies, which are insurers writing private retirement plans.

- Syndicat des Compagnies Francaises de Reassurance, or The Reinsurance Companies Assn.

- Bureau des Compagnies Francaises de Reassurance, or Joint Office for Group Life Insurance.

There also exists a certain number of insurance and co-reinsurance pools to which the market's major companies have given management for underwriting special risks that often require very large capacity.

Among the noteworthy pools are:

- The machinery breakdown and contractors' all risk insurance pool.

- The French atomic risk pool.

- The hail co-reinsurance pool.

- The Reunion Francaise and Reunion Europeenne, which are the marine and transport pools.

- The Reunion Aeriennne, the aviation pool.

- The Reunion Spatiale, the space risk pool.

- The industrial pollution risks pool.

- The construction risks pool, whose role has been reduced since the beginning of 1983.

These groups have played a considerable part in developing the international presence of French insurance companies. This is particularly true of marine and aviation insurance.

For instance, in the transport and marine pools, 10 or 20 insurers transferred their transport and marine risks to those private pools. In turn, the pools act as underwriters and administer the coverage for the companies.

However, those pools represent a small amount of the market. Marine and transport pools comprise only about 4.5% of the French property/casualty market.

Perhaps 6% of the marine companies participate in the marine pool.

Many companies do not use pools. And, the pools are not used by companies writing personal lines. ■

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agent/broker topics

A regular editorial section exclusively for agents and brokers

Chicago agency branches out

Innovative ideas help 4-person firm grow to 50

By PAMELA DeFIGLIO

CHICAGO—When a Hollywood studio was searching for a site to film "Risky Business," they decided on agent Robert M. Schrayer's house on Chicago's North Shore.

In the movie, a high-school senior and a classy hooker rake in \$8,000 in one night by teaming up his wealthy buddies with her professional colleagues at a wild party. In the end, however, he loses his money just as quickly as he earned it.

Mr. Schrayer, however, prefers less-exciting and more-reliable business practices at his own agency, Robert M. Schrayer Co. in downtown Chicago.

That's not to say that the agency is stodgy or conservative. Its operating plan is peppered with innovative ideas like compensating producers by salary plus a share of the profits, an emphasis on loss-control engineering and third-party self-insurance administration programs and an early and extensive use of computers.

Schrayer is a medium-sized agency trying to solve the age-old dilemma of agency size by trying to pick the best from both worlds.

Having left a large agency to start his own four-person office, which has since grown to 50 employees in 12 years, Mr. Schrayer has some perspective on the advantages and liabilities of both large and small businesses.

"I want to be a big agency, but with the characteristics of a small agency," says Mr. Schrayer. "It's important to maintain the personal service and personal identification with customers."

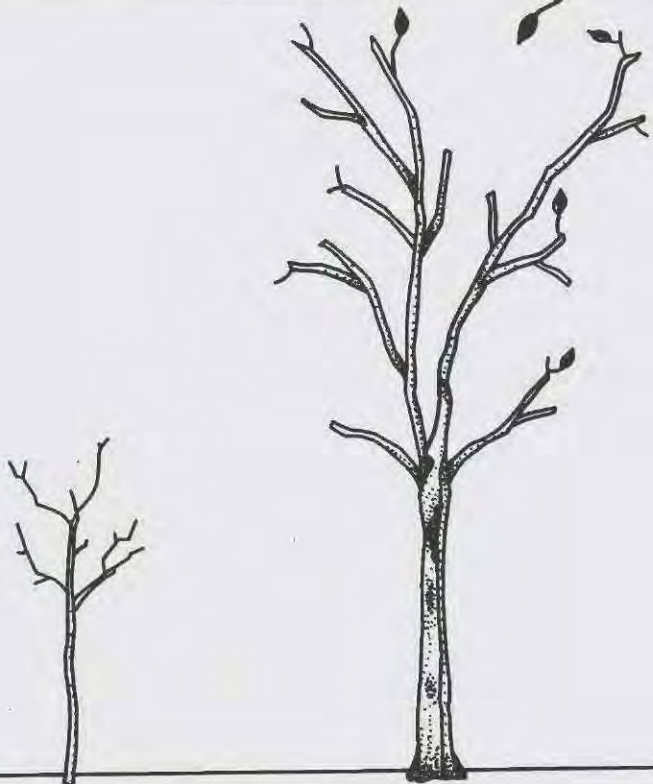
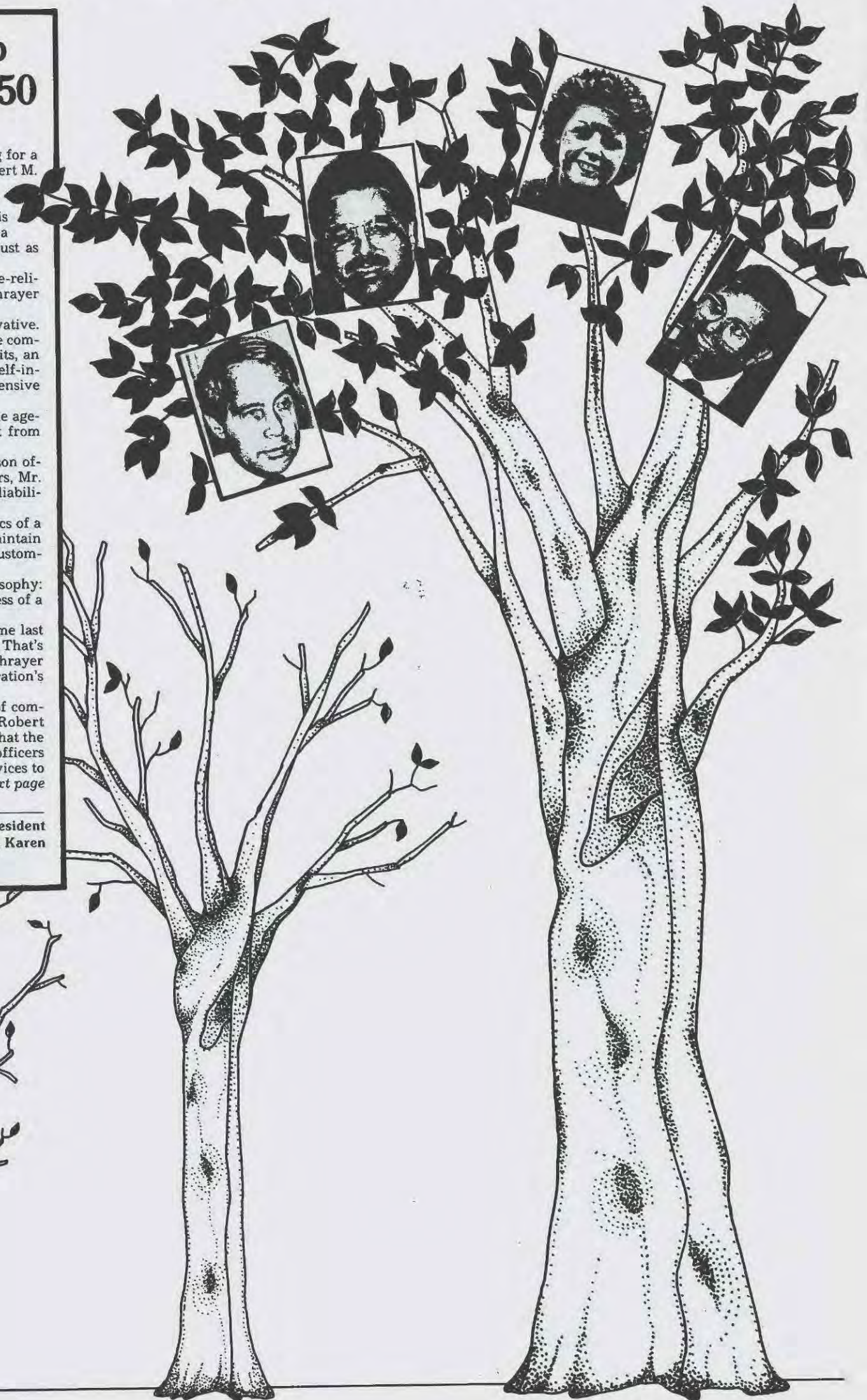
The agency's advertising slogan reflects this philosophy: "The sophistication of a large agency; the responsiveness of a local broker."

The agency generated \$20 million in premium volume last year, which resulted in gross revenues of \$2.2 million. That's double the premium volume of five years ago, Mr. Schrayer notes, adding that he believes the privately held corporation's revenues will increase 5% to 10% this year.

About 80% of the agency's client base is composed of commercial lines customers. Account Executive Max Robert "Skip" Schrayer III, Robert Schrayer's son, explained that the agency tries to write personal lines coverages for the officers of its client companies, as well as sell its fee-based services to

Continued on next page

Robert M. Schrayer Co.'s four founding staffers: President Robert M. Schrayer, left, and Senior Vps Steve Ballis, Karen Vacko and Howard Engel.



Chicago agency branches out

Continued from previous page
commercial clients.

"We like to do it all," he commented.

Skip Schrayer characterizes the agency's commercial clients as "medium to large, privately or family-owned." About 80% of the business is located in the Chicago area, and most of the clients are headquartered there. They range from small retail and wholesale businesses to real estate, professionals, light commercial business and heavy manufacturers and from 10 employees to 1,500.

Mr. Schrayer notes that his clients' annual premium costs range from a few hundred dollars to \$3 million or \$4 million.

Steve Ballis, a senior vp of the agency, notes that Schrayer manuscripts many policies, given the size of its clients. In fact, three or four

clients, which together make up about one-third of the agency's premium volume, have approximately 80% of their coverage manuscripted.

Robert Schrayer describes such service and attention to clients as the agency's drawing cards.

"People here are responsible for maintaining direct communication with customers. They're service-oriented," he says.

One of the ways in which Schrayer believes it delivers that service is through a strong loss-control program. The agency retains a full-time loss-control consultant—and uses others on an as-needed basis—to curb clients' losses.

"I believe we have to maintain people's costs for insurance at a reasonable amount," he says. "And I think there are two ways to do

this. One, you can shop the hell out of the market, and get companies to knock down prices. This backfires, though, because the companies will get to hate your clients.

"The second way is to keep losses down. If we can provide competent loss control and engineers, it helps keep losses low. And this way, we won't alienate the markets. Instead, they'll love it.

"We can make our clients the best risks around."

One client that Schrayer took on, a high-priced video equipment and computer retailer, had a serious employee theft problem, he notes. Schrayer's loss-control consultant and the client's operations manager inspected the location and recommended guidelines on where employees should enter and leave the store and how invoices should be numbered and handled.

The plan was implemented and initial results indicate that it is successful, says Skip Schrayer.

Another client, a manufacturer, had an experience modification of 2.0, compared with the normal 1.0, when it came to Schrayer. Within about three years, Schrayer managed to lower the experience modification to 0.85 by making each division of the company accountable for its own losses, he explains.

Before, all of the company's losses were lumped together and none of the division managers felt any necessity to control them.

In addition, the agency recommended that it hold monthly safety meetings, review every large claim within 10 days after it happens and make quarterly reports to management about workers compensation claims.

Another area of service in which Schrayer specializes is controlling medical costs for group health insurance.

"We think we can control the increasing cost of medical coverage. Not eliminate it altogether, but

stem the increase," Robert Schrayer says.

About seven years ago, Schrayer began advising its clients to self-fund employee benefits as a way to save on escalating costs, although it recommends that they buy adequate stop-loss insurance to protect themselves from catastrophic claims costs.

Schrayer has also started a third-party administration subsidiary to handle claims for its self-funded clients, charging a fee for its services. Skip Schrayer says that this subsidiary, RMSCO Management Services, brings in 10% to 15% of the agency's revenues.

Besides paying claims, RMSCO also audits hospital bills and other claims, recommending outpatient services whenever possible and provides other consulting services (see story, page 30F).

Schrayer even plans to add a full-time nurse to the staff to review hospital bills and suggest alternative health-care procedures for clients.

A big part of the reason that Schrayer can offer its clients sophisticated loss-control and claims administration services is its computer proficiency. In 1976, when computers were still an unfamiliar novelty to most agencies, Mr. Schrayer decided that automation would make the agency more streamlined and efficient.

"My father saw the possibility for improving our business, and he's always been interested in technical advancement," says 25-year-old Skip Schrayer.

Although many of Mr. Schrayer's colleagues believed the agency would not be able to afford the overhead of a computer, since it was widely believed that a computer required a full-time programmer, Mr. Schrayer bought an IBM 64 computer.

Skip Schrayer wrote the programs for the third-party administration division while obtaining his masters in management from the J.L. Kellogg Graduate School of Management at Northwestern University in nearby Evanston, Ill. The agency also bought accounting and marketing programs from a large agency in California.

Later, Skip Schrayer designed a property/casualty claims program for the IBM 64, by which the agency could compare the ratio of premiums to losses for each client, insurer or salesperson. He also wrote a sales program and several specialty programs for clients with unique needs.

For example, one client self-insures its fleet of 200 autos for auto physical damage, but Schrayer still keeps track of losses and repair bills so that they can report to the client monthly and determine whether or not the client is saving money by self-funding.

Skip Schrayer, who is the agency's computer expert, says he is pleased with the performance of the computer, which was installed in 1977. "Eight years later, we're finally growing out of it," he said. "It was excellent—it allowed us to extend our capabilities."

The agency plans to add a second computer this month, because Skip Schrayer says that two smaller computers are more efficient than one large one with equivalent capacity.

"When we make a bigger investment in computers, we'll use people more efficiently," he says, explaining that it takes three days for a person to type 100 certificates of insurance, but it requires only an hour or so on the computer.

"Our biggest expense is payroll, and if we can make employees more efficient, we can save money," he adds.

Twelve years ago when the agency was founded, payroll expense was relatively minimal. At that time, Robert Schrayer had just broken away from Associated

Continued on page 30D

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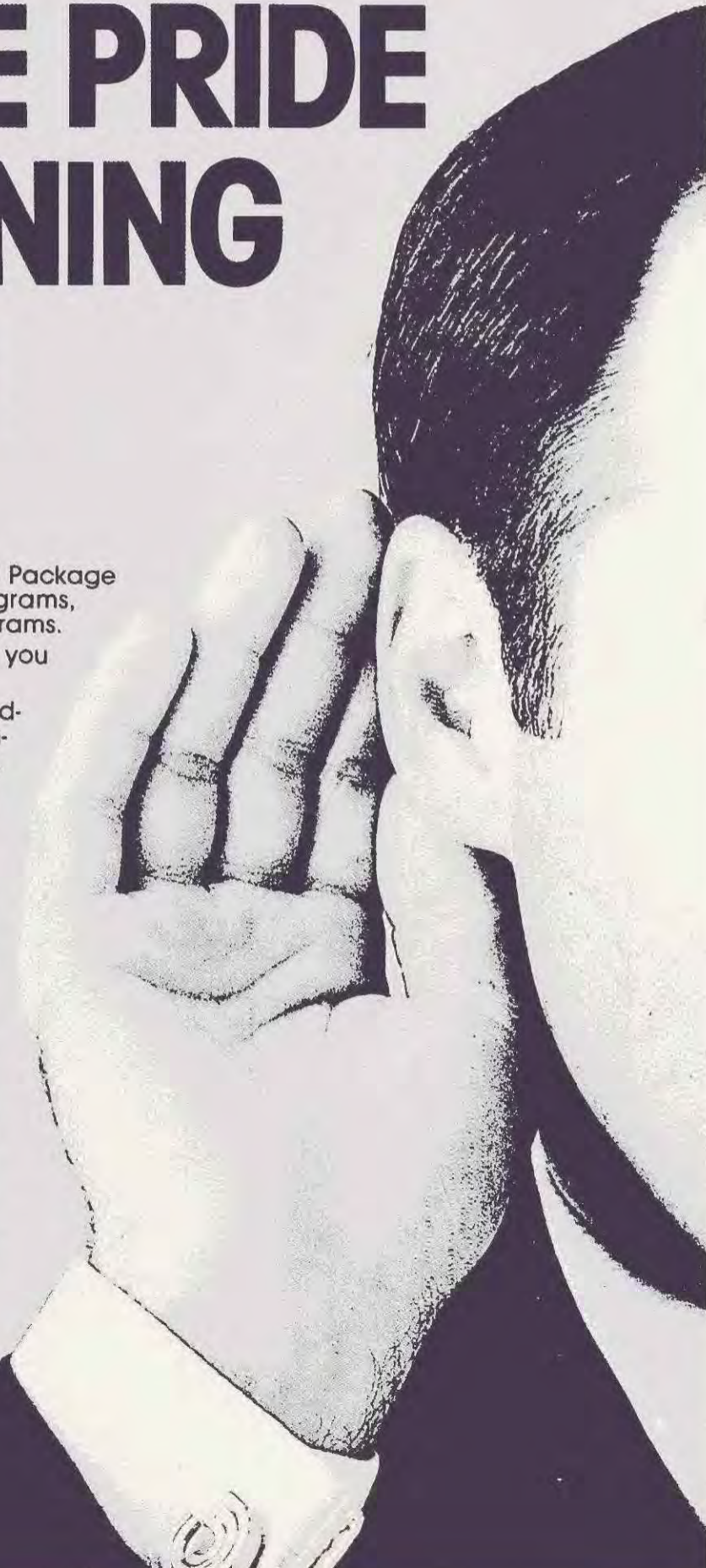
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Agency began with 4 staffers

Continued from page 30B

Agencies Inc., a large agency owned by his father and brothers-in-law. Although he had been a partner at Associated, other partners had much more experience than he did and the possibilities of rising to the top looked bleak, he notes. "Sometimes you just want to do things on your own," Mr. Schrayer adds. "I thought we could do things more creatively."

When Mr. Schrayer broke away from the larger agency, he took with him two other Associated employees—Howard Engel and Karen Vacko, both of whom are now Schrayer senior vps—along with some accounts.

The trio, plus a secretary, hustled to get by in the early days. "Our weekly payroll now is about what our total income was the first year," Mr. Schrayer recalls.

The fledgling agency built its revenues three ways, he explains by luring new clients, by selling additional coverage to existing clients and by acquisitions. In the future, Schrayer is planning to continue its growth by expanding into mass marketing and selling insurance to affinity groups, he says.

About 1976, Schrayer made its first acquisition of a small agency. Over the years, it acquired six more in a comprehensive acquisition program (see story, page 30G). "Today we can acquire and absorb an agency with relative ease," Mr. Schrayer points out.

Schrayer made an effort to retain most of the employees from agencies it acquired, and this policy has paid off handsomely in the quality of employees the agency is able to hire and keep. At a time when many agencies are struggling to

find good producers, Mr. Ballis, a senior vp, noted that Schrayer has snapped up several excellent employees through acquisitions.

Mr. Ballis says that Schrayer has no formal training program for its 11 producers, and that each is allowed to use whatever methods work best for him or her.

"Some producers spend more time with medium-sized accounts, and others feel more comfortable with large manufacturing risks. Everyone finds their own level. But all are successful at what they do," he comments.

"We go out of our way to get people that are multifaceted. Our producers are doing more than just producing; sometimes they market as well. You need people that can think on their feet."

This attitude stems from Robert Schrayer's philosophy on how producers should function. Traditionally, there is a chain of communication from client to producer to

marketer to insurer, he notes, commenting that it's inefficient.

Schrayer does things differently. Although Schrayer producers spend the majority of their time serving their clients, they also work directly with insurers.

For example, Senior Vp Karen Vacko spends about 80% of her time talking with clients and 20% dealing with markets. Conversely, her assistants spend 80% of their time on the phone with insurers and 20% helping clients.

"I think this system's unique in the insurance business," says Mr. Schrayer. Clients, he explains, find it hard to believe that an insurer won't write whatever they desire, and if clients can't get the coverage they want, they tend to blame the agency's marketing person for failing to come through.

"But if the producer has market contacts, in the end the client gets a better product," he comments.

Clients also tend to trust pro-

ducers more because they usually have more contact with them than marketers. "The fact that Karen knows market conditions helps because clients tend to believe what she says about the market," Mr. Schrayer adds.

"If marketing people never talk to the client, they never get a feel for what a client wants. Knowing a client's attitudes makes marketing people more sympathetic to producers' problems."

Mr. Schrayer adds that it's beneficial to have several people in the office who know a client's account, because they will always be able to reach someone who can help them.

Schrayer's employees don't work on commission, but on a rather unique salary-plus-profit-splitting method of compensation. This system applies to everyone in the agency, from the receptionist to accounting department staff to marketers and producers.

Mr. Schrayer feels that all of the employees, not just the producers, contribute to obtaining and retaining business by being courteous.

"If the receptionist is nasty to a customer, that's going to make a bad impression, and nothing I can do will erase that," he explains.

To divvy up the profits of good work and courtesy fairly, Mr. Schrayer groups the staff into units, each headed by a producer. Each unit functions as a miniature profit center. If a unit adds business, it increases its gross revenues. If it wants to add staff, however, that increases expenses, which are charged against it.

"I credit a producer (unit) with commission income earned on the business they took care of," says Mr. Schrayer. "And I charge them for direct and indirect expenses of the unit and share the unit's profit with them."

The fact that producers are salaried has another benefit, Mr. Schrayer explains. In agencies where producers work on commission from their own accounts, they are often reluctant to assist other producers who may be out of the office or just need help on a particular account, because they earn nothing from it. Producers on salary are paid by the agency and are thus more willing to help out their colleagues.

Mr. Ballis describes the agency's management style as "giving people the support they need to do the job—maximizing the potential of the individual by giving them the tools they need to do what they do best."

Schrayer is organized into eight departments: commercial lines underwriting (10 employees); claims and loss control engineering (1 employee); RMSCO (6); individual life and health (3); personal lines (5); group health and life (3); word processing, accounting, computer and other support staff (9½); and sales (11). In addition, there are some part-time employees.

Ms. Vacko says that the structure is flexible, however, and that staffers regularly call on other employees for their specialized skills. For example, she says she called on Mr. Ballis' communications expertise recently in preparing an informational seminar, and she calls on Mr. Schrayer, whom she describes as her mentor, for help in selling and servicing accounts.

Also, she and others at the agency regularly make use of Mr. Engel's specialization in ocean marine insurance.

"One of the things I've found here is that we're strong individuals, but we're all team players," Ms. Vacko comments.

Mr. Ballis concurs that the employees seek out those with specialized knowledge or skills for help. "We do our best to know each other well enough so we can turn to each other for help. "There's a lot of positive kibitzing here. There's interaction and a feeling of closeness." ■

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Broker expands medical claims handling

By PAMELA DeFIGLIO

CHICAGO—The problems caused by high medical insurance costs are getting worse and worse, but that means things are getting better and better for RMSCO Management Services, the third-party administration subsidiary of The Robert M. Schrayer Co.

About seven years ago, the agency's producers began advising commercial clients to self-fund their health insurance plans, and the agency formed RMSCO to administer the claims.

Now, the unit combines a stringent cost-containment program with its claims-handling function for its approximately 30 clients.

And, Schrayer is finding that RMSCO can complement its more

traditional agency business. Some clients that were first attracted to RMSCO have since bought property/casualty insurance from Schrayer, and some of Schrayer's present clients have bought service from the third-party administrator as well.

Schrayer producers recommend RMSCO services to their current and prospective clients, says Julia Willis, RMSCO's manager. If a client is interested and seems like a promising candidate for self-funding, Schrayer Account Executive Skip Schrayer says he looks at the client's current health insurance program and claims record.

He analyzes the type of plan the client has, as well as the client's employee base, its health care costs, its financial stability and its em-

ployee benefits philosophy.

"... We think (medical) costs will go up 30% a year, and they must do something about it. We won't save them money, but we will reduce their cost increase," Mr. Schrayer says.

If a company has more than 300 employees, it usually makes sense to self-fund employee benefits, he notes, adding, "The larger the company is, the better chance I'll recommend self-funding."

The next step in developing a self-funded plan is to obtain quotes from insurers for necessary stop-loss coverage to protect the client from catastrophic claims costs.

If the client decides to take the plunge, Schrayer and the client pick an effective date for the self-funding arrangement. RMSCO

helps communicate the new benefit to employees and invites the "administrator," an employee whom the client has appointed to act as liaison, to its offices to familiarize him or her with the agency's procedures.

Since the main purpose of self-funding is to save the client money, RMSCO stresses cost-containment procedures in its administration activities. One way of doing this is to comb hospital and doctor bills for unnecessary and inappropriate charges. RMSCO reviews the bills before, during and after the hospital stay, but finds that the first two are most effective, since it's hard not to pay charges that were already incurred.

RMSCO also requires a second opinion when a doctor recom-

mends non-emergency surgery.

The cost-containment program tries to educate employees to be smart medical consumers by paying more when the insured receives outpatient treatment rather than inpatient (when feasible), avoids spending weekends in the hospital and undergoes simple treatments in the doctor's office rather than the hospital.

Since the implementation of some of these cost controls requires medical expertise, RMSCO hires nurses and doctors to serve as part-time consultants and plans to hire a full-time nurse.

"Now, we have hospitals, doctors and patients with no incentive to reduce costs, because everything is being paid by the insurance company," said Mr. Schrayer. "I think insurers have been remiss in not doing something about this and they will in the future, or they will start losing business."

"We're all very excited about RMSCO. We think it's a tremendous area of new business for us."

Skip Schrayer's father, Robert M. Schrayer, the agency's president, notes that by producing prompt, computer-generated management reports for the previous month, RMSCO can keep track of health care trends for any client.

While RMSCO is capable of producing such specialty reports, its main function is to review all claims presented to it by clients' employees and decide whether or not they should be paid. Ms. Willis has five adjusters on her staff, all of whom adjusted claims for large insurers before they came to RMSCO.

"We offer closer scrutinization (of claims) than a large company," Ms. Willis says, adding that its system is designed to give clients a quicker turnaround than others.

"We're allowed to pay as many as nine providers (such as doctors, hospitals, radiologists) on one claim," she notes. "And if a claim is disallowed, we have standard letters that go into the reasons: over reasonable and customary charges, pre-existing conditions, medically unnecessary, things like that."

"The letter explains what the terms mean and tells the insured of his right to appeal. And the adjuster only has to punch a three-digit code to print out such a letter. All this cuts down on processing time."

Ms. Willis says she prefers the smaller size of RMSCO to the mammoth insurance company she worked for previously, because she can actually get to know and care for her clients.

"It's smaller; there's a personal touch. You're able to get to know the people in the groups. I could tell you their medical problems—they're not just numbers to me."

RMSCO's smaller size has a practical benefit, too. She says RMSCO experiences few duplicate payments or overpayments because each adjuster knows the accounts so thoroughly that she can often tell when a payment is suspect.

Ms. Willis and other RMSCO adjusters usually begin to work with an account shortly after the decision to self-insure is made. RMSCO staffers attend client-producer meetings to share their expertise and customize the clients' plans. Many clients are unaware of all the options a self-funded plan can offer, and Ms. Willis says she tries to offer suggestions.

Both RMSCO and the clients face thorny ethical issues when deciding what should and shouldn't be covered. Skip Schrayer explains that it's sometimes hard to determine what treatments are medically necessary and what non-medically necessary treatments should be covered.

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WE'RE LOOKING FOR BETTER WAYS TO HELP YOU SELL.

Acquisitions help Schrayer's business grow

CHICAGO—To The Robert M. Schrayer Co., acquisitions are a give-and-take situation.

The Chicago agency gains both producers and clients from acquisitions and uses the increased business and employees to further its growth. However, the agency has developed a system to ensure that those who sell smaller agencies get a fair shake, too.

"I'm very enthusiastic about growing by acquisitions," says President Robert M. Schrayer. "We've had good relationships with the people and the insurers of agencies we've purchased. It's been financially good for both us and the acquirees."

To finance agency purchases, Schrayer uses a variation on the "multiple of annual agency commissions" rule. He says it evolved from "what I thought was fair and what everybody else thought was fair."

"I suggest to the seller that we pay them a multiple of the agency's commission income—not only on that day, but as it varies over a five-to-10-year period," depending on the seller's wishes.

Suppose, he explained, that an agency with \$1 million in annual premium volume had commission income of \$160,000. The traditional method of figuring the price would set it at some multiple of commission income—for example, 150% of income would be \$240,000.

With Schrayer's system, however, they would pay the seller 30% of the commission income the seller generates each year for the next five years, again working out to 150%. This incentive program motivates the seller to build his book of business at Schrayer during the five-to-10-year absorption period, since the sale price can be increased by the amount of business built.

For example, an agency principal agrees to sell his agency, which

earns \$160,000 in commission income per year, over a five-year period. He becomes a producer for Schrayer, maintaining and servicing his book of business while adding new clients.

The second year, his commission income rises to \$170,000. It hits \$185,000 the third year, \$195,000 the fourth year and \$200,000 the fifth year.

The agent's five-year average commissions work out to \$182,000. Thus, the seller would ultimately receive 150% of this figure, or \$273,000, instead of 150% of the original commission income, or \$240,000.

Mr. Schrayer places great faith in this system to encourage newly-acquired producers to surpass their previous earnings. "It puts pressure

on them to help make the business grow," he says.

Agents often sell out because they are embroiled in problems with accounting or some other administrative function, he explains. When they become part of Schrayer, the firm takes over these administrative problems, leaving the producer free to produce business.

"When they sell to me, I divest them of responsibility. We worry about claims, personal lines, the receptionist, overhead, accounts receivable and things like that. I reduce their scope of responsibility to only getting business and servicing business," he says.

Agents that had small offices also reap the benefits of Schrayer's larger size and resources—like loss-

control services, claims, computer reports, etc.—without having to make a large investment.

So far, none of Schrayer's acquisitions that used this payment formula has completed the five-to-10-year absorption period, but the first one is approaching maturity. Mr. Schrayer says that this producer will stay on at the agency and get a new incentive program to tackle.

The acquisitions, in order, include:

- The estate of Joseph Mayer of Skokie, Ill., in 1976. One principal and one employee remain at Schrayer.

- The estate of Robert Stone of Robert Stone Ltd. in Chicago, in 1978. His widow, Barbara Stone, and three employees are still at Schrayer.

- Ballis & Ballis Inc. of Chicago, in 1979. Steve Ballis and his uncle Pat Ballis are producers at Schrayer, and one employee remains with the firm as well.

- Engel & Kahnweiler of Skokie, Ill., in 1980. Both producers remain with Schrayer.

- The estate of Jack Goldman in 1982. Mr. Goldman had been a life insurance producer, and Schrayer bought the small group business, which it handles for Mr. Goldman's widow.

- Marvin Jacobs & Son Ltd. of West Chicago, Ill., in 1983. Mr. Jacobs and two employees remain at Schrayer.

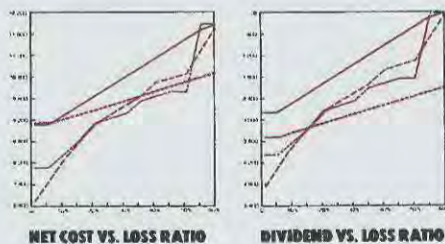
- Marshall Domash, a one-man agency in West Chicago, Ill., in 1983. Mr. Domash, a life insurance producer, remains at Schrayer. ■

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George Nordhaus founded IMS specifically to service Independent Insurance Agents.

PIA projects aid agents' bottom line: Ex-president

SAN DIEGO—What is the National Assn. of Professional Insurance Agents doing to help its members through these tumultuous times?

Everything from "projects that directly impact our bottom line" to fending off banks' encroachment on agents' turf to co-sponsoring the Special Olympics, outgoing PIA President Edward Akin says.

Mr. Akin, president of Akin, Akin Inc. in Howell, Mich., addressed the association's annual convention Nov. 13-16 in San Diego.

Incoming PIA President F. Wayne Bowman, a partner in the H.L. Patterson Agency in Omaha, Neb., agreed with Mr. Akin's summation. "We are not part of the 'gloom-and-doom' crowd," he said.

The PIA launched its Professional Resource Organization about a year ago, Mr. Akin noted, and it is developing programs to give agents the hardware, markets and money to sell and expand.



Mr. Akin

After spending a year researching computer components, PRO has developed a system that will cost PIA members less than \$10,000 to own, Mr. Akin said, adding that several agencies are now testing the system.

"Agents say the system is compatible with agency functions and

many have found new ways to increase premium volume using the system's marketing capability," Mr. Akin commented.

In the marketing area, "PRO signed on three new insurance wholesalers this year, opening the door to new markets for PRO subscribers. A wide variety of new insurance packages were added to the menu of existing coverages available through PRO," he said.

Another PRO program, the Financial Bond Guarantee Program, was designed to back bank loans by agents who want to buy or sell agencies, he noted.

"If you have applied for a bank loan for this purpose, you probably know how difficult it is to borrow at good interest rates. The reason is that most banks do not consider an

agent's renewals as concrete assets, so they're hesitant to loan us money at good rates," Mr. Akin asserted.

"With PRO's new program, qualifying agents can buy a bond which will guarantee the loan and get better interest rates. I hope this new program will encourage more agents to expand their operations."

The PIA has investigated the shortage of good available producers and come up with a solution to recruit and train new ones, Mr. Akin said. The Salespower Development Program, which will be available early in 1984, will help agents locate, interview, test and establish goals for new producers. Some insurers have contributed financially to the research and development on this project.

Mr. Akin also reported that the

PIA had a banner year for membership growth. "More than 7,000 agents joined PIA this year. That represents an increase of 3,000 new agency members, which is the second-largest increase in our history," he said.

"I think it's interesting to note that, in spite of the fact that many are saying the overall number of agents is declining. Maybe there are fewer agents out there, but more of them must be joining PIA."

A great deal of effort was made in 1983 in the legislative battle to keep banks out of the insurance business, Mr. Akin said. PIA representatives appeared several times before both House and Senate panels, helped defeat a bank insurance proposal in Delaware, filed a protest with the Federal Reserve Board and met with White House and Treasury Department officials.

"A lot of people are advising us to get used to the idea of having banks in our business, but for now you can be assured that your association is doing everything it can to stave off this threat of unfair competition, and I'm confident our efforts will continue until this issue is resolved," he commented.

In addition to the federal legislative battle, PIA is committed to monitoring banks' insurance activities in individual states. "We are committing a sizable amount of additional funds to fight the banks on the state level. Our goal is to keep state legislatures from passing laws like the one enacted this year in South Dakota," Mr. Akin said (A/BT, Aug. 1).

The PIA also became involved with other legislative issues, like the improvement of the federal flood insurance program, making passive restraints in cars mandatory and the reform of the federal Longshore Act. The association also lobbied against a proposal to tax health benefits.

"PIA became a more effective lobbying force this year with the hiring of former Congressman Bo Ginn of Georgia. Through Bo, we have had more access to key decision makers, and have had a better opportunity to make our voices heard," noted Mr. Akin.

Through the National Assn. of Insurance Commissioners, the PIA has informed state regulators of its' members views, Mr. Akin said. Because of this, PIA representatives were appointed to serve on five NAIC advisory committees.

"We have spoken out on a number of issues from agents' licensing requirements to pollution liability," the past president said.

Mr. Bowman, the new PIA president, proposed at the convention that association leadership conduct informal discussions with insurers to discuss the agent-insurer relationship at a time when the industry is seeing great change.

He identified insurers' investment income as the source of agitation that brought on soft market conditions, and blamed "the lure of fast and easy profits to be made at the expense of underwriting sanity" as a factor in unsettling the industry.

"With no end in sight, there is a justifiable uncertainty about the future among agents, which I venture to say is shared by many of our companies," Mr. Bowman said.

"The time may be at hand for our association leadership to sit down with company CEOs and marketing people who want to sit down with us. Together, we can review the existing company-agent relationship in the context of changing market and product demands, regulatory and statutory proposals and future business directions open to us."



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Obtain proper licenses before selling investments

By BILL SCOTT

AS INSURANCE agents and brokers move more and more into general investment products and services, the question arises as to which regulatory bodies have authority over what actions.

Two different departments of the Securities and Exchange Commission, plus the National Assn. of Securities Dealers, individual state securities commissions and departments of corporations are involved.

A strict interpretation of many individual statutes, and the opinions of these bodies when recently interviewed, suggests that they all may control agent investment product sales.

Each agent management group, or agents themselves, must go to the sources of these regulations, either directly or through experts, for precise information.

Here we'll take a look at some of the regulatory agencies and their guidelines.

The "players" in the game are:

- The Securities and Exchange Commission, which regulates the sale of securities. The SEC was established in 1933, with a series of amendments later added to the enabling laws.

An agent must comply with SEC statutes and licensing requirements when acting as a registered representative.

Financial planners' activities are regulated by the SEC as established by the Investment Advisors Act of 1940. The Division of Investment Management, a department within the SEC, has authority over these activities.

Although the SEC only enters into interstate regulation, the rules allow a very broad interpretation of its jurisdiction. It may include product source, all participating parties, use of the mails, etc. This pertains both to the sale of securities and financial planning.

- The National Assn. of Securities Dealers, which is a self-regulating, non-profit corporation. The NASD has authority over securities business by virtue of contractual agreements with government and private entities. The NASD does not oversee any activities of financial planners.

- Individual states, which have securities commissions with their own regulations pertaining to the sale of all investments sold within their borders. State rules may differ from those of the SEC in many cases. The NASD assists member firms, functioning as liaisons with most states.

Individual states also may have departments of corporations, or similar entities, that regulate investment advisers operating within their boundaries.

The prudent agent starting to sell investment products and services should at least touch base with all of these organizations. Agents should be familiar with which laws affect their activities. And, as stated in a prior article, "when in doubt, register" (A/BT, May 2).

It may be better to assume one is a registered representative and an investment advisor, regulated by more authorities, than to run the risk of acting in an unlicensed capacity or unlawful manner. The point is, of course, from an errors and omissions viewpoint, ignorance of the law is no excuse. Knowing and following the rules and regulations is always the best protection available in any situation.

Granted, the applicable guide-

lines could fill a library. No brief summary can hope to be definitive. But we can suggest where companies and individuals can go to find out what the rules and regulations are.

One of the most exposed persons in insurance today is an agent who has entered the financial services area, even just as an adviser, while exclusively selling traditional insurance products. That person may not even be aware that he is subject to SEC or state rules.

It is only a matter of time until some client, dissatisfied for some reason, will make a claim against an agent in a civil or criminal case, using the full weight of the rules and regulations.

What does registering entail?

A registered representative, selling specific products for a commission, now has a liberalized code of conduct. Yet such a person may only sell products offered by specially licensed broker/dealers, a rule that is strictly enforced.

These broker/dealers have the continuing obligation of supervising their representatives' every move, down to requiring rigid approval of all written communications.

Even individuals who pass the appropriate tests are still not licensed to sell securities. A representative may hold a license only through a broker or dealer of record. Licenses are not transferable.

If a representative leaves the supervision of one broker or dealer, a

new license must be applied for under the auspices of the new broker or dealer.

Additionally, many states also license registered representatives.

Obviously, the most blatant violation of state statutes is doing business without a license. But, there is another critical question arising from state regulations.

Dual registration, when a representative sells products for more than one broker or dealer, is al-

Continued on next page



Mr. Scott

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Check licensing regulations

Continued from previous page
lowed under certain conditions by the SEC and NASD. However, dual registration is not allowed in more than half the states in this country. But this conflict, as well as other federal-state differences in securities laws, is changing.

The NASD in cooperation with the North American Securities Administrative Assn. (an association of various states) has established a Central Registration Depository (CRD) to streamline and standardize licensing. The CRD also is assisting member NASD firms to meet all state requirements.

Forty-four states now, with California and Vermont joining in early 1984, have signed a contractual agreement with the depository. CRD expects all states to be participating in the program by the end of 1984. Alaska and Hawaii's com-

puter communications problems preclude their joining.

While individual states still maintain a variety of statutes, CRD already has made significant progress in standardizing registration applications and processing.

For states that require testing over and above SEC and NASD requirements, a standardized Series 63, Uniform State Law Examination is available now. However, the NASD does not require any state licensing per se. The CRD feels that by creating a common forum, many of the separate state statutes are becoming standardized.

For questions concerning state regulations, the CRD also maintains an information hot line. The CRD will not respond to information requests from individuals, but will answer questions from NASD member firms.

On the federal level, the NASD makes available specific publications outlining licensing and conduct rules. The NASD also has an agreement with Control Data Corp. for training and testing registered representatives.

Anyone interested and located near a CDC learning center can participate in the program, called PLATO. There are CDC centers in most major cities. Anyone may take the PLATO program, but licensing, as stated before, may be obtained only through a supervising broker or dealer.

There are various tests for different types of security products. For instance, a Series 6 test is for mutual funds and variable (insurance) contracts, a Series 52 for municipal bonds and a Series 22 for direct participations (tax shelters, limited partnerships, etc.). All of these tests are given on a Control Data computer terminal. The PLATO pass/fail formula shows the stu-

dent's results immediately.

For Series 7, which allows a representative to sell all types of securities, including stocks and bonds, the test is given in an NASD office. A failure rate of about 35% is estimated by NASD, so the tests are moderately difficult.

The securities business is highly organized and the rules are relatively clear-cut. However, the regulations pertaining to investment advisers are a much different story.

There is a debate within the insurance and securities communities as to whom must register. Potentially affected parties should seek expert advice on their own circumstances. However, here are some exact quotations from an SEC publication dealing with registration:

• "...The Investment Advisers Act of 1940 (applies) to financial planners, pension consultants and other persons who, as an integral component of other financially related services, provide investment

advisory services to others for compensation."

• "For example, recommendations may be made that the client obtain insurance or revise existing coverage, establish an Individual Retirement Account, increase or decrease funds held in a savings account, or invest in securities."

• "In some instances financial planners are compensated, in whole or in part, through the receipt of sales commissions upon the sale to the client of insurance products, mutual fund shares, interests in real estate or other investments."

References to activities typically performed by insurance agents also required registration under the act. In some circumstances, even if referrals are made to other experts on investments, tax advice and estate planning, the agent must be registered. Again, each agent or agent management group should seek their own expert counsel.

There are no tests to be registered as a financial planner with the SEC. A one-time fee of \$150, together with a 40-plus-page form (Form ADV) must be submitted. Registration is granted to all applicants unless the government brings a specific refusal-of-registration action against an individual.

Over and above the federal regulations, various states have their own registration and practice codes for advisers and planners. Some states do require testing, licensing and detailed record keeping for investment advisers.

For example, in California, there are state examinations and a biannual fee of \$250. The state has even more stringent rules for the adviser that has the right to trade for the account or receives and/or holds client funds.

The prudent insurance agent considering or offering financial products and services can check the following sources to assure compliance:

• For investment products: The best possible guidance is provided by the NASD member firm with which the agent will be associated.

• For other investment product regulation information: NASD's "Rules of Fair Practice" costs \$3 and may be obtained from any NASD office. Check your telephone directory.

• For testing and licensing as a registered representative: Contact the NASD or a Control Data Corp. office with the PLATO program. Check your telephone directory.

• For activities as an investment adviser: Contact an SEC branch where a Division of Investment Management group is located. Their publication, "Investment Advisers Act of 1940, SEC Docket, Vol. 23, No. 6, Aug. 25, 1981," is available without charge.

• For state requirements on the sale of securities (through an NASD member firm): The Central Registration Depository will answer questions on rules in most states. Call 202-728-8800.

• For individual state requirements on securities sales and financial planning: Contact the appropriate bureau, remembering that compliance with more than one group's rules may be necessary.

While moving into this area may seem complicated and time-consuming to many agents, these rules and regulations have been created to prevent abuses by unprincipled and unqualified people. Once a good agent comes aboard, these licensing and practice codes protect the agent's own legitimate business prospects, as well as protect the public's interests.

Agents also should check their E&O insurance, as well as comply with the law, to make sure coverage for every contemplated product or service activity is included. ■

Bill Scott is vp of Cal-Surance Associates Inc. in Torrance, Calif.



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Brokers say computers not meeting their needs

NEW YORK—The computer interface systems that are now being designed for agents do not adapt to the needs of brokerages, a New York broker says.

"Every interface program that I have seen or heard about is designed and geared toward the agents, but brokers have different problems than agents have," complains Harvey Leder, treasurer of Tanenbaum-Harber Co. Inc.

Mr. Leder made his remarks at a recent automation seminar for brokers sponsored by the Insurance Brokers Assn. of the State of New York Inc.

Agents often work with four to eight insurers, while brokers deal with many times that number, Mr. Leder explained.

Insurers are able to provide agents with terminals based on the volume of business that agents conduct with them, and they can even interface directly. But, brokers would need interface with many insurers in order to communicate effectively through automation, he said.

And, the insurers' computer systems are not standardized enough to allow brokers to communicate with multiple markets through one terminal.

If an agent deals with four insurers, it's not impossible for him to keep four terminals in the office, but it wouldn't be feasible for a broker to store 100, Mr. Leder said.

Thus, the lack of automation standardization affects brokerages much more than agents, he contends.

But, some progress is being made to solve the problem, Mr. Leder admitted, especially the formation of computer interface networks, primarily IVANS—the Insurance Value Added Network Services system. And, he commended insurers on their attempts to aid such computer networks, which they support financially, but he said that true interface is still far off in the future.

Another difference that separates brokers from agents is binding authority, according to Mr. Leder.

Brokers' lack of authority to issue a binder on a policy means they must consult with insurers before writing a piece of business. Interface between brokers and multiple insurers could speed up this process considerably.

Brokers often place their clients' various policies with different insurers, Mr. Leder also noted, and this creates another problem for brokers trying to use agency-oriented computer systems.

If a client phones with questions about his account, the broker cannot press a few buttons and call up the client's file. Bits and pieces of that file are tucked away with various insurers' systems, Mr. Leder noted.

To gather the file together, the broker would have to electronically contact the various insurers and communicate with each separately, Mr. Leder said, stressing the need for one data base through which a client's entire file could be accessed.

"If I had a business client with 10 policies, I might have to communicate with 10 different carriers," he explained.

Mr. Leder sees computer networks as an eventual solution to brokers' interface difficulties, so long as networks address the problems of brokers as well as agents. Also, he said he hopes that a central data base—that would list all insurers and the coverages they offer

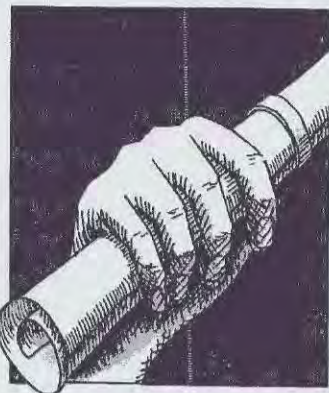
—will someday be established.

Conrad Foa, chairman of the education committee for the IBA/NY and president of Foa & Son Corp. in New York, remarked that he had experienced many of the same problems Mr. Leder detailed.

"If a client called me up and asked for a general rundown of his account, I might have to go to several terminals to get the information," he said.

Since terminals currently don't interface, Mr. Foa said he wouldn't be able to get the information on one screen. He could go to a file folder and take out the client's file, but that defeats the purpose of being automated, he noted.

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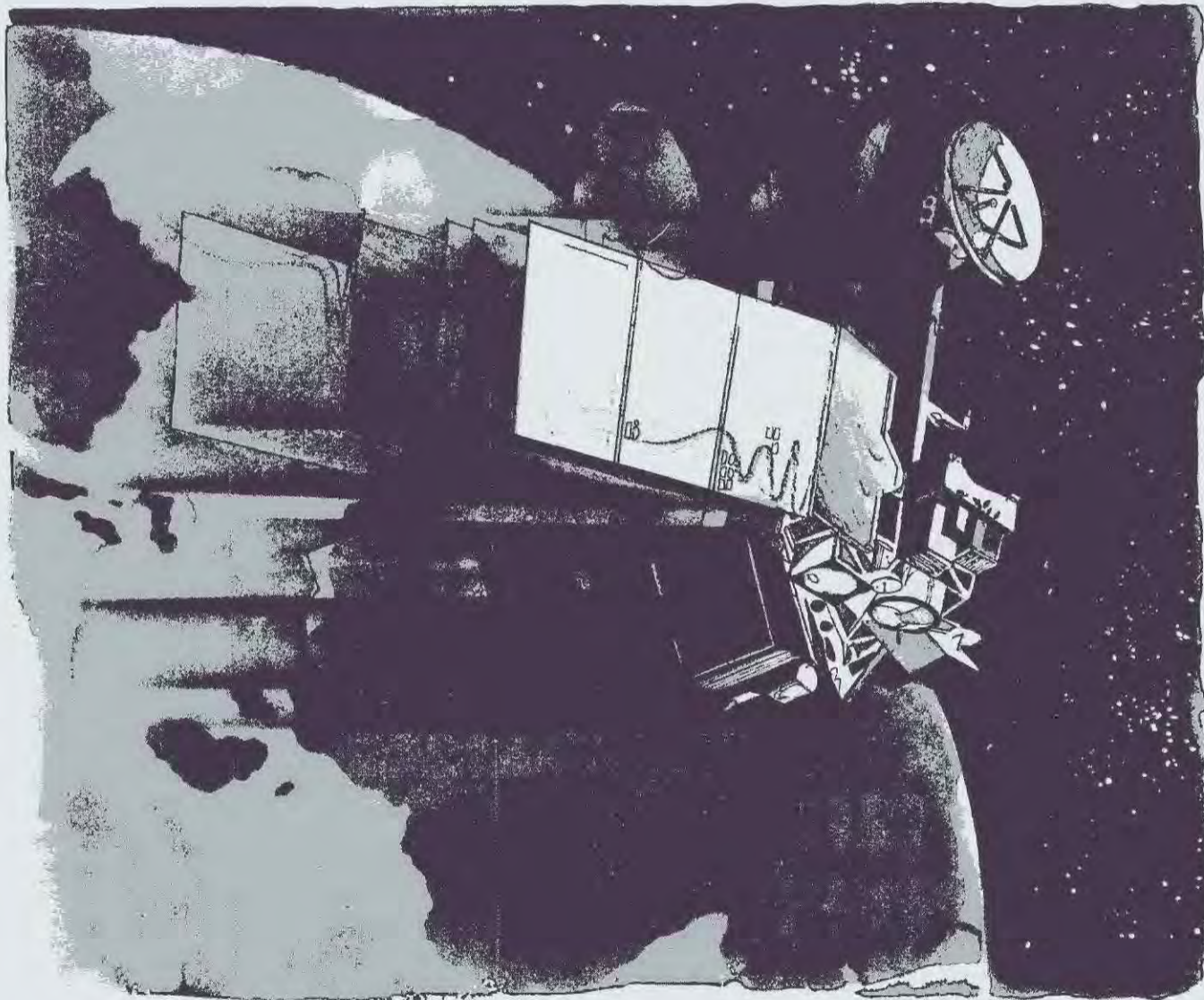
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IIAA wants personal auto change

NEW YORK—The Independent Insurance Agents of America, citing the nation's low inflation rate, is urging insurers to provide clients the option of buying private passenger auto policies on a 12-month renewal basis.

Richard D. Teubner, the new IIAA president, says that 12-month personal automobile policies improve retention of policies and cut issuing and underwriting expenses for agents.

Six-month renewals became popular when inflation was unsettling the economy.

Merger opposed

VAN NUYS, Calif.—The Professional Insurance Agents of California and Nevada voiced their

a/bt briefs

opposition to a proposed merger with the Independent Insurance Agents & Brokers of California at the national PIA convention in San Diego last month.

Later, the national association adopted a modified version of the California group's stance, indicating that it was not interested in a merger with IIAA. The PIA said that it is interested in "communication and cooperation" with IIAA, however, when that represents its members' best interests.

Agent licensing

SPRINGFIELD, Ill.—A new Illi-

nois law pares the categories of agents and brokers for licensing purposes to one category—producers.

Formerly, the state issued both agents and brokers' licenses.

Those who apply for licenses will have to complete courses in each class of insurance they wish to be licensed for before they can take the licensing exam. They will also have to take 25 hours of continuing education instruction during each of the first four years they are licensed.

The bill, H.B. 1134, takes effect Jan. 1, 1985.

'Successful' agents

MALVERN, Pa.—'Successful' agents of any size are invited to at-

tend a series of "successful agency" seminars that will be given next year by the American Institute for Property & Liability Underwriters.

Agents who enjoy "top professional reputations" will hear about such topics as staffing, target marketing, image building, assessing and improving agency performance and developing good staff members.

The meetings will be held from January to April in seven cities, and different programs will be held for small, medium-size and large agencies.

For more information about the seminars, contact Dr. Jim Gatzka, CPCU/IIA, Providence & Sugar-town Roads, Malvern, Pa. 19355; 215-644-2100. ■

technology briefs

Crum & Forster system linked with IVANS

SAN FRANCISCO—Agency Management Systems Inc., an agency automation firm owned by six insurers, says it has successfully interfaced with Crum & Forster's computer system via the Insurance Value Added Network Services system.

Agency software

MONEE, Ill.—Applied Systems, a software company, announced that version 1.3 of THE AGENCY MANAGER, its agency automation system, is now available. This version includes color capability and enhanced networking features.

For more information, contact Applied Systems, Box 424, Monee, Ill. 60449; 312-534-5575.

Discounts offered

STEVENS POINT, Wis.—Sentry Insurance Co. is offering its agents discounts and professional advice on microcomputer systems through a program called "Plus One."

Discounts of up to 30% are available on the Apple IIe, Apple III and the IBM Personal Computer. Agents who purchase or lease these through Sentry will receive ongoing assistance from the insurer.

For more information, contact Sentry, 1800 North Point Drive, Stevens Point, Wis. 54481; 715-346-7125.

System expansion

HARTFORD, Conn.—The Hartford Insurance Group has expanded its commercial lines data processing system to enable its agents to perform certain interface functions.

Agencies that are electronically linked with The Hartford's mainframe computers will be able to automatically process policy endorsements, make rating and transaction inquiries and obtain up-to-date information from the insurer's commercial lines data base.

About 250 Hartford agents are now interfaced with the company, and about 250 more are expected to be on-line by the end of next year.

Automation package

CULVER CITY, Calif.—International Small Business Computers Inc. is marketing FLEXSYSTEM in conjunction with Savage Computers Inc. of Avon, Conn. FLEXSYSTEM is a user-friendly agency management package that integrates marketing, client and policy handling, accounting and management.

For information, contact ISBC, 5711 Slauson Ave., Suite 210, Culver City, Calif. 90230; 213-641-3723.

Rating system

NAPERVILLE, Ill.—Ratercalc, a commercial lines insurance rating and coding system from Automated Insurance Rating Services Inc., is available for the IBM personal computer, the IBM/XT and other compatible computers, including the Apple II.

Ratercalc automates rating procedures for developing quotes on commercial insurance coverage.

For information, contact AIRS, 1250 E. Diehl Road, Naperville, Ill. 60540; 312-368-2121. ■

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American underwriters active in France

By ANDRE MELLY

PARIS—A long standing, unwritten law in the French market urges large industrial companies to use a nationalized insurer to lead their insurance programs.

Now, with the entry of American, Swiss, British and other foreign companies into the French market, that unwritten law is being bent, but not broken.

The custom of using a nationalized insurer as a lead began when France nationalized some of its largest, and best-run, companies. And, those insurance powerhouses were exactly the ones that could handle large industrial risks.

The nationalized sector now controls 57% of total market in life insurance (including the Caisse Nationale de Prevoyance, the National Insurance Fund), but only 27% of the property/casualty market.

The nationalization of major French industries in 1981—as well as the current Socialist government's attempts to improve the balance of payments and stimulate exports—appears to have reinforced the competitive edge enjoyed by UAP Group and Assurances Generales de France, two nationalized insurance giants, in their principal roles in handling large French risks.

This is the landscape in which U.S. insurers do business.

Ten insurance companies operating in the direct insurance market in France that are directly or indirectly of American origin underwrote premiums at year-end 1982 of more than 1.6 billion francs (\$239 million at year-end 1982 exchange rates). Nine are property/casualty insurers and one is a life insurer (see chart, page 32).

Following British and Swiss companies, they are the largest foreign presence in the French direct insurance market, which generated \$140.6 billion in premiums in 1982 (\$21 billion).

Eliminated from this list is the French operation of British-based Excess Insurance Co., although it is owned by Hartford Insurance Group. The management of Excess' operation in France contended it did not belong in this report because it operates independently of Hartford and because half of its business is reinsurance.

American-owned reinsurers are also not reviewed in this report.

The American-linked direct insurers are not at all alarmed about recent political and economic developments in France.

"Just about all major American companies have invested in France and we haven't noticed any transfer of business," declares Hans Miller, deputy manager of AFIA Worldwide Insurance in Paris and assistant manager of St. Paul Fire & Marine Insurance Co., AFIA's operating company in France.

"We decided to set up in France because this is the world's fourth-largest (domestic) insurance market and that hasn't changed since 1981," he said.

"In addition, and contrary to what one might think, we believe that France, after Britain, is the most liberal insurance market in Europe—much more so than the German or Swiss markets, for example," says Philip Schwarz, general manager of the French branch of Chubb Corp.

"From that standpoint, the only problems we are really facing now are the weakness of the franc as

compared to the American dollar and a tendency of the Socialist government to encourage a certain nationalism in business practices," Mr. Schwarz explained.

"Managers of the nationalized industrial sector have kept their total independence in matters of buying insurance," notes Paul Chartrand, chairman of CNA-Cie Nouvelle d'Assurances, a subsidiary of CIG-NA Corp.

"No real change from the situation before 1981," declared Jan

Janus, manager of the French branch of Factory Mutual of London, based in Paris.

"There are ever some companies that we did not work with when they were private and which have become clients since their nationalization," he added.

It is not surprising that little has changed, since the French insurance market shares risks, which is called coinsuring.

One leading insurer sets the rates and general contract conditions.

Other insurers will take varying portions of the risk. The lead insurer, which usually takes the largest portion of risk, also handles administration of the risk.

As Guy de Lasteyrie du Saillant, head general agent in France for American International Group Inc., points out, "In the 1960s and '70s, there were often 100 or so insurers on large French policies. But, for the last few years, there has been a concentration of this coinsurance. Now, on this type of

policy, there are only 50 or even 20 insurers."

This concentration is part of the move toward lowering overhead for the lead insurer. Yet the number of insurers on a risk are an undeniable advantage for a foreign insurer new to the French market.

"Thanks to coinsurance," explains Chubb's Mr. Schwarz, "the French market is a very open one, enabling brokers to test a foreign company." It does, however, have

Continued on next page



Mr. du Saillant

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U.S. owned direct insurers in France in 1982 (in millions of French francs*)

Company	Group	Premiums	82/81 % growth
New Hampshire Insurance Co.	AIG	492	9.7%
St. Paul Fire & Marine Co.	AFIA	476	21.7
Compagnie Nouvelle d' Assurances	CIGNA	234	10.1
Euravie	AIG	166	28.5
Continental Insurance	—	128	26.8
Federal Insurance Co.	Chubb	42	-17.1
Factory Mutual International	FM	64	31.5
Federation Europeenne	Chubb	20	24.7
Trident General Insurance Co.	General Re	14	—
UNAT-Union Atlantique d' Assurances ¹	AIG	—	—

*6.7 French francs: \$1 U.S. at year-end 1982.

¹Received authorization to operate July 1, 1982.

Source: Annual reports.

U.S. insurers active in France

Continued from previous page
some drawbacks.

"With coinsurance, it is rare for a foreign company to become a principal (insurer) and, under such conditions, it can hardly have any influence on how the policy is handled and, especially, on prevention measures that should be proposed to the client to improve the risk," said Mr. Janus of Factory Mutual.

All of the U.S. insurers with French operations distribute their products through brokers. But some American business methods and products are not always well-received by French brokerages.

"There is a real problem of deformation of products imported from the U.S. to the French market," affirms Mr. Chartrand of CIGNA. "Account underwriting, for example, had a hard time gaining acceptance from the broking industry. We also have all-risk policies that are very well-adapted to small and medium-sized companies, which were misunderstood by brokers."

But the most illustrative example is all-risk physical damage coverage.

"By the time all-risk physical damage came out on the French market, it had already been well-tested in the U.S. by a very severe clientele. But French brokers took it only as a means of cutting rates," regrets a spokesman for Groupe Barthelemy, the underwriting manager for The Continental Insurance Co., which is licensed in France.

"All-risk physical damage was transformed into 'risk-all' physical damage," confirms Mr. Schwarz of Chubb. "We stopped distributing it on the French market, except to our American clients."

St. Paul Fire & Marine experienced similar problems. "We were the first to offer all-risk physical damage in France," declares Mr. Miller of St. Paul/AFIA. "But perhaps the market just wasn't ready, although the product responded to the demand of insureds in industry."

Besides a certain lack of comprehension on the part of brokers, there was also quite a bit of hostility from insurance company organizations. They were disgruntled that the all-risk policy did not name the traditional coverages on which they had statistics. It violated tradition and endangered the statistics laboriously kept by each organization.

However, as AIG's Mr. du Saillant notes, "There is a consensus on the French market where behavior of underwriters, insureds and brokers is concerned. We cannot just show up on a market like the French one and impose ourselves. We must adopt the laws of the local market, as well as its customs and even sometimes its red tape..."

For American companies, a

happy medium has to be found between their spirit of innovation and what the French market is ready to accept.

New Hampshire Insurance Co., an AIG unit, is the largest of the U.S.-owned insurance companies operating in France, underwriting 492 million francs in premiums in 1982 (\$73.4 million). Initially handling marine and fire risks, it today handles all classes of property/casualty insurance except hail coverages. Marine and fire have nevertheless remained the company's strongpoints—it ranks among the market's top 20 for these two coverages.

New Hampshire employed a staff of 75 people in 1959. Today, it has 480 employees.

"There was, and still is, a need on the French market in the areas of special risks and oil risks," explains Mr. du Saillant. "That was what caused American companies to develop in France."

"Our portfolio cannot be compared to those of local companies, as we do not handle simple risks. Our portfolios are specialized and so are our underwriters. That is what has made our reputation as professionals on the French market," he said.

"Our underwriters were, initially, perhaps no better than those of local companies, but because they only underwrite industrial risks, which is not the case for the others, they have acquired a greater technical competence," Mr. du Saillant added.

This competency has been particularly effective in the oil risk field, both marine and offshore, generating a substantial part of the company's premiums.

New Hampshire also has been innovative, even if it is merely importing U.S. products to France, like directors and officers liability or global policies, two products as yet unexploited by local competition.

New Hampshire is not the only AIG affiliate operating in France.

Compagnie Europeenne d'Assurance sur la Vie—EURAVIE (France), controlled in part by AIG, underwrites life insurance. With a premium volume in 1982 of 166 million francs (\$24.8 million), it ranks as the fourth-largest among the U.S.-linked insurers operating in France.

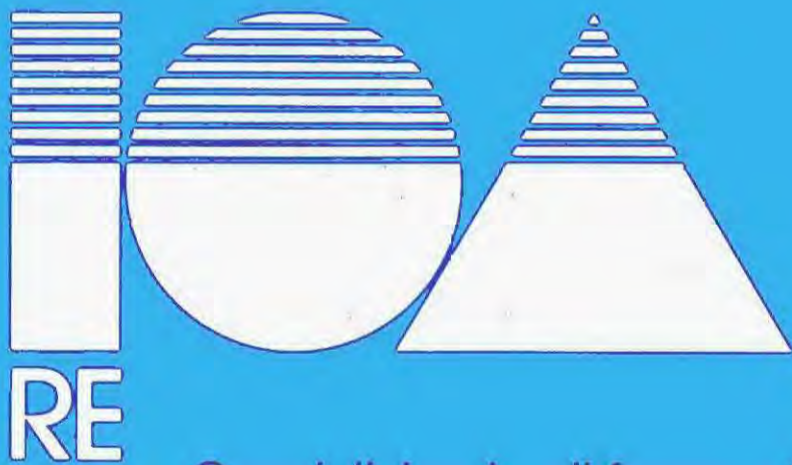
Union Atlantique d'Assurances S.A.—UNAT (Belgium), controlled in part by AIG, is a subsidiary of UNAT Re or Union Atlantique de Reassurances S.A., which writes reinsurance.

UNAT was created in Belgium in 1979 and received authorization to operate in France in July 1982. Therefore, no financial results for 1982 are available.

"UNAT Assurances has a European orientation," explains Patrick

Continued on facing page

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Continued from facing page
 Vincent, UNAT Assurances' French branch general manager in Paris, "and the reputation for being a specialty company, which distinguishes it from and makes it complementary to other offices and subsidiaries of AIG group, such as New Hampshire in France.

"We offer coverages to the French market that it is not used to finding, such as unemployment insurance, advertising insurance, etc," he added.

Other AIG-related companies operating in France are AIU-SARL, the AIG overseas management company, and La Compagnie Generale de Secours (CGS), a service company to New Hampshire, operating much like the American Automobile Assn., supplying motorists with assistance, materials or services.

Together, all the AIG affiliated companies employ more than 400 people and, in 1982, earned a total income of more than 800 million francs (\$119 million at 1982 year-end exchange rates).



Mr. Chartrand

St. Paul Fire & Marine Insurance Co. has been established in France since 1925 and represents AFIA in France.

Although, initially, the office was set up to follow American clients to France, today nearly 90% of its portfolio is made up of French clients.

In premiums, it is the second-largest American company operating on the French market with 476 million francs in 1982 (\$71 million). It employs 350 people, including 15 engineers.

St. Paul is authorized to operate in almost all property/casualty lines, but it specializes in industrial risks. Its reputation has been built on its professionalism in high-tech risks and on its considerable commercial flexibility that enables it to adapt its products to its clients' needs.

St. Paul was the first company, in 1971, to offer the French market a policy covering computer risks. Its success has been nothing short of astounding, with St. Paul today handling 60% of the computer risk market.

"We are also well-placed in political risk insurance, all construction site risks and risks related to the food industry," declares Mr. Miller.

Insurance Co. of North America moved into France at the end of 1959, purchasing Compagnie Nouvelle Maritime du Havre. Its head office was transferred to Paris from Le Havre, its name was changed to Compagnie Nouvelle d'Assurances and today it employs 120.

In 1959, the company handled little else than marine business, but it quickly extended its activities to include practically all lines of property/casualty business.

"At the time, INA's clientele consisted mainly of American multinational companies and the initial goal of the buyout was, undeniably, to be able to provide service in France to these clients," notes Mr. Chartrand, chairman of Compagnie Nouvelle since March 1982.

Very rapidly, however, INA adapted itself to the French market and placed itself in coinsurance policies led by local insurance companies.

"The advantage the Americans had," says Mr. Chartrand, "was their ability to offer larger capacities than most local companies. In a heavy growth period, such as the 1960s and early 1970s, the French market could use this capacity."

Not all of the growth for Compagnie Nouvelle was profitable. In 1976, it held a large percentage of professional liability for construc-

tion risks. Initial results were good. But, results turned sour by the late 1970s and the professional liability portfolio was reduced. It also stopped underwriting high-risk professional liability, such as medical malpractice.

During the past five years, it has developed a substantial group accident portfolio with very good results. At the same time, Compagnie Nouvelle started developing a professional loss-prevention service that enables it to become a principal on fire risks and, thus, better control its fire insurance business.

It is developing new products, particularly in the political risk field.

"We are working on this, but where political risks are concerned, French and American viewpoints often differ radically," remarks Mr. Chartrand.

The private political risk insurance market in France is dominated by...

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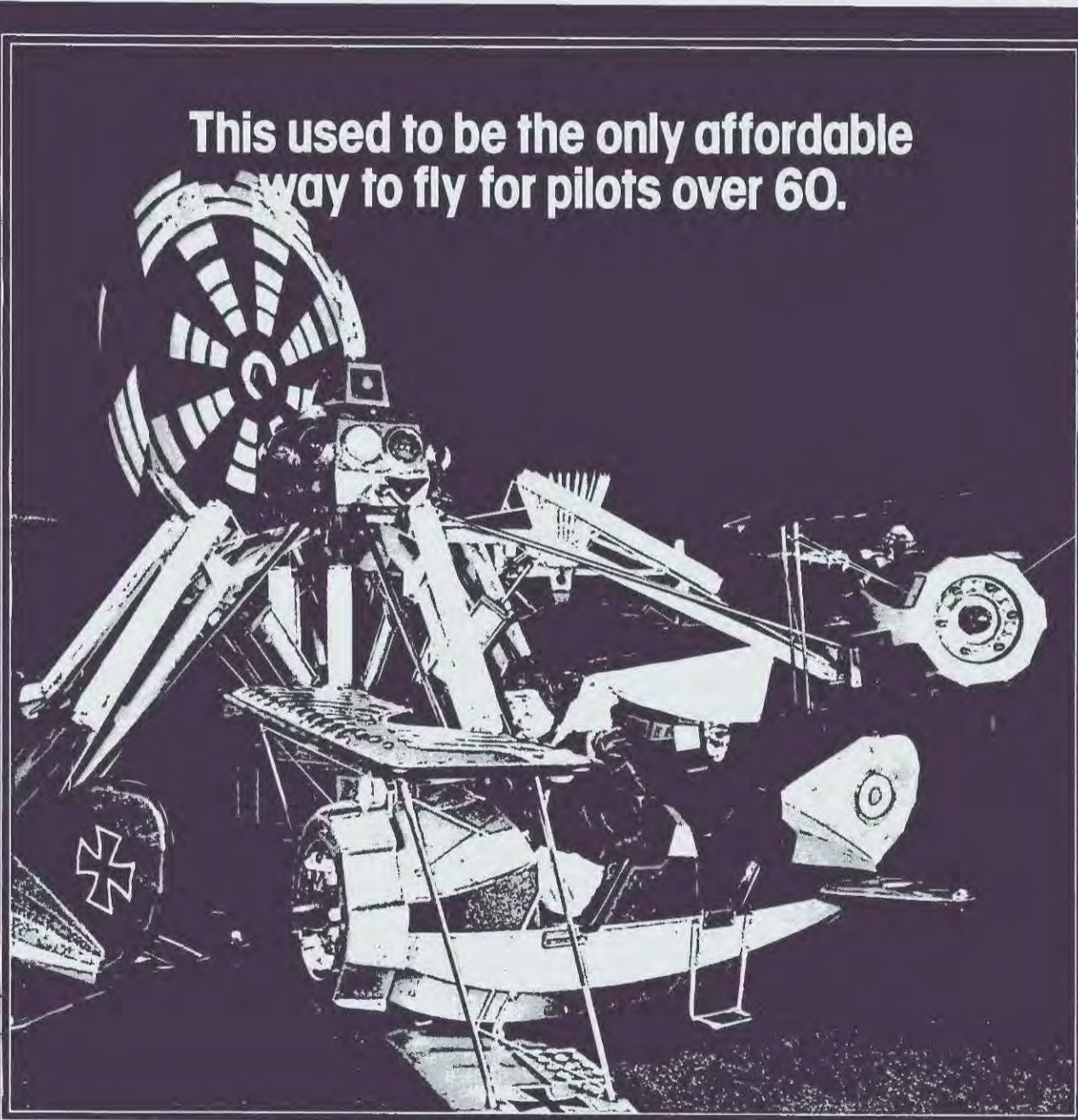


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Americans in France

Continued from previous page
nated by British and American companies.

The Continental Insurance Co. has been authorized to operate in France since 1968. Its underwriting is entirely handled by the Groupe Barthelemy, which employs 80 people and also underwrites for other large foreign companies such as Sun Insurance Ltd. of Britain.

Continental is, however, the largest of these three companies in terms of premiums written in France. Continental's French portfolio is solely comprised of industrial risks, which are often part of worldwide insurance programs of large American companies.

Continental's 1982 premium volume totaled 126 million francs (\$18.8 million).

The Chubb Corp. operates through three companies in the French market:

- Federal Insurance Co.'s authorization dates back to 1972. Its underwriter is the Groupe Sprinks S.A., a subsidiary of Lloyd's broker C.E. Heath P.L.C. In 1982, Federal's premium volume was 42.4 million francs (\$6.3 million), making it the sixth-largest among U.S.-linked direct insurers. It writes only property/casualty business.

- Vigilant Insurance Co., authorized solely for reinsurance, handles cessions from Groupe des Assurances Nationales. Its premium volume in 1982 was 55.4 million francs (\$8.3 million).

- La Federation Europeenne Compagnie d'Assurances S.A., established under Belgian law with 100% U.S. capital, has been authorized to operate in France since 1981 in property casualty lines. Its premium volume of 19.8 million francs (\$3 million) in 1982 made it the eighth-largest U.S.-linked direct insurer.

In the French market, Chubb is

known for its international know-how and quality of claims service.

"French insureds have been very receptive to the way we handle claims because they were used to heavy discussion, even litigation, in this area," explains Mr. Schwarz, Chubb's French manager.

In France, Chubb offers products that have been well-tested in the U.S. market, like an all-risk policy for motion picture theaters.

"We are one of the world's largest underwriters in this line," Mr. Schwarz says. But Chubb is also innovative, as shown by its fidelity coverage. This innovation in products includes a computer fraud policy, a package totally new to the French market.



Mr. Miller

The Factory Mutual System has been represented in France since 1968, under the name of Factory Mutual International (FMI). Prior to this date, Allendale Mutual Insurance Co., a member of the Factory Mutual System, had established its own branch office under the name of Affiliated FM.

In 1979, both operations merged and became the sole FM representative and collected 982 premiums of 64 million francs (\$19.6 million). It is the seventh-largest among the direct insurers with American links.

Due to its strict attitude, such as asking highly protected risk policyholders to have sprinklers or hydrants that meet American standards, FM was bound to encounter certain adaptation problems on the French market. Not all insurance buyers are as cognizant of safety measures or as interested in them.

And, the Assemblée Pleniére des Sociétés d'Assurance contre l'Incendie et des Risques Divers, which sets up rules for uniform protection standards that each member insurer must follow, was a little miffed at FMI.

It was inevitable that Factory Mutual with its 150 years of experience drawing up its own safety standards and rates, would come into conflict with the Assemblée Pleniére on questions of fire risks, protection and rates. (From 1968 to 1979, insurers agreed they would charge the same rates).

Factory Mutual did not encounter initial difficulties on the French market only—other European markets were no more flexible.

But, in the beginning, Factory Mutual's international activities were concentrated in American multinational companies. Since then, the situation has changed and its number of French clients has considerably increased. Along with more French clients, Factory Mutual's objectives have slightly altered.

"Contrary to our strict initial attitude, we are now not only interested in highly protected risks, but also in those who want to attain this status. In this case, we will pro-

vide them with the engineering service they need to improve the quality of their risks," confirms Jacques Chapel, FMI's manager of marketing.

"We have made considerable progress in the past 10 years," comments Mr. Janus, French manager of Factory Mutual International.

"We are a team of 65 in France, working with about 60 local brokers solely in property lines. But the French market is still a difficult one for Factory Mutual, perhaps even more so than 10 years ago. The economic crisis is not very conducive to investment in protection and the French fire market hasn't stopped deteriorating for the last few years," Mr. Janus said.

Trident General Insurance Co. Ltd., a British company authorized to operate in France since the 1960s, was taken over by General Reinsurance Corp. in 1980.

In 1982, Trident General Insurance Co. Ltd. (U.K.) handed the management of its French office over to the underwriting group, AREA International S.A.

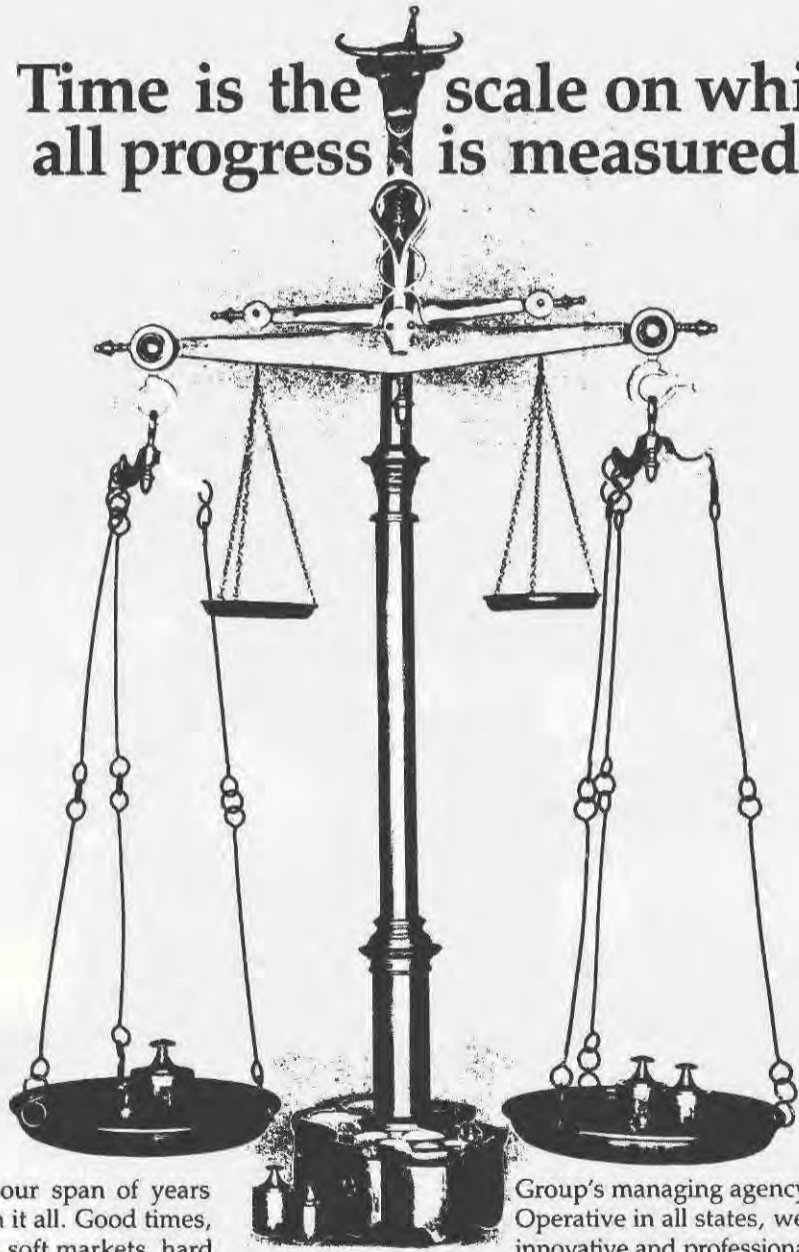
Trident General is authorized to write all property and casualty lines in France, but specializes in underwriting construction site, machinery breakdown and computer risks.

"Trident General Insurance is outstanding for its handling of special risks and particular contracts requiring tailor-made coverage," says Henri Boizard, chairman of AREA International. "I am convinced that insurance is developing right along with modern technology and, for this reason, Trident General Insurance intends to stay among the forerunners of this development."

Trident General does not handle personal policies, nor marine risks. However, its substantial capacity enables it to take part in any of the large risks the French market has to offer.

With a 1982 premium volume of 14 million francs (\$2.1 million), it ranks as the ninth-largest among the American companies writing direct insurance in France. ■

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Trade group establishes Tennessee captive

Continued from page 2

future lower premiums or dividends.

"The key words are long-term market stability," said C. Fred Morgan, a casualty insurance specialist in M&M's Atlanta office. "As long as there is an association, there will be a viable market for the utilities' insurance needs."

Although the captive faces strong competition from commercial insurers, its rates are, in many cases, up to 15% less than those charged in the commercial market, Mr. Morgan said.

In addition, as the market hardens, the captive's rates should become even more attractive, Mr. Morgan said.

"On a group basis, the captive offers the best opportunity for long-term price stability," he said.

Furthermore, the TVPPA captive program will offer members custom-designed loss-control and safety programs. The utilities, especially the rural electric cooperatives, have complained about spotty safety services provided by their insurers.

M&M Protection Consultants is currently analyzing members' loss-control problems.

The TVPPA captive was capitalized at \$1 million. The capital was provided through a letter of credit issued and guaranteed by the Tennessee Valley Authority. The TVA also paid the captive's other start-up costs through loans and grants.

The captive is assuming the first \$100,000 of risk on a standard \$1 million policy and will cede the remainder to Associated Electric & Gas Insurance Ltd., an industry-owned insurer based in Bermuda.

In Tennessee, the captive is directly issuing comprehensive general liability insurance policies, while National Union Fire Insurance Co. of Pittsburgh, Pa., an American International Group Inc. unit, is issuing the workers compensation and auto liability policies.

In the six other states where the TVPPA has members—Alabama, Georgia, Kentucky, Mississippi, North Carolina and Virginia—National Union will issue the CGL, workers compensation and the auto liability policies.

So far, the captive has written five policies with premiums ranging from \$22,500 to \$600,000.

The TVPPA's Mr. Yocum says he expects that a standard CGL, auto liability and workers compensation policy with a \$1 million limit will cost between \$60,000 and \$70,000.

By next July, Mr. Yocum hopes that the captive will attract 40 utilities producing an annual premium volume of \$2 million.

"My goal is to have 25% of the membership within a year and 75% of the membership in three to four years," said M&M's Mr. Morgan.

Claims are being adjusted by GAB Business Services Inc. The captive is now reviewing service firms to provide loss-control services.

Insurance agents placing coverage for utilities in the TVPPA program will be paid commissions averaging about 6%. "That (paying commissions to agents) is a feature a lot of captives don't have," Mr. Yocum said.

Distributors Insurance Co. is the first captive insurance company set up in Tennessee since the state liberalized its 1978 captive law last year.

Revisions to the law include simplified reporting and filing requirements. In addition, companies that want to set up a captive in Tennessee no longer have to prove that adequate insurance markets do not exist in the United States (BI, March 29, 1982).

Tennessee Insurance Department officials expect that several more captives will be formed in the state within the next year.

Howden sues underwriter for allegedly diverting funds

Continued from page 2

Mr. Hart and "others." The writ, however, does not specifically mention who these "others" are.

"The said unlawful diversions and/or failures to return (the money were) in breach of the defendant's fiduciary duty to the members of the said syndicates and/or in pursuit of an unlawful conspiracy between the defendant and (former Howden executives) Kenneth Vaughan Grob, Alan James Page, Ronald Colin Comery and Jack Harold Carpenter," the writ says.

The money was allegedly diverted from Mr. Hart's syndicates before Alexander & Alexander Services Inc.—which acquired Howden in 1982—conducted a fair-value audit that revealed that millions of dollars of corporate funds were missing.

Last September, A&A sued Mr. Grob, a former Howden Chairman, Messrs. Comery, Carpenter and Page, who were at one time Howden directors, and Ian R. Posgate, former chairman of Howden Underwriting, for allegedly diverting about \$56 million of Howden funds into bogus offshore reinsurance companies for their own personal benefit.

They then used that money to buy the Banque du Rhone from Howden through a secret trust, A&A alleges (BI, Sept. 27, 1982).

A&A has been investigating Mr. Hart's involvement after the syndicates' current underwriter, A.J. Archer, uncovered new information, explained A&A Chairman John A. Bogardus Jr.

However, Howden Chief Financial Officer Ronald J. Berardi stresses that although some of those previously sued by A&A are mentioned in the newest suit, it involves a "completely separate transaction" and is not included in the \$56 million A&A had previously reported missing.

The new charges are also being investigated by Lloyd's and the British Department of Trade, Mr. Bogardus added.

The suit filed against Mr. Hart

does not specifically say how the funds were allegedly diverted or what type of "conspiracy" supposedly existed between Mr. Hart and the four ex-Howden officials.

Mr. Berardi would add only that details would be forthcoming in documents that will be filed in High Court in the next few weeks.

According to the suit, Howden says Mr. Hart should return to the syndicates:

- \$772,175 unlawfully diverted from and/or not returned to members of Syndicates 502/64 from 1974 through 1977.

- \$880,000 unlawfully diverted from and/or not returned to members of Syndicates 868/34 during

the same years.

- \$121,000 unlawfully diverted from and/or not returned to members of Syndicates 868/34 from 1977 through 1979.

- All money and other assets now or at any time before that were held or credited to or withdrawn from the accounts in the name of Visluc Ltd. and Malvar Trust at the Banque du Rhone.

Howden also seeks interest and damages from Mr. Hart for conspiracy, breach of fiduciary duty and breach of trust, although no specific amount is requested in the writ.

Mr. Hart, who is no longer associated with Lloyd's, could not be reached for comment.

datebook

JAN. 9-13. Sampling and Evaluating Asbestos Dust course in Los Angeles, sponsored by the University of Southern California; \$650. University of Southern California, Institute of Safety and Systems Management, Office of Extension and In-Service Programs, Los Angeles, Calif. 90089; 213-743-6523/6524.

JAN. 12-13. Risk Management Education conference in Atlanta, sponsored by Risk & Insurance Management Society Inc.; \$85 for members; \$100 for non-members; student discounts available. Gary Meggs, Southern Co., Risk Management, 64 Perimeter Center E., Atlanta, Ga. 30346; 404-399-3098.

JAN. 16-17. Organizing and Operating Agency Captives conference in San Francisco, sponsored by American Risk Management and Conning & Co.; \$545. William T. Torpey, American Risk Management, 1 Executive Drive, Fort Lee, N.J. 07024; 201-592-7100.

JAN. 19-20. Organizing and Capitalizing a Syndicate at the New York and Other Insurance Exchanges seminar in New York, sponsored by Executive Enterprises; \$675; \$595 for subsequent registrants. Executive Enterprises, 33 W. 60th St., New York, N.Y. 10023; 212-489-2680.

JAN. 23-FEB. 3. Helicopter Accident Investigation course in Los Angeles, sponsored by the University of Southern California; \$1,370. Office of Extension & In-Service Programs, Institute of Safety & Systems Management, University of Southern California, Los Angeles, Calif. 90089; 213-743-6523/6524.

JAN. 24-25. Agent-Owned Offshore Insurance Companies conference in Dallas, sponsored by Advanced Management Research of North America Inc.; \$625; group discounts available. Advanced Management Research of North America, 50 E. 42nd St., Room 301, New York, N.Y. 10017; 212-661-9140.

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

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

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

FEB. 25-MAR. 3. Western Assn. of Insurance Brokers third annual winter conference in Snowmass, Colo.; \$125. Sue Farber, Western Assn. of Insurance Brokers, 235 Montgomery St., Suite 962, San Francisco, Calif. 94104; 415-392-5383.

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

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Rig insurers may seek rate hike

Continued from page 2

Any policy changes, however, probably will affect only projects that have not yet begun, Mr. Wingett added.

Loss figures compiled from the rig committee's members show huge offshore construction losses for the past 10 years. Working on a three-year accounting basis, the same as Lloyd's syndicates, underwriters paid out an average of 118% of their net premium in claims since 1974, with loss ratios hitting as high as 281% in 1974.

Another bad year was 1981, a year which will not close until next year under the three-year accounting system. Already, though, the loss ratio for 1981 has hit 223%, with claims totaling more than \$200 million and net premiums coming to only \$89.6 million.

There are no major losses to account for such high figures, says Mr. Wingett. Most of the construction claims were small to medium size, ranging between \$2 million and \$25 million for damage to pipelines, valves or platform legs.

"They are also not in any particular spot of the world, although most rigs are in hospitable areas of the world, working in 500 to 600 feet of water," he said.

"The claims just all add up."

Offshore rig construction claims

Year	Net premium	Paid claims	Unpaid claims	Loss ratio
1974	\$21,971,254	\$61,914,470	nil	281%
1975	72,330,839	54,476,256	\$4,646,000	82
1976	82,499,070	83,208,193	4,980,793	107
1977	78,227,435	66,391,175	19,261,863	122
1978	51,236,796	14,896,796	7,311,085	43
1979	43,627,090	45,002,494	12,875,515	133
1980	62,085,910	61,743,896	9,596,626	115
1981	89,615,948	64,991,668	134,852,903	223
1982	81,198,488	6,780,172	25,793,869	40

Source: London Rig Committee.

The rig committee is looking only at the construction risks that are insured on the master oil drilling rig slip in London, Mr. Wingett added. The master contract insures against many other offshore risks, including blowouts and other operational hazards, but these risks are not included in the report.

Although the committee figures depict that claims decreased in 1982, Mr. Wingett says that is not

an accurate picture since the accounts for that year will not close for another two years. Also, he adds, the 1982 figures do not include incurred-but-not-reported losses.

Mr. Wingett hopes that underwriters will take action to improve their loss ratios, but he adds, "This is a free market so all we can do is advise people of the situation and let them take it from there." ■

washington

Legislator wants to delay new pension vesting rules

By JERRY GEISEL

WASHINGTON—Rep. Dan Marriott, R-Utah, wants to postpone for a year the effective date of the new vesting rules that will apply to "top-heavy" pension plans.

Most top-heavy plans are sponsored by companies with fewer than 50 employees.

Under the Tax Equity and Fiscal Responsibility Act of 1982, top-heavy plans, in which 60% of benefits go to key employees, must adopt one of two fast vesting schedules by Jan. 1.

Employees either will have to be 100% vested after three years or be offered a six-year graded plan in which an employee is 20% vested after two years and 100% vested after six years.

Those schedules are much faster than the 4-40 vesting schedule now used by many small employers. Under 4-40, an employee must be 40% vested after four years of service.

Rep. Marriott's bill, H.R. 4427, would delay TEFRA's top-heavy pension provisions until Jan. 1, 1985. In addition, the measure would require the Treasury Department to recommend to Congress a "more satisfactory means of achieving adequate pension benefits for employees" without imposing excessive pension burdens on small businesses.

Congress included the top-heavy provision in TEFRA to give employees at small companies, where turnover often is high, a better chance of earning a pension benefit.

Social Security

The Internal Revenue Service is reminding non-profit employers that they must join the Social Security program by Jan. 1.

The IRS has sent some 52,000 notices to non-profit employers, known as 501(c)(3) organizations, reminding them that they and their employees will have to pay Social Security taxes starting next year because of legislation Congress passed earlier this year (BI, April 4).

Thousands of non-profit organizations have never joined the Social Security program, while many other non-profit employers dropped out of the program during the past few years.

Legal services

Sen. Robert Packwood, R-Ore., has introduced legislation, S. 2080, that would make permanent the tax-free status of employer-provided legal assistance plans.

Under Sen. Packwood's bill, the employer's cost of providing legal services would be tax-free to the employee so long as the benefits were made available to employees on a non-discriminatory basis.

Sen. Packwood says group legal service plans are cost-effective. "These advance arrangements dramatically reduce the time, cost and uncertainty involved in selecting a lawyer when a legal question arises," he said.

Railroad retirement

Payroll taxes for railroads that contribute to the Railroad Retirement System are on the rise.

On Jan. 1, payroll taxes for both parts of the Railroad Retirement System, known as Tier I and Tier II, will increase.

For Tier I, which corresponds to

the Social Security program, the payroll tax for railroads will increase to 7% of the first \$37,800 of wages per employee. The Tier I tax currently is 6.7% of the first \$35,700.

Under the Tier II program, which corresponds to the private pension plans most employers offer their employees, the payroll tax will rise to 12.75% of the first \$28,200 of salary. The current Tier II tax is 11.75% of the first \$26,700 of wages.

As a result, the maximum Tier I tax that a railroad will pay next year will rise to \$2,646 per employee, up from \$2,391.90. The maximum Tier II tax will jump to \$3,595.50 per employee from \$3,137.25.

Tier I and Tier II taxes paid by employees also will increase, though not by as much as for their employers.

The Tier I tax paid by employees will be 6.7% on the first \$37,800 of wages. The Tier I payroll tax paid by employees is now 6.7% on the first \$35,700 of wages.

The Tier II tax paid by employees will climb to 2.75% on the first \$28,200 of wages, up from 2% on the first \$26,700 of wages.

The maximum Tier I tax paid by an employee will rise to \$2,532.60 from \$2,391.90, an increase of \$140.70, while the maximum Tier II tax will rise to \$775.50 from \$534, an increase of \$241.50.

The Tier I increases match the increases Congress approved last March for the Social Security program. When Social Security taxes increase, Tier I taxes automatically increase by the same amount.

The Tier II tax increases were cleared by Congress in August when it passed the Railroad Retirement Solvency Act of 1983 (BI, Aug. 15).

About 1,000 railroads contribute to the Railroad Retirement System, which pays benefits to about 1 million retirees.

Safety inspections

The Occupational Safety and Health Administration has lowered the cutoff point it uses to determine whether it will conduct a full safety inspection at a worksite.

Since Oct. 1, 1981, OSHA inspectors have been conducting comprehensive safety inspections at companies with lost workday injury rates at or above the national average for manufacturing.

In 1982, the average lost workday injury rate for manufacturers declined to 4.3 per 100 employees, down from 4.9 in 1981.

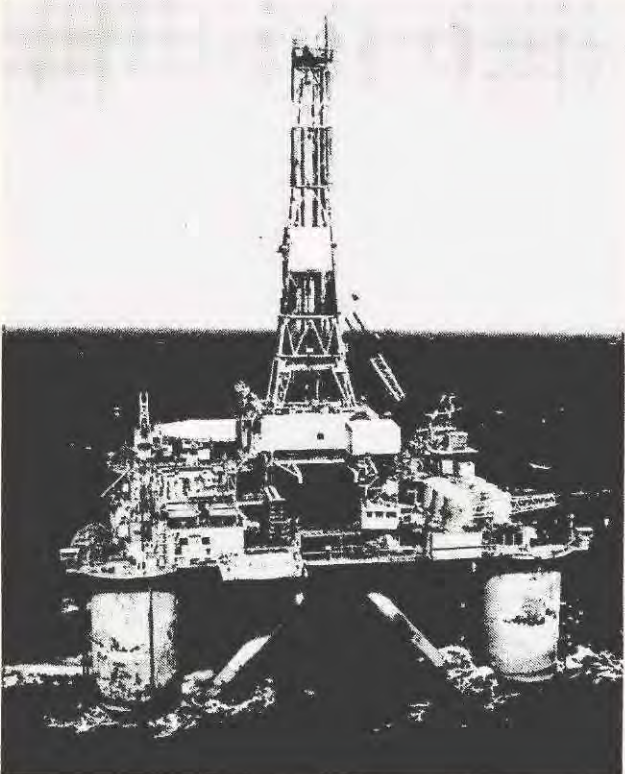
"The new rate means that workplaces must continue to improve their safety records in order to qualify for an inspection that ends with a records check," said OSHA chief Thorne Auchter.

New taxes?

Although Congress has recessed until next year, committee staffers are remaining in Washington to come up with new ways to raise taxes.

The Senate Finance Committee has set a Feb. 15 deadline for its staff to come with a comprehensive tax package that would reduce the federal deficit by about \$150 billion over the next three years through a combination of tax increases and spending cuts.

Many Washington observers believe that the new Finance Committee tax package will propose new taxes on employee benefits. ■



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Correspondents at Lloyds of London



Underwriters paying claim for \$40 million gold robbery

Continued from page 2
companies, though, say that any stake either firm might have had in the missing gold was small.

Stewart Wrightson's Mr. Engenham says that one British company owns between 66% and 75% of the missing gold, adding that this company was the first to be paid by the underwriters.

Other mysteries yet to be solved include the identity of the robbers and how they were able to pierce the elaborate security—including closed-circuit cameras and automatic doors—at the Brinks-Mat warehouse.

According to Scotland Yard, six gunmen wearing what appeared to be ski masks burst into the warehouse, handcuffed security guards, doused them with gasoline and threatened to set them on fire if they did not cooperate.

The gunmen then took 6,800 small gold bars contained in 76 boxes and about \$75,000 in diamonds, which were about to be shipped by air to Hong Kong.

Although Scotland Yard detectives are still actively investigating the robbery, officials believe that the gold may already have been melted down to obliterate any identifying marks.

The underwriters on the risk, who would profit if the gold should be recovered, have hired a British

adjusting company, Robert Bishop Adjusters Ltd., to settle the claim and to help authorities locate the booty. The underwriters also have instructed the adjusting firm to offer a \$3 million reward for information leading to the arrest of the thieves and recovery of the loot.

The Brinks-Mat heist is believed to be the largest in British history and the second-largest ever.

The largest robbery on record occurred when \$400 million in negotiable securities and \$20 million in gold, currency and jewelry was taken from the German Reichsbank in Berlin during the fall of the Nazi government in 1945. The crime was never solved, though it was believed to have been carried out by German and U.S. servicemen.

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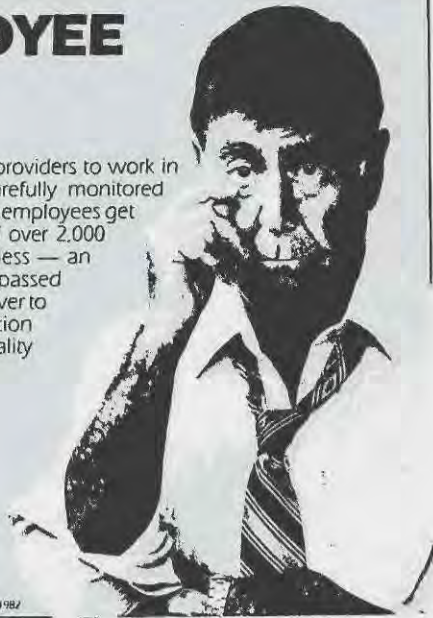


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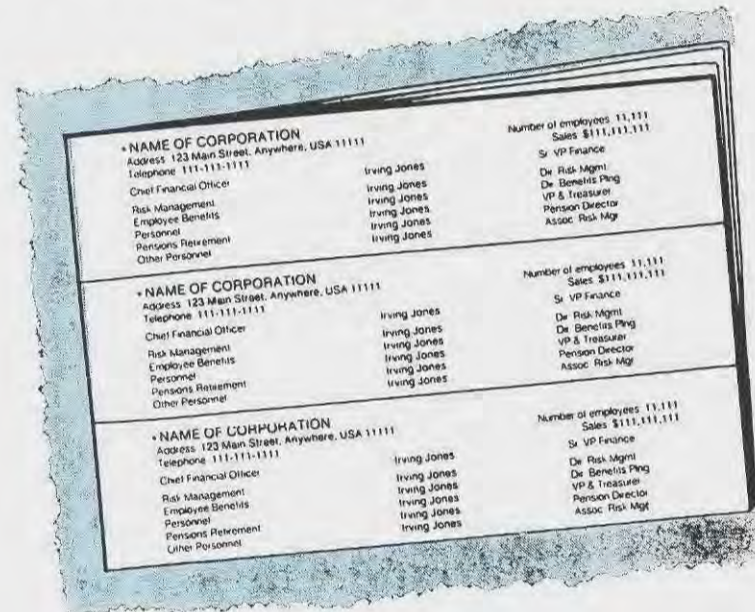
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markets

CIGNA forms LTD claims unit

CIGNA Corp. has formed a new long-term disability claims service department. The new unit, called Special Risk Operations, integrates the long-term disability claims operation of Connecticut General Life Insurance Co. and the group benefits claims functions of Life Insurance Co. of North America, a subsidiary of INA Corp.

The new department is expected to screen 100% of all new long-term disability claims through 10 regional offices and 14 district offices.

New broker

A new brokerage—Brady, Chapman, Holland & Associates Inc.—has been formed to handle commercial property/casualty and life and health lines.

The new firm is located at 2190 North Loop W., Suite 201, Houston, Texas 77018; 713-688-1500.

Acquisitions

Ivanhoe Insurance Group Ltd., a Toronto-based insurance holding company, has acquired all outstanding shares of York Fire & Casualty Insurance Co. of Thornhill, Ontario, a specialist in residential, auto and small commercial lines insurance products.

Poe & Associates Inc. has acquired Jordan-Roberts & Associates, a wholesale and specialty lines insurance brokerage based in Tampa, Fla.

Crown Life Insurance Co. of Toronto has invested \$9 million in American Principals Holdings Inc., a holding company whose subsidiaries include a stock brokerage and other investment services companies. The life insurer plans to use American Principals as a distribution outlet for new insurance products.

Corroon & Black Corp. has agreed in principle to acquire RKC & Co., a San Diego-based insurance brokerage specializing in employee group benefit plans.



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

* year end double issue.

NOTE: Editorial information is subject to change.

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

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

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

Fireworks firm's losses may not be covered

Continued from page 1

cover business interruption losses. The limits of the policy were unavailable. Fireman's Fund has been on the risk since spring. Before then, a unit of the Insurance Co. of North America (now CIGNA Corp.) had underwritten the association program.

Mr. Rosenow said Fireman's Fund generally does a "pretty thorough examination" of a fireworks facility immediately after acquiring a new association member as a policyholder and thereafter makes "pretty cosmetic" reviews if the risk remains unchanged.

About 45 of the Pyrotechnic Assn.'s 115 members use the Roanoke/Fireman's Fund program, Mr. Rosenow said.

The Gruccis previously had insured their inventory through a program offered through Frank B. Hall & Co. Inc.'s San Antonio office.

First State began underwriting the company's liability risks last January. Details of that coverage were not available.

The First State liability policy pays third parties' actual damages on a depreciated scale. Mr. Rueger said nearby homeowners whose property was damaged probably could claim losses under their homeowners policies, which usually are based on replacement costs. He said the homeowner insurers and First State could then negotiate the differences in cover-

age.

Mr. Rueger said he had arranged for a special team from the General Adjustment Bureau unit of GAB Services Inc., itself a subsidiary of UAL Inc., owner of United Air Lines Inc., to help speed homeowners' claims.

The arrangement of the site, actually about 12 structures scattered over the 13 acres, was designed so that an explosion in a single building hopefully would not involve the others, said Ralph Palmieri, executive vp of First State. Apparently the force of the blasts was so great that many of the buildings were literally "blown away," he said.

"This particular fireworks' manufacturer had an outstanding loss record," said Mr. Palmieri. He said, however, such a business generally is not insured by a highly protected risk insurer because of the tremendous exposure.

"It's a surplus lines type of risk," he added.

Mr. Palmieri said underwriting considerations include the type of explosives stored or handled and the location and physical arrangement of the operation.

He said he believed the company's buildings were constructed to vent the force of any explosion up rather than out. He said this is accomplished by making roof portions of such structures weaker than the walls so that the roof will rupture first.

Authorities said many of the windows and home structures appeared to have "exploded" out rather than "imploding" inside, suggesting the damage was caused by the creation of a vacuum at ground level as air rushed toward the factory to replace air blasted skyward.

"We're talking about 130 homes receiving some kind of damage, with 17 totaled," said Eric Kopp, assistant to the Suffolk County executive's office in nearby Hauppauge, N.Y. He said the destroyed homes and those damaged probably averaged about \$50,000 in value.

Mr. Kopp said the county wants the Gruccis to re-establish their operations at a new site somewhere in Suffolk County. He said neighbors near the demolished site would probably resist the granting of a building permit to reconstruct there.

Political opposition forced the Gruccis last year to abandon plans to expand the existing facility, Mr. Kopp said.

When the plant was first constructed about 50 years ago, there were no homes in the area.

Brookhaven Township Public Safety Director Herb Davis had inspected the plant a few weeks earlier and given it a clean bill of health, he said. Before that, he added, officials of the U.S. Bureau of Alcohol, Tobacco and Firearms had also checked the plant. The company had never had a signifi-

cant claim.

James Grucci, a part-owner of fireworks company and son of Felix Grucci Sr., 78, who founded the business in 1929, was killed in the blast. Also killed was Donna Gruber, 19, a cousin of James Grucci. The two were apparently at the plant preparing a fireworks display when the blast occurred.

The Gruccis were internation-

ally known as one of the most successful producers of massive ceremonial fireworks displays. They staged the 1983 fireworks display at the the Brooklyn Bridge centennial ceremony, the 1981 inaugural fireworks in Washington, D.C., the fireworks finale to the 1980 Winter Olympics and the 1977 Fourth of July display over New York Harbor.

Cost containment seminar set

MANSFIELD, Ohio—United Telephone Co. of Ohio will sponsor a three-day conference on health care cost containment Dec. 14-16 in Orlando, Fla.

The conference, "Corporate Health Care in Crisis," includes three separate one-day workshops. Participants can sign up for just one workshop or two or three.

Health care management systems will be discussed at the Dec. 14 session, data collection and analysis Dec. 15 and ways to reduce workers compensation and disability costs Dec. 16.

"We plan to describe specific strategies for saving money," said Joanne Rodgers, a staff member of United Telephone's educational services division who is helping coordinate the Orlando program.

This is the seventh conference United Telephone has sponsored.

"We were concerned with our rising health care costs," she said,

"and we saw there was a tremendous need by other companies for this information. We're trying to help fill that need."

United Telephone of Ohio, an independent telephone company, has 3,800 employees and is a subsidiary of United Telecommunications Inc., an information transfer and communications system distribution company that employs 30,000 people.

United Telephone began offering health care cost containment advice in September 1982.

Registration for each of the Orlando workshops is \$165.

The cost is \$445 for companies that register for all three days.

Further information, including registration forms, can be obtained by contacting Karen Warthen, United Telephone Co. of Ohio, Educational Services Division, Box 3555, Mansfield, Ohio 44907; 419-755-8591.

classified advertising

RATES AND CLOSING TIME:

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

Closing: Published every Monday. Copy must be in written form by noon Tuesday, 6 days preceding publishing date. No verbal phone copy accepted. Prepayment required. Mail ads to Beverly Kluxdal, Classified Advertising, 740 N. Rush St., Chicago, IL 60611. For more information call 312-649-5340.

Business Insurance

Circulation Breakdown*

Commercial Consumers

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

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

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

Government, Associations, Unions, Educational Institutions 1,024

Commercial Consumers Sub-total 23,176

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

TOTAL 42,383

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

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Specifications and rating data may be obtained on written request from the office of the Controller at the above address. Specifications will be mailed to all interested responsible bidders. In view of the specialized nature of insurance for the Associations, the following minimum requirements must be met by any agent to be eligible for consideration:

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- Evidence of Insurance Agents Errors and Omissions insurance with a minimum limit of \$1,000,000 per occurrence.

The Associations reserve the right to reject any and all bids and to waive any informalities in bidding. Contact Mr. R. A. Zadenetz (312) 791-4741 for information. The contract shall be subject to the applicable compliance standards and procedures of Executive Order No. 11246, as amended; Equal Employment Opportunity, and other provisions as specifically set forth in the Specifications.

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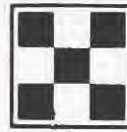
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Insurers ordered to fund asbestos claims

Continued from page 1
 main in business if it had to pay defense and compensation costs much longer (BI, Oct. 17).

Raymark, which paid \$7.5 million in 1982 on asbestos claims and estimates its 1983 costs at \$6.7 million, contended that delays by CU and Federal and possible appeals could delay funding for several years.

Compounding the problem for Raymark is the fact that Zurich recently exhausted its policy limits. Under an arrangement with Raymark, Zurich had been handling many of the cases in which exposure occurred after 1951.

Judge Murray's order that a trust fund be created which CU, Federal and Globe must maintain at \$1.5 million monthly came after discussions among the insurers.

The amounts the insurers are to contribute are based on the amount of coverage still available under their policies. CU is to contribute 26%, Federal 69.5% and Globe 4.5%. Defense costs are outside the limits of all three insurers' policies.

The trust has been established at

Continental Illinois National Bank & Trust Co. and funding has begun, according to an attorney.

Judge Murray also ordered that the principal of the trust account be invested and that interest accrued be available to pay claims and defense costs.

Also under the order, Zurich will administer the claims for Raymark at a charge of \$35,000 per month. Zurich will draw on the trust fund for all defense costs, indemnity payments and payments due Raymark's national legal counsel, Judge Murray said.

For any proposed settlement of more than \$15,000, Zurich must notify the insurers. If any of the three object within 10 working days of notification, Zurich should not accept the settlement, Judge Murray added.

The order is binding for one year, when a decision in the Raymark insurance case becomes final, or until any of the insurers depletes its coverage—whichever occurs first.

Once a final decision in the cov-

'This (coverage dispute) isn't the insured's problem,' Mr. Heap said. 'It never has been.'

erage litigation is made, adjustments will be made to the insurers' liability, Judge Murray added.

Last week, an attorney for Raymark said the company was pleased with Judge Murray's interim order.

"It's a financial relief to the company, there's no question about it," said Frank Heap with the Chicago law firm of Bell, Boyd & Lloyd.

Mr. Heap called it "absurd that insureds are allowed to bleed to death while insurance companies bicker."

"This (coverage dispute) isn't the insured's problem," he said. "It never has been."

"It's an insurance company allocation question. To drag the in-

sured in and under seems most unreasonable."

The "tragic thing" is that Raymark's primary insurers believed their limits would be exhausted eventually anyway, yet were unwilling to pay, he said. With the exception of Zurich, "they all ran for cover," Mr. Heap said.

A spokesman for Chubb said the company has made the first payment to the trust fund. The company also expects to file a motion for a rehearing on the order, said Newell G. Alford, Chubb corporate counsel.

Chubb believes that its contribution to the trust fund should be less than 69.5%, says an attorney close to the case. Chubb also wants to bring in excess insurers above Zurich to contribute to the fund, he added.

A spokesman for Commercial Union called the order "pretty straightforward" and "a very sensible arrangement."

Peter C. John, an attorney with Phelan Pope & John representing Zurich, called Judge Murray's order "a reasonable order," recognizing that it is time other primary carriers begin paying according to the exposure theory.

He said Zurich paid \$900,000 more in claims costs than its \$12 million limits and that it should be able to recover that amount, along with substantial defense costs, from the other insurers.

Besides the \$12.9 million Zurich paid out in claims, it also has paid \$29.7 million in defense costs, Judge Murray's order reveals. Defense costs are outside the limits of the Zurich policy.

Mr. John said Zurich is willing to continue to handle the claims for Raymark to maintain continuity.

According to Judge Murray's order, Raymark is facing more than 19,000 lawsuits, including 450 new ones per month. The company had \$25.7 million in primary coverage between 1941 and now. So far insurers—mostly Zurich—have paid out only \$13.2 million of the available coverage.

Of the \$20.9 million Raymark has paid out, \$5.7 million went for cases where exposure was prior to 1951 and another \$4.8 million was used to reimburse Zurich according to retroactive adjustments for the years 1981-1983.

Another \$10.2 went for defense costs and settlements and coordination of national counsel.

Of the \$3.5 million in coverage from CU, only \$2 million will be tapped for the trust fund. On policies issued to Raymark in the 1940s, CU is questioning whether they provide products liability coverage and if the limits are \$1.5 million. CU is reserving its rights on these questions.

Next, Judge Murray must decide how to implement his September coverage ruling, including a determination of how defense costs and indemnification payments are to be allocated among the primary insurers.

Another issue to be decided is whether primary insurers on pre-1966 policies are required to defend Raymark even after those policy limits are exhausted.

Judge Murray's decisions could come later this month or in January. They are almost certain to be appealed, sources said.

Future claimants not included in bankruptcy proceedings

PHILADELPHIA—For the second time, a federal district court judge has turned down an asbestos defendant's request to include future asbestos claims in bankruptcy proceedings.

On Nov. 9, U.S. District Court Judge James T. Giles rejected a request by Amatex Corp. for appointment of a legal guardian to represent future claimants in the proceedings.

Amatex, of Norristown, Pa., filed for reorganization under the Federal Bankruptcy Act in November 1982, citing more than 10,000 asbestos claims against it.

The guardian would have represented the interests of those persons exposed to asbestos before Amatex filed for reorganization last year, but who have not yet developed an asbestos-related disease.

At the same time, Judge Giles also rejected a proposal by Amatex to establish a fund from which both present and future claimants would be compensated.

Amatex had argued that under the bankruptcy code, the term "claim" includes all "contingent" and "unmatured" claims.

Thus, future claimants can be considered creditors and are entitled to representation and should be bound by decrees of the bankruptcy court.

Amatex also argued that their representation by a guardian was necessary to protect the future claimants' due process rights.

Judge Giles rejected both arguments, however, relying on a recommendation from U.S. Bankruptcy Court Judge William A. King Jr., and a decision by a federal court in Chicago in the UNR Industries Inc. bankruptcy.

That federal court also concluded that future claimants should not be considered creditors in bankruptcy proceedings.

"I have concluded that unknown, possible future asbestos claimants are not creditors under the bankruptcy code," Judge Giles said.

He said also that because future claimants are not creditors under the code, the question of whether their due process rights will be violated if they are not included is moot.

Judge Giles added that there could be no adequate notice given to individuals who don't know they might have a claim in the future.

"Attempted notice to persons who have no legal interest which can be protected under law is not due process notice," Judge Giles said.

The committee representing asbestos plaintiffs in Amatex's bankruptcy opposed the appointment of a guardian, arguing that future claimants are not creditors under the bankruptcy code.

It also argued that if those claimants are precluded from bringing claims in the future because they are part of the bankruptcy proceedings, they would be denied due process of law.

Amatex told the court that if future claims are not represented in the bankruptcy proceedings, it will probably not be able to reorganize or survive.

The company has appealed the case to the U.S. Court of Appeals for the Third Circuit.

Judge Giles had referred the case to the bankruptcy court, which in turn made recommendations on which Judge Giles acted. Technically, the district courts have jurisdiction over the bankruptcy courts.

In addition to Amatex and UNR, Manville Corp. has also filed for reorganization under the bankruptcy code because of the overwhelming number of asbestos lawsuits against it.

Court blocks OSHA's asbestos rule

NEW ORLEANS—A federal appeals court in New Orleans last week temporarily blocked the stricter emergency asbestos exposure limit issued by the Occupational Safety & Health Administration. The ruling stays any action until a Jan. 12 court hearing.

OSHA had called for an emergency standard Nov. 4 reducing exposure limits for asbestos from two fibers per cubic centimeter of air to

0.5 fibers per cubic centimeter (BI, Nov. 7).

But, The Asbestos Information Assn., North America, challenged the OSHA ruling, arguing that the present limits did not pose a great enough health threat to merit an emergency standard.

OSHA is trying to hasten the date of the judicial review. But if the Jan. 12 date remains, parties have until Jan. 3 to submit briefs to the court.

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Summary of major property/casualty insurer 1983 nine-month results

(All amounts in thousands of dollars)

(Ranked by change in aftertax operating income)

Rank 1983	Corporate				Property/casualty operations								
	Consolidated revenues 1983	Aftertax ¹ operating income 1983	Aftertax ¹ operating income 1982	Percent change 1982-1983	Combined ¹ ratio 1983	Combined ¹ ratio 1982	Net premiums written 1983	Percent change 1982-1983	Pretax underwriting income (loss) 1983	Percent change 1982-1983	Pretax investment income 1983	Percent change 1982-1983	
1	USF&G Corp.	1,463,950	123,629	73,442	68.3	115.2	113.1	1,458,499	(2.3)	(230,077)	11.2	257,437	26.0
2	Aetna L&C Co.	10,900,200	256,500	169,500	51.3	112.6	114.2	2,778,000	2.2	(322,700)	(7.8)	365,200	(5.1)
3	American General Corp.	2,881,800	214,000	142,900	49.8	114.8	104.5	737,400	20.4	(112,200)	162.2	94,500	5.2
4	The Chubb Corp. ²	1,308,200	69,900	49,600	40.9	106.4	111.7	946,800	10.8	(58,500)	(40.6)	78,500	4.5
5	CNA Financial Corp. ³	2,522,300	121,858	90,567	34.6	121.9	118.0	1,158,700	(1.5)	(255,200)	13.7	291,200	6.3
6	Old Republic Int'l. (inc. life) ¹	288,000	39,126	32,579	20.1	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
7	SAFECO Corp.	1,276,776	94,858	79,031	20.0	102.7	101.5	673,523	6.9	(17,585)	89.7	77,046	8.5
8	Hartford Steam Boiler	160,452	13,830	11,645	18.8	98.0	99.3	120,561	3.5	2,197	196.9	12,738	3.7
9	Ohio Casualty Corp.	669,966	46,037	40,987	12.3	105.8	105.6	641,569	5.9	(37,882)	9.1	66,956	6.9
10	The Travelers Corp. & subs.	9,129,505	234,856	210,918	11.4	110.4	110.4	2,284,489	(3.3)	(247,388)	(8.0)	198,938	8.9
11	American International Group	2,914,600	327,200	298,700	9.5	99.5	97.6	1,798,100	6.9	2,400	(90.1)	239,200	7.6
12	The Hartford Ins. Group ³	3,783,830	175,440	165,274	6.2	112.7	110.6	2,357,824	(0.5)	(293,654)	16.5	338,975	(3.9)
13	General Re Corp.	1,205,672	156,305	150,094	4.1	103.2	101.0	666,964	8.9	(17,485)	87.2	136,741	6.4
14	Reliance Ins. Co. & subs.	952,027	52,781	52,899	(0.2)	108.4	106.5	866,793	7.0	(59,328)	55.2	121,053	(4.9)
15	Fireman's Fund Ins. Cos.	2,801,411	171,142	179,128	(4.5)	111.6	104.6	2,179,690	13.1	(237,135)	175.4	318,019	28.6
16	Crum & Forster Inc. ³	1,591,687	94,797	100,044	(5.2)	111.5	111.7	1,371,345	8.7	(132,601) ³	7.3	226,249	(0.1)
17	CIGNA Corp.	9,239,500	289,300	333,100	(13.2)	118.9	115.0	2,714,536	(2.4)	(549,874)	30.1	419,428	1.5
18	Kemper Corp.	1,639,581	47,589	54,910	(13.3)	111.6	108.3	654,756	(9.1)	(74,049)	26.9	55,260	(4.2)
19	The St. Paul Cos. Inc.	1,714,650	109,899	143,172	(23.2)	111.5	105.7	1,267,334	8.8	(142,193)	114.8	204,255	5.3
20	Mission Ins. Group Inc.	358,006	17,136	35,405	(51.6)	112.0	101.0	303,579	20.4	(34,864)	1135.0	34,772	(2.2)
21	The Continental Corp.	2,852,382	41,380	104,448	(60.4)	115.1	111.2	1,858,880	(6.5)	(282,504)	15.2	221,795	(2.9)
22	The Home Group Inc.	1,594,500	16,900	62,900	(73.1)	120.5	113.9	1,210,275	(8.1)	(24,387)	33.5	226,368	4.9
23	Fremont General Corp.	385,160	(4,007)	2,443	(264.0)	128.9	121.3	1,777,440	(9.6)	(51,583)	23.1	31,947	16.7
24	Armco Ins. Group Inc.	514,622	(50,346)	13,886	(462.6)	117.1	112.3	448,226	2.5	(77,172)	43.5	53,217	2.0
	— Royal Group (U.S. subs.) ³	N/A	(27,600)	300	N/A	116.1	113.3	958,600	0.3	(156,000)	13.1	130,400	9.6
	— Commercial Union Ins. (U.S.)	N/A	N/A	N/A	N/A	118.5	117.1	1,067,600	(6.7)	(199,900)	(3.6)	141,000	5.9
	— Wausau Insurance Cos.	N/A	N/A	N/A	N/A	125.4	117.8	750,390	10.1	(125,867)	101.5	133,213	4.6
	— Liberty Mutual Ins. Co.	N/A	N/A	N/A	N/A	116.3	117.0	2,163,804	(1.8)	(246,294)	(2.1)	334,291	(3.0)
	— Sentry Ins. Cos. ³	320,867	N/A	N/A	N/A	109.3	113.7	567,108	0.8	(61,120)	(16.5)	67,370	(6.3)
	Cumulative	62,469,645	2,632,510	2,597,872	1.3	113.0	110.9	33,643,553	1.6	(4,890,068)	21.0	4,926,068	4.0

¹ After dividends

² 1982 results as reported prior to merger with NLT Corp.

³ Statutory

⁴ Domestic underwriting only

N/A—Company did not provide data

Commercial lines becoming unprofitable

By BILL DENSMORE

FOR THE FIRST time in recent memory, major property/casualty insurers are losing money on commercial business even after investment income is considered, the latest *Business Insurance* survey of underwriting results shows.

Yet, almost incredibly, the survey shows those same insurers made money for their shareholders in the third quarter, largely because of a brightening outlook in personal lines and group life and health insurance.

Overall, the insurers' results for

the first nine months of 1983 are not quite as harsh as in the third quarter, in which some deterioration was expected considering the \$675 million in catastrophe losses caused by Hurricane Alicia (*BI*, Aug. 29).

Five major commercial insurers—CIGNA Corp., Aetna Life & Casualty Co., Travelers Corp., Continental Corp. and Kemper Corp.—report they sustained operating losses on commercial lines during the third quarter, partly because of the storm.

In addition, The Home Group Inc. is nearing operating losses on

its property/casualty operations.

"I think they crossed over in the third quarter primarily because of Alicia losses," says James B. Stradtner, general partner at Alex. Brown & Sons, a Baltimore-based stockbroker. "But I'd be very surprised if (the losses) continued."

Mr. Stradtner says he expects underwriting losses to continue to grow gradually next year as growth in investment income eases and says commercial business could again produce red ink in 1985.

"I think risk managers may have some exotic risks and they may have some problems placing those during 1984 because the insurers have been killed on the exotics," predicts David Seifer, a vp of First Boston Corp. in New York.

Overall, Mr. Seifer foresees a gradual firming of reinsurance rates that should result in some price hardening by primary insurers that will be felt by buyers in the second half of 1984.

Overall, the *BI* survey of the latest results of 29 major commercial insurers, which represent about half the industry's premium volume, shows:

- Aggregate operating income, despite Hurricane Alicia, rose 1.3% during the first nine months of the year; however, operating earnings were off 16% in the third quarter. Net income was up 16.9% for the nine months, but down 14.4% for the quarter.

- The aggregate corporate operating margin—total aftertax operating income divided by total revenues—declined slightly to 4.2% for the nine-month period from 4.5% a year earlier.

- Aggregate written premiums grew 1.6% for the nine months while underwriting losses rose 21.0%. For the third quarter alone, premiums grew 4.0%, while underwriting losses surged 53.3%.

- Gains in pretax investment income, which reached a high of 17% at the end of 1981—dwindled to 4.8% for the quarter and 5.7% for the nine-month period. As a result, insurers apparently can no longer count upon investment income growth to overpower underwriting losses.

- The aggregate combined ratio—after policyholders' dividends—rose 5.2 percentage points to 115.3% for the quarter and 2.1 points to 113% for the nine-month period.

More interesting than any single set of numbers, however, is the relationship between investment income and underwriting results.

Among the insurers *BI* follows, the aggregate pretax underwriting loss reached \$1.68 billion in the third quarter, while investment income was also \$1.68 billion pretax, before capital gains or losses. This produced a net gain of just \$2.3 million.

For the nine months, things looked a little better, with an underwriting loss of \$4.3 billion and investment income of \$4.9 billion.

To appreciate how the relationship between investment income and underwriting results has changed in only two years requires a look at results reported at year-end 1981 (*BI*, April 5, 1982).

The 23 companies that *BI* tracked at that time posted pretax underwriting losses of \$2.3 billion and aftertax investment income was \$4.5 billion. Even allowing for the use

of aftertax rather than pretax investment figures and some changes in the companies surveyed, the major property/casualty insurers at that time earned double the investment income required to offset their underwriting losses. Now, they have little room left for maneuvering.

In the comments accompanying their nine-month results, insurers generally painted a bleak picture. Only Maurice R. Greenberg, chairman and president of American International Group Inc., hinted at any change in market conditions.

"In recent months, we have obtained rate increases in certain classes of business where this had not previously been possible," Mr. Greenberg said. However, a spokesman for AIG later explained that the classes referred to by Mr. Greenberg included only professional liability risks.

Most insurers blamed lagging results on severe price competition, the inability to obtain rate increases and the losses from Hurricane Alicia. But the consensus seemed to be that results would have been poor even without Alicia.

"The claims costs associated with Hurricane Alicia in August just made a bad situation worse," said Carl B. Drake Jr., chairman and chief executive of The St. Paul Cos. Inc., which posted a steep 23.2% decline in nine-month aftertax operating income.

"I just got the feeling reading everybody's press release, including our own, that everybody gave Alicia more credit than she was due," said the financial officer of

Continued on facing page

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Continued from facing page
one of the 29 companies tracked regularly by BI.

CIGNA Corp.'s detailed results are typical of the multiline insurers' third-quarter reports.

CIGNA's property/casualty group reported a third-quarter operating loss of \$18.1 million, compared with income of \$23.6 million a year earlier. Only \$11.3 million of the losses, however, were attributed to Alicia. Overall catastrophe losses for the nine months were stated as \$43.4 million, down from \$52.5 million a year earlier.

Yet, CIGNA said operating income from life and health operations was up a robust 31% to \$133.8 million, while earned premiums in this sector rose 21%. CIGNA attributed these favorable results to rate increases, the improved economy and "a slowing in the rate of increase in medical costs."

Likewise, Travelers Corp. said it lost \$5.1 million in the third quarter on its commercial property/casualty lines, compared with a \$6.3 million profit for the same three months of 1982. But, Travelers reported a \$14.7 million gain from personal lines, compared with a \$1.6 million loss for the three months a year earlier.

Travelers said its combined ratio on personal lines for the quarter was 99.2%, compared with a 117.0% combined ratio for commercial lines.

Continental Corp. said its commercial lines combined ratio reached 116.5% for the nine-month period, up from 109.2% a year earlier. Its overall combined ratio was 114.5%, up from 110.8.

Thus, Continental's commercial book deteriorated faster than personal lines.

Aetna Life & Casualty Co.'s tax policies once again skewed comparisons between its 1983 and 1982 results (BI, Sept. 26, May 23, May 9).

Due to the Securities and Exchange Commission's request that Aetna restate its 1982 results, which included the value of future tax credits, Aetna reported a 51.3% operating earnings gain to \$256.5 million for the first nine months of the year and only a 16.9% decline on third-quarter earnings despite Hurricane Alicia and a commercial lines operating loss.

Aetna had originally reported earnings of \$372.4 million in the first nine months of 1982, a gain of 7.7% over the previous year. Following the SEC-ordered restatement, those earnings shrank to \$169.5 million.

If Aetna has not restated its 1982 earnings, it would have been forced to report an earnings decrease of 31.1% for the first nine months of this year, which should have put the company in the No. 19 spot in the BI survey, instead of in second place.

Aetna officials contend such a comparison is improper.

Although the large, multiline insurers have had their problems, workers compensation specialists also seemed to fare worse than the norm, as workers compensation losses have zoomed so far this year after a relatively cheap 1982.

For instance, two big California-based workers compensation writers, Fremont General Corp. and Mission Insurance Group Inc., posted aftertax operating income declines of 264% and 51.6%, respectively, for the nine months.

But the most disappointing results were Armco Insurance Group Inc.'s, which blossomed during the late 1970s as a specialty lines insurer. For the nine months, Armco posted a \$50.3 million operating loss, compared with a \$13.9 million profit a year earlier.

Leading all competitors in operating gains for the nine months is USF&G Corp., the Baltimore-based multiline insurer particularly active in the surety-bond business for the construction industry. After a couple of years of operating declines, USF&G has re-emerged during 1983 with substantial gains each quarter, posting an earnings gain of 68.3% for the nine months.

The company attributes its improved performance to a shift last year in its investment policies toward high-yielding taxable securities, which have the effect of absorbing 1983 underwriting losses rather than letting them fall to the bottom line.

Indeed, USF&G's combined ratio of 115.2% for the nine months, up from 113.1%, is rising just as fast as the rest of the companies surveyed, suggesting the company's underlying underwriting performance may be little better than anybody else's.

USF&G also says that its unique strategy of rolling over securities every several months on precise timetables to take advantage of dividend payments also contributed to its 26.0% gain in investment income for the first nine months and a stellar 53.7% gain for the third quarter.

"It's going much better than we thought," says Paul W. Schlough, vp-investor relations at USF&G. "We didn't quite expect that."

Mr. Schlough acknowledged that USF&G's underwriting results weren't significantly better than anyone else's and said the company has had little luck obtaining rate increases.

Because it dropped out of a reinsurance pool and refused to write some unprofitable business, USF&G's written premiums fell 2.3% for the nine months and 4.8% on the quarter.

Mr. Schlough says he thinks most companies are sacrificing short-term profits in the current market in a long-term attempt to retain market share.

"This market is much more one of companies posturing for the future and keeping market share," he said. "This is not a cycle on profits, it is a cycle on market share."

The inevitable result of such a market, he speculates, is the elimination of "some weak sisters."

Financial briefs Corroon & Black

Ingram Industries Inc. and its president, E.

Bronson Ingram, have reported to the Securities and Exchange Commission that they now own 7.8% of Corroon & Black Corp. stock and may purchase additional shares.

Stephen A. Crane, Corroon & Black's senior vp and chief financial officer, described the purchases as a "friendly investment."

Mr. Ingram was a principal and a director of broker Ingram, Armistead & Wallace and became a director of Synercon Corp., another broker, when the two companies merged. In 1976, Synercon merged with Corroon & Black.

Ingram Industries is in the inland marine transportation business.

Aneco Re

Aneco Reinsurance Co. Ltd. of Hamilton, Bermuda, posted third-quarter operating earnings of \$270,109, or 13 cents a share, compared with the \$103,976 it earned during the corresponding period last year.

The company's shareholders also approved the creation of 20 million new convertible preferred shares and 12 million new common shares.

Proceeds from the sale of the preference shares will be used to double its Aneco Reinsurance Underwriting's capital base, which now stands at \$10 million, said Jonathan Crawley, vp of Aneco Re and president of Aneco Reinsurance Underwriting.

CIGNA

CIGNA Corp. has declared a quarterly cash dividend of 62 cents per common share and 68.75 cents per \$2.75 cumulative convertible preferred share, payable Jan. 10 to shareholders of record Dec. 9.

Industry as a whole fares better

NEW YORK—Aggregate industry results, compiled by the Insurance Services Office and the National Assn. of Independent Insurers, show the property/casualty insurance industry as a whole is doing better than the large insurers surveyed by *Business Insurance*.

For instance, industrywide underwriting losses, as reported by ISO and the NAII, grew 14.1% during the first nine months of 1983, compared with the corresponding period of 1982. The large insurers surveyed by *BI* reported a 21% increase in underwriting losses.

Likewise, the insurance industry report noted that the industry's investment income rose 14% during the period, compared with a 4% increase reported in the

BI survey. Industrywide aggregate investment income is 46% greater than underwriting losses, while the investment income reported by the companies surveyed by *BI*, is only 14.7% larger than their underwriting shortfall.

Turning to the bottom line, ISO and the NAII report the industry's aggregate aftertax operating income increased 16.7% during the first nine months, compared with a 1.3% increase in the *BI* survey.

The industry as a whole posted a combined ratio of 110.4% for the period, up one percentage point from last year. In contrast, the companies surveyed by *BI* reported an aggregate 113% combined ratio, up 2.1 percentage points.

British Issues

29 NOV Companies	Price pence	P/E	Div. pence	Yield %	1 Week	
					High	Low
Comm Union	182	30.3	16.86	9.3	183	179
Eagle Star	676	20.5	27.86	4.1	676	640
Genl Accident	437	12.9	26.43	6.0	440	430
Gdn Royal Exch	514	13.5	30.71	6.0	517	512
Phoenix	387	16.8	26.00	6.7	390	378
Royal	497	12.7	39.28	7.9	497	483
Sun Alliance	1388	16.0	78.57	5.7	1400	1375

Brokers						
	Price	P/E	Div.	Yield	High	Low
CE Heath	310	7.8	22.86	7.4	311	310
Hogg Robinson	129	9.9	9.43	7.3	132	129
JH Minet	134	10.3	7.57	5.7	135	134
Sedg Grp	221	11.1	11.43	5.2	222	217
Stanhouse Hldg	136	12.4	8.28	6.1	137	136
Stew Wrightson	268	8.9	22.57	8.4	268	262
Willis Faber	623	13.0	30.00	4.8	627	618

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

BI Industry Stock Report

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Insurance Cos.	Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol. (000)
Aetna Life & Cas Co	NYSE 37.25	2.1	9.5	2.64	7.1	37.25	36.50	653.0
American Bankers Ins Group	OTC 13.50	2.4	13.9	0.50	3.7	13.50	13.18	57.0
American Gen Ins Co	NYSE 25.88	6.7	3.9	0.80	3.1	25.88*	24.88	2,139.9
American Indty Finl Corp	OTC 17.75	0.7	9.5	1.12	6.3	17.75	17.63	10.0
American Intl Group Inc	OTC 64.25	5.8	13.8	0.44	0.7	65.75	61.25	728.6
American Natl Ins Co	OTC 20.63	0.0	7.5	0.96	4.7	20.75	20.50	144.8
American Sts Life Ins Co	OTC 49.00	0.0	13.4	0.88	1.8	49.50*	49.00	1.5
Aneco Reins Ltd	OTC 3.50	7.7	25.0	0.00	0.0	3.50	3.25	14.6
Avenco Corp	AMEX 20.38	5.8	12.6	0.58	2.8	20.38	19.13	26.6
Banks Iowa Inc	OTC 47.50	0.0	15.3	1.52	3.2	47.50	47.50	2.5
Bitco Corp	OTC 17.25	-4.2	0.0	1.33	7.7	17.50	17.25	19.8
Carolina Cas Ins Co	OTC 6.75	0.0	0.0	0.20	3.0	6.75	6.75	0.1
Chubb Corp	OTC 64.75	3.0	8.4	3.12	4.8	64.75	63.38	135.5
Combined Intl Corp	NYSE 39.63	0.6	11.8	2.00	5.0	39.88	39.50	240.2
Continental Corp	NYSE 28.25	0.0	38.2	2.60	9.2	28.25	27.63	449.5
Crawford & Co	OTC 14.50	9.4	10.7	0.60	4.1	14.50	13.75	13.2
Crown Life Ins Co	OTC 119.63	0.0	7.8	3.20	2.7	119.63	119.63	0.0
Employers Cas Co	OTC 32.50	0.8	7.2	1.20	3.7	32.50	32.50	3.7
Equifax Inc	NYSE 30.00	4.3	12.5	1.60	5.3	30.00	28.88	16.9
Excelstor Ins Co	OTC 21.50	0.0	18.1	0.00	0.0	21.50	21.50	0.4
Farmers Group Inc	OTC 40.88	0.0	10.1	1.36	3.3	40.88	40.75	476.8
Foremost Corp Amer	OTC 29.00	0.9	8.8	0.88	3.0	29.50	29.00	66.3
Fremont Gen Corp	OTC 15.50	0.0	0.0	0.48	3.1	15.50	15.38	432.2
Great West Life Assurn Co	OTC 300.00	0.0	10.8	11.00	3.7	300.00	300.00	0.0
Hanover Ins Co	OTC 55.25	-2.2	7.1	0.88	1.6	55.25	55.25	20.7
Hartford Steam Boiler Insprnt	OTC 57.00	-2.6	11.1	3.00	5.3	59.00	57.00	11.1
Jefferson Natl Life Ins Co	OTC 42.50	6.2	14.3	0.76	1.8	42.50	40.00	17.3
Kemper Corp	OTC 39.38	3.4	8.5	1.80	4.6	39.50	38.38	34.2
Lincoln Natl Corp Ind	NYSE 66.25	2.1	9.6	3.36	5.1	66.75*	65.75	370.9
Mission Ins Group Inc	NYSE 26.50	3.9	10.7	1.00	3.8	27.25	26.00	259.6
Nationwide Corp Ohio	OTC 41.75	0.0	15.3	0.70	1.7	0.00	DID NOT TRADE	
Northwestern Natl Life Ins	OTC 35.88	3.2	9.5	1.50	4.2	35.88	35.00	44.1
Ohio Cas Corp	OTC 46.50	0.0	8.6	2.52	5.4	47.13	46.50	37.4
Old Rep Intl Corp	OTC 31.88	1.2	7.1	0.90	2.8	31.88	31.63	22.4
Orion Cap Corp	NYSE 27.75	1.4	13.3	0.66	2.4	28.25	27.75	17.7
Preferred Risk Life Ins Co	OTC 20.00	-1.2	7.6	0.67	3.3	20.13	20.00	10.5
Provident Life & Acc Ins Co	OTC 65.50	0.8	8.1	2.60	4.0	65.50	65.50	20.5
St Paul Cos Inc	OTC 56.63	3.4	7.7	2.80	4.9	56.63	55.13	407.0
SAFECO Corp	OTC 56.13	0.0	11.1	2.60	4.6	56.25	56.00	106.7
Sri Corp	OTC 17.25	-1.4	7.5	0.68	3.9	17.50	17.25	128.4
Seibels Bruce Group Inc	OTC 22.75	0.0	12.9	0.80	3.5	23.00	22.75	35.3
Statesman Group Inc	OTC 9.88	-2.5	8.6	0.15	1.5	10.00	9.88	57.3
Tokio Marine & Fire Ins Co	OTC 104.25	-1.2	16.7	0.96	0.9	105.25	104.25	0.6

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	Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol. (000)
Travelers Corp	NYSE 33.00	2.3	8.3	1.80	5.5	33.00	32.38	542.9
United Fire & Cas Co	OTC 32.00	0.0	11.4	0.88	2.8	32.00	32.00	0.3
United States Fid & Gty Co	NYSE 59.00	-0.8	10.4	3.84	6.5	59.63	58.63	246.6
United Svcs Life Ins Co	OTC 23.13	1.6	6.8	1.00	4.3	23.25	22.88	11.4
USLife Corp	NYSE 29.75	6.2	8.5	0.96	3.2	29.75*	28.50	411.1
Washington Natl Corp	NYSE 24.38	4.8	11.6	1.08	4.4	24.38	22.75	88.5
Zenith Natl Ins Corp	OTC 15.75	-1.6	11.1	0.60	3.8	16.00	15.75	16.7
AVERAGE			10.3		3.7			
AGENTS/BROKERS								
Alexander & Alexander Svcs	NYSE 20.38	0.0	0.0	1.00	4.9	20.50	19.88	189.9
Baldwin & Lyons Inc	OTC 37.50	0.0	15.6	0.80	2.1	37.50	37.50	0.3
Corroon & Black Corp	NYSE 26.75	-0.5	16.8	1.80	6.7	26.75	26.50	42.1
Crump E H Cos Inc	OTC 10.00	0.0	13.7	0.40	4.0	10.00	10.00	13.6
Emett & Chandler Cos Inc	OTC 11.25	0.0	30.4	0.00	0.0	11.25	11.25	0.3
Hall Frank B & Co Inc	NYSE 25.13	-3.8	22.8	0.00	0.0	25.75	25.00	87.6
Integrated Res Inc	AMEX 33.88	0.4	11.0	0.00	0.0	33.88	32.50	125.4
Marsh & McLennan Cos Inc	NYSE 48.00	1.1	14.0	2.20	4.6	48.00	47.63	75.3
Poe & Assoc Inc	OTC 5.75	0.0	0.0	0.00	0.0	5.75	5.75	0.2
Reed Steenhouse Cos Ltd	OTC 12.63	1.0	21.0	0.60	4.8	13.00	12.63	4.1
AVERAGE			18.2		2.9			
Conglomerates Holding Cos.								
American Express(Fireman's Fd)	NYSE 34.25	-3.2	9.9	1.28	3.7	34.63	34.25	2,611.6
Anderson Clayton(Ranger/PanAm)	NYSE 27.50	-1.8	12.8	1.32	4.8	28.25	27.50	17.7
Arco Inc	NYSE 19.25	8.5	0.0	0.40	2.1	19.25	18.13	388.8
Baldwin Utd Corp	NYSE 2.88	4.5	0.0	0.00	0.0	2.88	2.75	327.5
CIGNA Corp	NYSE 44.88	4.4	7.7	2.48	5.5	44.88	44.00	487.2
City Investing Co. (Home Ins.)	NYSE 36.38	2.4	10.8	1.80	4.9	36.88	36.63	275.9
CNA Finl Corp (CNA)	NYSE 21.75	1.8	7.1	0.00	0.0			

How The Hartford helps reduce insurance costs.

"Our leadership in Automation puts you in control of your insurance—and its cost."

Don Frahm, President, Property/Casualty Operations, tells business insurance buyers how they can benefit from The Hartford's advanced Automation capability.

Q. How does The Hartford's Automation capability help brokers and agents meet my business insurance needs better?

A. It enables them to give you faster, more responsive service across the board. Take quotes, for example. Where a nonautomated insurer might take a month or more to get back to brokers and agents with a proposal, we can normally get quotes out in days. That fast turn-around lets you measure the cost-effectiveness of different levels of coverage in actual dollar terms—and right up front. It also gives you more time to make informed decisions on the options open to you, and to balance cost and coverage considerations.

Q. When do you use computerized loss control analysis? And how can it cut insurance costs?

A. Computerized loss control analysis comes into play when a company has complex exposures and multiple claims. By breaking out losses by location, time of day, type of accident or injury, and so on, our Loss Control specialists can detect common denominators which help them pinpoint accident causes. They can then work up recommendations for eliminating or reducing those losses.

In the case of a large New England printing company, for example, computer analysis showed a high percentage of accidents and lifting injuries connected with bindery operations. Guided by clues



contained in the analysis, our Loss Control specialists did a Materials Handling Survey of bundle size and weight, work flow patterns, and the like, and made specific recommendations to improve the situation. The same procedure was followed with other types of accidents and injuries.

The results were dramatic. In the 7-month period following the implementation of the recommendations, incidents were reduced by nearly 60% over the corresponding 7-month period a year earlier, and incurred claims costs dropped by 94%. Naturally, improvements like that can substantially lower future premiums.

Q. How can your automated Claims capability increase my control and limit my losses?

A. Let me first make clear that our automated Claims capability complements our human Claims capability. Remember, many insurance companies rely almost entirely on outside Claims services. At The

Hartford, we handle about 99% of our own claims with our own staff of some 4,200 Claims personnel. We have more than 200 fully automated field Claims offices in the U.S. and Canada, and 52 regional Claims offices.

Our human Claims capability assures you of fast, fair, and expert response to claims. And our computer Claims capability assures you of fast, accurate Claims processing and reporting. You know where you stand at all times. And the rapid resolution and payment of claims can significantly reduce claim costs and thereby improve your company's cash flow and profit picture.

Q. Are your computer-enhanced Loss Control and Claims services available on an unbundled basis?

A. Yes—through our subsidiary, Hartford Specialty. One of their Claims services is a

unique on-line claim reporting system that gives you current, up-to-date information on claims and lets you break out claims anytime in accordance with criteria you select on the spot.

Q. How can my company take advantage of The Hartford's leadership in Automation?

A. Just contact a broker or independent agent who represents The Hartford.



Don't make a decision on any business insurance without a quote from The Hartford.

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