

# Business Insurance

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## Hall, Mutual of Omaha settle reinsurance suit for \$20 million

BRIARCLIFF MANOR, N.Y.—Frank B. Hall & Co. Inc., the nation's fifth-largest insurance brokerage, late last week settled for \$20 million a lawsuit seeking \$150 million from Hall and two of its subsidiaries.

The suit, filed in April 1986, involved reinsurance programs for The Omaha Indemnity Co., a unit of Mutual of Omaha Insurance Co., arranged by Frank B. Hall Re of New York Inc. and Frank B. Hall (Underwriting Managers)

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## Flex cap protests flood Capitol Hill

By JERRY GEISEL

WASHINGTON—Employers and consultants are bombarding congressmen and Capitol Hill staffers with protest letters in an 11th-hour campaign to kill or amend a provision in a House-passed budget reconciliation bill that could cripple flexible benefit plans.

Under that provision, a \$500 annual cap—effective Jan. 1—would be placed on the amount of pretax salary that employees in flexible benefit or cafeteria plans could contribute toward uncovered benefit expenses.

In addition, employees covered by flexible benefit plans that offer a choice between non-taxable benefits and cash would be taxed on the amount of cash they could possibly receive from the plan over a \$500 threshold, even if they reject the cash and select additional tax-free benefits (BI, Nov. 9).

The fate of the \$500 flexible benefit plan cap is likely to be decided this month when a congressional conference committee meets to iron out differences between the House-approved budget bill and the budget legislation that is expected to be passed soon by the Senate.

The Senate is not expected to include a restriction on flexible benefit plans in its budget legislation package. That will set the stage for a battle over the \$500 flexible benefit plan cap when House and Senate members of the conference committee try to reconcile differences in the two bills and draft a new, uniform legislative package for final congressional approval.

At this point, few experts are willing to predict the fate of the \$500 flexible benefit plan limit, which is supposed to raise \$4.1 billion in revenues over the next three years.

"It's too close to call at this point," said Ken Feltman, executive director of the Employers Council on Flexible Compensation, a Washington-based trade group representing employers that have or are interested in flexible benefit plans.

But to try to influence the outcome of the debate, hundreds of

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## Mounting claims spark suit against EIL facility

By CAROLYN ALDRED

LONDON—Faced with rapidly mounting claims, retrocessionaires of a formerly premier London-based environmental liability reinsurance facility are suing the facility's organizer and lead underwriter for damages.

EIL insurance policies reinsured by the 15-member facility—known as ERAS—already have produced more than \$70 million in claims on the program's primary layer alone, while the premiums collected by the facility total less than \$40 million.

Paris-based Societe Commerciale de Reassurance, the facility's lead reinsurer for the primary layer, and Lloyd's of London broker Clarkson Puckle Ltd. are named in one suit filed in London's High Court last month by seven retrocessionaires of SCOR. Clarkson Puckle's subsidiary, Environmental Risk Assessment Service (International) Ltd., set up ERAS in 1976 to provide reinsurance for EIL insurance written in the United States.

Charging SCOR and Clarkson Puckle with misrepresentation, the retrocessionaires are seeking unspecified damages for breach of contract and negligence. However, the writ does detail the nature of the alleged misrepresentations or negligence.

In addition, other SCOR retrocessionaires, as well as underwriters that participated on the facility's excess layers, are suing Clarkson Puckle for misrepresentation and breach of duty.

Among the plaintiffs in various lawsuits are: Robin A.G. Jackson, underwriter for Lloyd's syndicate 799, managed by Merrett Underwriting Agency Management Ltd.; other Lloyd's syndicates; St. Katherine Insurance Co. P.L.C. of London; CNA Reinsurance of



Graphic: Amy Palmer

London Ltd. of London; Zurich Reinsurance Co. of Tarrytown, N.Y.; Bavarian Reinsurance Co. of Munich, West Germany; Hannover Reinsurance Co. of Hannover, West Germany; Forsakrings A.B. Skandia of Stockholm, Sweden; Skandia International Insurance Corp. of Stockholm; Insurance Co. of North America (UK) Ltd. of London; and the People's Insurance Company of China.

Meanwhile, the U.S. insurers that fronted the policies reinsured by the pool are paying policyholder claims they consider valid. In turn, the insurers are recovering their losses from SCOR.

However, the fronting insurers in some cases are fighting liability for claims under the EIL policies. The coverage disputes represent "substantial" litigation in U.S. courts with policyholders, said Julius Denenberg,

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## Despite reinsurance exclusions

# London marine market renews liability covers

By CAROLYN ALDRED

LONDON—Major U.S. energy companies expect to keep their broad, high-limit liability coverage in the London marine market despite new reinsurance policy exclusions imposed on marine underwriters.

Many London marine underwriters, hungry for premium income, are willing to write the energy companies' liability risks even though their excess-of-loss reinsurance treaties won't cover the risks.

However, some marine underwriters may be unaware that their reinsurers will not cover them, some reinsurers say.

Marine excess-of-loss underwriters in March introduced a non-marine liability exclusion clause that excludes product liability insurance, unless it is written on a claims-made basis; D&O insurance; professional indemnity and errors and omissions coverage; and liabilities under the Securities Exchange Act (BI, March 30).

Nonetheless, brokers and marine market sources say the marine underwriters at Lloyd's of London and in the company mar-

ket are willing to renew the energy companies' broad package policies including these risks, written partially on an occurrence basis for lower layers and partially on a claims-made basis for higher layers.

Furthermore, the premiums quoted for the liability coverage are about the same as premiums charged last year when the marine market had reinsurance protection for the policies, sources say.

Some energy companies are even hoping for broader coverage, including more coverage written on an occurrence basis for product liability and sudden and accidental pollution risks.

The reason: The London marine market "is much softer than last year and is prepared to write business on extremely broad and dangerous terms to maintain premium income volume," said Lloyd's marine underwriter Ian Agnew, who refuses to write U.S. liabil-

ity business on an occurrence basis.

Some of the world's largest oil companies currently renewing their liability insurance in the marine market include Mobil Corp. of New York; Texaco Inc. of White Plains, N.Y.; Phillips Petroleum Co. of Bartlesville, Okla.; Shell Oil Co. of Houston; and British Petroleum Co. P.L.C. of London, *Business Insurance* has learned.

Although such policies have been written in the London marine market for many years, this is the first renewal since the excess-of-loss exclusion clause was introduced, forcing the underwriters to write

much of the liability business on a net line basis.

The amount of liability business continuing to be written by marine syndicates is very controversial at Lloyd's.

Marine underwriters allegedly providing their capacity for liability risks, particularly

**The London marine market is prepared to write liability risks on extremely broad terms to maintain premiums, says Ian Agnew.**

on an occurrence basis, would not return phone calls. Among them are Peter Chandler of syndicate 115, which is managed by Methuen (Lloyd's Underwriting Agents) Ltd., and Chris Rome of Syndicate 662, which is managed by C.W. Rome (Underwriting Agency) Ltd.

"Product liability is being placed on an occurrence basis, as are punitive damages and pollution cover, in the marine market only for large accounts buying limits in excess of about \$150 million," said one broker.

When "a client is prepared to pay large sums of money, the market is prepared to give wider coverage," said another broker.

Mobil's worldwide insurance coverage is being brokered in the London market by Lloyd's broker Sedgwick P.L.C., confirmed a broker from Sedgwick.

Sedgwick refused to comment on policy details.

The policy, which has a Jan. 1, 1988, renewal date, will give Mobil up to \$100 million in coverage on an occurrence basis for liability risks, including product liability

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**New A&A edict orders staff to use Howden in London**  
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**NCCI may ask double-digit hike in workers compensation rates**  
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**New Lloyd's chief Lawrence vows to promote marketplace**  
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## Update

## Hall settles reinsurance lawsuit

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Ltd. (BI, March 23). Also involved in the reinsurance transactions was Hall's subsidiary Union Indemnity Insurance Co., which was placed into liquidation by the New York Insurance Department in July 1985 (BI, July 22, 1985).

Under the settlement, Hall will pay Omaha Indemnity \$14.6 million; \$4.6 million immediately and the balance in two annual payments of \$5 million, pursuant to a secured note. Also, a Hall insurer will pay Omaha Indemnity \$5.4 million immediately. Neither Hall nor Mutual of Omaha would disclose the insurer's name.

The settlement will not adversely affect Hall's fourth-quarter results because "sufficient reserves were recorded for this litigation in the third quarter of this year," a Hall spokesman said.

The suit charged, among other things, breach of fiduciary duties, breach of reinsurance contracts and negligence by Hall and/or its subsidiaries.

"The settlement is another important step in getting Hall's problems behind us and restoring the company to its rightful place as one of the world's premier insurance brokers. Everything that our chairman, Saul Steinberg, has predicted is coming true," said Peter T. Pruitt, president and chief operating officer of Hall.

## Bill increases insurer reporting

WASHINGTON—Employers that self-insure, risk retention groups and commercial property/casualty insurers would be required to submit financial and claims information to the federal government under a bill introduced last week by House Small Business Committee Chairman John LaFalce, D-N.Y.

The legislation is the first attempt to require self-insuring employers to submit loss data to the government.

The bill, H.R. 3688, lists more than seven pages of the type of information to be submitted to the U.S. Small Business Administration. The data required includes: premium and claims information; and verdicts, damages awarded by category and settlements.

Insurers would have to submit information on actual loss adjustment expenses allocated separately into fees or salaries paid to claims adjusters; fees paid to investigators; travel and other expenses; and legal fees, including fees paid to defense counsel and expert witnesses and discovery costs.

"The basic purpose of the legislation is to obtain the necessary information to assist in determining whether there is any relationship between liability insurance cost and the civil justice system," said Rep. LaFalce.

## Insurer operating income up

NEW YORK—The domestic property and casualty insurance industry posted \$9.8 billion in pretax operating income in the first nine months of 1986, a 172.2% increase from the \$3.6 billion reported for 1986's first nine months, according to the Insurance Services Office and the National Assn. of Independent Insurers.

Aftertax net income, however, increased only a 23.4% to \$11.3 billion from \$9.1 billion.

The combined ratio for the first nine months was 104.2%, compared with a 108% combined ratio for the comparable period in 1986. The pretax underwriting loss totaled \$7.3 billion, an improvement from a \$12.4 billion underwriting loss in 1986's first three quarters. Net investment income totaled \$17.3 billion, up 7.9% from \$16.1 billion in the comparable period in 1986.

Net written premiums grew 9.8% to \$144.9 billion from \$132 billion for the comparable period in 1986.

At Sept. 30, the industry's policyholder surplus had increased 25.3% to \$110 billion from \$87.8 billion. However, the insurance industry is estimated to have lost \$10 billion to \$12 billion in surplus in the recent stock market dive.

## Kemper proposes auto mutual

BOSTON—The Massachusetts Insurance Department is considering a proposal by Kemper Group to transfer its unprofitable auto insurance business in the state to a non-profit mutual company specifically designed for the purpose.

Kemper is "cautiously optimistic" that the department will agree to the terms of its 400-page proposal, said Gerald L. Maatman, president of Kemper's four national property & casualty insurance companies. Commissioner Roger Singer had told Mr. Maatman that the department would decide within the next two months. The commissioner could not be reached for comment.

The unprecedented move would cost Long Grove, Ill.-based Kemper \$100 million, but it could improve the insurer's nationwide private passenger auto combined ratio by an estimated 5 points, said Mr. Maatman. Kemper, the state's third-largest auto insurer, lost \$31.4 million on its Massachusetts auto business last year and expects to lose \$37.1 million in 1987.

The state's assigned risk auto insurance pool mandates participation of insurers that write business in the state. Fireman's Fund Insurance Cos. was allowed to withdraw from the pool and from the Massachusetts insurance market last month in return for a one-time \$45 million payment to the pool (BI, Nov. 23).

Unlike the Fireman's Fund settlement, the Kemper strategy would permit the insurer to continue writing all other lines of insurance in the state.

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## Errors &amp; omissions

• While the chart reporting insurers' nine-month results (BI, Nov. 30) was correct, American International Group Inc. was inadvertently omitted in the portion of the accompanying article naming insurers with underwriting profits. AIG reported an underwriting profit for the first nine months, not Continental Corp., as the article mistakenly said.

## Damage claims unpaid 10 years after flooding

By MARK A. HOFMANN

JOHNSTOWN, Pa.—More than 10 years after Johnstown was devastated by floodwaters triggered when two dams burst and a stream overflowed during a torrential rainstorm, not a dime has been paid to plaintiffs seeking hundreds of million of dollars in damages.

In the largest negligence litigation in the state's history, hundreds of plaintiffs in 31 cases are suing 21 defendants, including two state agencies and their employees and officials, two local water authorities, the engineering consultant for one of the authorities and the original owner of one of the dams.

In addition, plaintiffs have filed 45 wrongful death suits against many of the same defendants.

Court papers regarding the flood now fill more than three large file cabinets at the Cambria County Common Pleas Court in Ebensburg, Pa., employees say.

The combined liability of the defendants may exceed \$400 million, including potential liability for wrongful deaths, according to Donald P. Minahan, the Pittsburgh-based chief deputy attorney general for the Western region of Pennsylvania. Commercial property damage may amount to only a fraction of those estimates.

There is only about \$42.5 million of insurance to respond to the estimated \$100 million to \$200 million of property damage, according to the American Insurance Assn. Of the coverage, 10% was written for commercial property, \$1.5 million of which was merchandise-in-transit inland marine insurance written by

commercial insurers. Most of the rest of the property insurance for commercial property was written by the National Flood Insurance Assn., the predecessor of the National Flood Insurance Program.

The state, which is one of the defendants named in many of the lawsuits, has two funds that may respond to liability claims, but each of the funds may pay out only \$1 million per occurrence under state law. And a court still must determine whether those funds can legally respond to claims.

Another major defendant, Bethlehem Steel Corp., was self-insured.

Two other major defendants, the Greater Johnstown Water Authority, which owned one of the dams, and Gannett, Fleming, Corrdry & Carpenter Corp., the authority's engineer, had commercial insurance that falls far short of potential liability.

Under Pennsylvania law, defendants can be held jointly and severally liable for damages.

Compounding the problems of a snarl of lawsuits and insurance issues, Judge H. Clifton McWilliams Jr., president judge of the Cambria County Common Pleas Court, who has overseen the entire case, is required under state law to retire next spring when he turns 70, the state's mandatory retirement age.

Despite the passage of more than a decade since the tragedy, not so much as a trial date for a single suit has been set, and attempts to settle some of the suits out of court have failed.

Except for the appeal by plaintiffs of an August 1985 ruling by Judge McWilliams that denied a motion to

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## New A&amp;A edict orders staff to use Howden in London

By LINDA J. COLLINS

NEW YORK—Alexander & Alexander Inc. will soon require that all business it places with London underwriters be handled by its Lloyd's of London brokerage subsidiary, Alexander Howden Ltd.

A&A is the first U.S. broker with a large London brokerage affiliate to issue a formal and strict edict that its business be placed with its affiliate.

In an internal memo issued last month, Michael K. White, president and chief executive officer of A&A Inc., Alexander & Alexander Services Inc.'s domestic brokerage arm, instructed "effective with policies written on or after Dec. 31, 1987, the following corporate policy is applicable: All new business opportunities on London-type business will be submitted only to Alexander Howden Ltd."

Furthermore, "All renewal London business will be placed with AHL unless an exception is specifically made by (a) regional director. Requests for exceptions should be submitted to the regional director a minimum of 45 days in advance of a submission in the London market," Mr. White added.

The memo explained that if A&A producers place

business with another Lloyd's brokerage without receiving prior approval, "the income credit to the producer, office and region will be reduced by a minimum of 33%. With the capabilities that Howden possesses, we should be able to have a minimum of 95% of our London-placed business with AHL by year-end 1988."

Currently about 55% of the business A&A places in London is handled by Howden.

Mr. White said in an interview that he anticipates other worldwide brokerages may follow A&A's lead in consolidating their London accounts with their Lloyd's brokerage affiliates. He said he suspects that if other U.S. brokerages with London brokerage subsidiaries have not issued a formal directive like A&A, at least some have informal understandings.

No other leading U.S. broker has issued such a directive, but several have consolidated their accounts with their affiliate.

According to John T. Sinnott, executive vp of Marsh & McLennan Cos. Inc. in New York, M&M "has never come out with such a mandate, because we have not found it necessary to do so. . . Without a mandate, about 90% of our placements in London are through"

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## Inside

✓ Consumers are entitled to know the names of insurance companies that regulators have identified for the highest priority in the surveillance process, says this week's editorial, noting the release of previously confidential information compiled by the National Assn. of Insurance Commissioners. **PAGE 8**

✓ Sen. Edward Kennedy is coming up short in his drive to win more business support for his legislation to require all employers to provide employees with health insurance, a new survey indicates. **PAGE 26**

✓ Employers will be searching for more health care cost-containment strategies as medical care costs are expected to continue rising in 1988, according to employee benefit consultants. **PAGE 27**

✓ In Australia, executives are saying goodbye to some benefits and 'g'day' to pensions, explains Jerome Karter, senior vp of Johnson & Higgins' New York International Department, in International Issues. **PAGE 38**

✓ U.S. risks represented the largest growth in London's non-marine reinsurance market last year, according to the Reinsurance Offices Assn. **PAGE 44**

✓ Outpatient surgery and pre-admission certification were rated by benefit managers as the most effective health care cost control measures, a recent survey shows. **PAGE 48**

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# Lawrence elected Lloyd's chairman



Mr. Lawrence

By STACY SHAPIRO

LONDON—Lloyd's of London chairman-elect Walter Nicholas Murray Lawrence, known to everyone as Murray, plans to improve Lloyd's services and systems and promote Lloyd's as a marketplace during his tenure as the head of the world's oldest insurance institute.

Mr. Lawrence, 52, senior partner with Lloyd's fourth-largest underwriting agency, Murray Lawrence & Partners, was unanimously elected by the new Lloyd's Council last week to succeed Peter Miller as chairman on Jan. 1.

The council also appointed David Coleridge, chairman of Sturge Holdings P.L.C., Lloyd's largest underwriting agency, to senior deputy chairman and re-appointed Alan Parry, non-executive chairman of Johnson & Higgins Ltd., as junior deputy chairman, a

position he has held since the beginning of this year.

Mr. Miller, who served as chairman since 1984, decided not to seek another term as chairman in the annual election, although he will serve for another year on the council.

Mr. Lawrence also has other plans as chairman of Lloyd's:

- To continue implementing the recommendations set out by a government committee led by Sir Patrick Neill to improve Lloyd's self-regulation process. So far, 30 of the 70 Neill recommendations have been implemented and 20 are under consideration (BI, Jan. 26).
- To complete the "last major plank" of Lloyd's regulatory reform: broker regulation and reregistration. A consultative document has been distributed to the Lloyd's market for discussion before the Council approves

the final draft of the regulations and accompanying code of practice (BI, Nov. 23).

- To travel, because about 80% of Lloyd's business comes from overseas. Mr. Lawrence will visit the United States "at least once," Australia and New Zealand.
- To celebrate Lloyd's Tercentenary next year, which "should and will be celebrated." Lloyd's already has plans for its year-long celebration of its 300th anniversary, including setting up a Tercentenary Foundation to finance grants for science, technology and business. Mr. Miller will chair the foundation.

"We have made tremendous headway" during the last four years since Mr. Miller was elected chairman in January 1984, Mr. Lawrence said. "I believe we must now turn to making certain that our services and systems are up to standard with our upfront

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# Jet losses won't hit rates

By CAROLYN ALDRED

LONDON—Airlines due to renew their hull and liability insurance during the next few months will still be able to negotiate significant rate reductions despite the death of more than 260 people in two recent air crashes, London underwriters and brokers say.

Last month's loss of a South African Airways Boeing 747 and a Korean Air Lines Boeing 707, which probably will cost London insurers more than \$100 million, will have no effect on rates being quoted in the London market, sources say. Indeed, most underwriters expect aviation rates to continue to fall until next April.

The South African jet plunged into

the Indian Ocean on Nov. 28 with 160 passengers and 19 crew members on board after the captain reported smoke in the cockpit.

There were no survivors, and the cause of the disaster is still under investigation.

South African Airways, which has not had a major accident since April 1968, has \$750 million in liability insurance and maximum hull insurance limits of \$120 million, according to London sources. The hull had an insured value of \$86 million.

About 55% of SAA's hull and liability insurance was placed in the London market by Lloyd's of London broker Willis Faber P.L.C., confirmed Michael Davies, a Willis Faber director.

The rest of the coverage was placed worldwide by National Aviation Insurance Brokers of Johannesburg, South Africa.

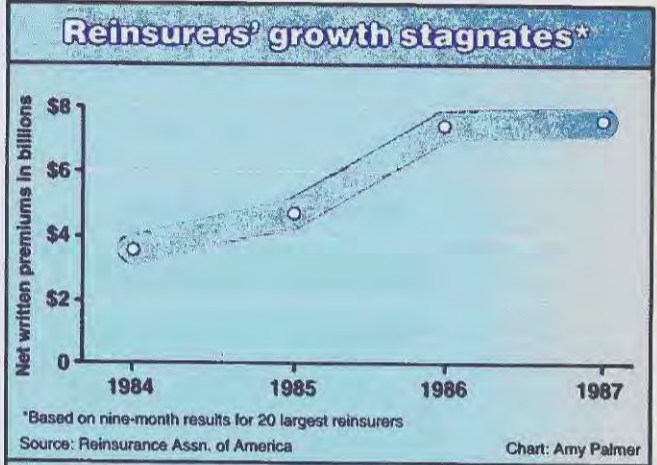
The lead aviation underwriter at Lloyd's is Barry Coleman, underwriter for syndicate 648, managed by Wellington Underwriting Agencies Ltd.

SAA renewed its fleet insurance Oct. 1 with "significant" premium reductions of about 40% for hull cover and 10% for liability, London sources say.

Mr. Davies confirmed that SAA "did attract a market reduction in line with the current trends" but would not specify how much.

Mr. Coleman refused to comment on the policy.

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# Bel-Aire settles with regulator

By DOUGLAS McLEOD

JEFFERSON CITY, Mo.—The Missouri Insurance Division is dropping numerous charges against Bel-Aire Insurance Co. under a settlement announced Friday.

Lawyers for the Insurance Division and Bel-Aire earlier had requested an indefinite continuance of a scheduled Dec. 3 hearing on the possible suspension or revocation of Bel-Aire's certificate of authority, saying that a settlement was "imminent" (BI, Nov. 30).

Insurance Director Lewis R. Crist last week refused to allow the delay, scheduling a new hearing for Dec. 17. However, the settlement was reached Friday morning.

Under the settlement, Bel-Aire—which specializes in writing insurance for purchasing groups organized under the federal Risk Retention Act—will renegotiate a reinsurance treaty with Independence Insurance Co. Ltd. of Bermuda to "assure the policyholders of the security needed by such re-

insurance."

Independence Insurance was formed in Bermuda recently by Hill Samuel Group P.L.C. of London to underwrite financial reinsurance contracts, which are used by insurers to strengthen their balance sheets (BI, March 30). Hill Samuel, which also owns Lloyd's of London broker Lowndes Lambert Group Ltd., was acquired last month by British financial conglomerate TSB Group P.L.C. (see story, page 33).

Risk Retention Service Corp., which had managed Bel-Aire under contract, will become a wholly owned subsidiary of Bel-Aire under the settlement, which further provides that the insurer file quarterly financial reports with the Missouri Insurance Division until further notice.

In a press release, Mr. Crist expressed appreciation to state Rep. Dewey Crump, D-Maryland Heights, a member of the Bel-Aire board, "and the rest of the board of directors of Bel-Aire Insurance Co. for their swift action in remedying

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# Big retentions stunt reinsurer growth: Execs

By JUDY GREENWALD

Higher retentions by primary insurance companies—not increased market competition—are continuing to hack away at reinsurers' premium growth, reinsurance executives say.

"The premium slowdown is primarily because there is less reinsurance being purchased, rather than because prices are coming down," said Norman Wayne, president of CIGNA Corp.'s reinsurance division.

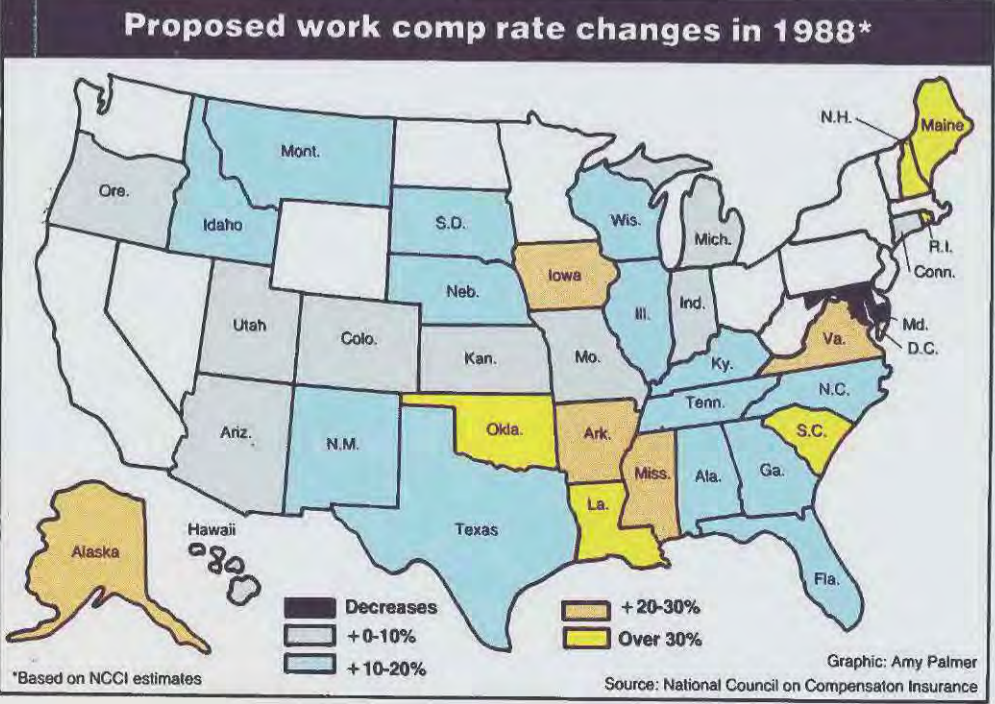
"Price competition has hardly anything to do with it," concurred Donald Cole, president of Constitution State Management Co., a Travelers Corp. unit in Hartford, Conn.

As primary insurers increase their retentions, rein-

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# NCCI may seek double-digit comp hikes

By MEG FLETCHER



NEW YORK—Employers will face higher workers compensation insurance costs next year if states approve double-digit rate hike requests the National Council on Compensation Insurance tentatively plans to file.

The NCCI currently estimates that it will ask state regulators to approve rate increases averaging 11% to 14% nationwide, said Richard Fein, executive vp of the New York-based insurer organization that administers workers compensation rates in 32 states and provides similar assistance in about one-half of the remaining states.

If the rate increases are granted, "employers can expect higher (premium) costs," Mr. Fein said.

Anticipated rate changes range from a 5% decrease to more than 30% increases in some "problem" states. They include:

- Rate decreases of 5% in the District of Columbia and Maryland.
- Rate increases ranging from none to 10% in Arizona, Colorado, Connecticut, Hawaii, Indiana, Kansas, Michigan, Missouri, Oregon and Utah.
- Increases of 10% to 20% in Alabama, Florida, Georgia, Idaho, Illinois, Kentucky,

Montana, Nebraska, New Mexico, North Carolina, South Dakota, Tennessee, Texas and Wisconsin.

- Increases of 20% to 30% in Alaska, Arkansas, Iowa, Mississippi and Virginia.
- Increases of more than 30% in Louisiana, New Hampshire, Oklahoma, Rhode Island, South Carolina and Maine.

Some insurers have claimed that workers compensation rates in Maine are inadequate by more than 200%. However, emergency reform legislation has since passed to cut permanent partial benefits and streamline operation of the state's workers compensation system (BI, Nov. 30).

The NCCI currently is calculating the increase it will seek in Maine, but it is expected to be more than 30%, another NCCI spokesman says.

Texas was considered a problem state needing a more than 30% rate increase until last month when the Texas State Board of Insurance approved an average 25% increase in employers' workers compensation rates beginning Jan. 1.

But while the increase reduced rate inadequacy in the state, it did not eliminate it; Texas still needs between a 20% and 30%

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## Bel-Aire settles

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the company's problems."

In an administrative complaint issued Nov. 17, the Insurance Division had labeled Bel-Aire's management "so incompetent or untrustworthy that further operation of the company would be hazardous to the insurance buying public."

The complaint enumerated several charges against Bel-Aire, including that the insurer, licensed by Missouri in May, was statutorily insolvent on the grounds that a promissory note representing more than half of its initial capital and surplus was a non-admitted asset.

However, the \$499,500 promissory note from Bel-Aire President Arthur A. Blumeyer III was collateralized with a combination of U.S. Treasury notes, certificates of deposit and stock, according to Nicholas M. Monaco, an attorney with the Jefferson City firm of Ing-

lish, Monaco, Riner & Lockenvitz representing Bel-Aire.

Missouri statutes provide that stock insurers' capital and surplus may include loans "safely secured by collateral worth."

The division also alleged that Bel-Aire was in danger of being taken over by Insurance Corp. of America of Boca Raton Fla., a change of control that the division said would be "contrary to the interests of Bel-Aire's policyholders or the public."

Mr. Blumeyer pledged Bel-Aire stock certificates to secure a \$400,000 loan from ICA that was used to capitalize Bel-Aire, court papers show.

Bel-Aire also entered into two contracts with ICA under which it agreed to underwrite business produced by Dyna Span Corp. of Boca Raton and to cede reinsurance to ICA, according to court papers.

The reinsurance agreement with ICA has been canceled and replaced with the Independence con-

tract, Mr. Monaco said.

However, Risk Retention Service Corp. has since repaid the loan, also settling ICA's claim to Bel-Aire's stock, according to Alan C. Gold, a lawyer with the South Miami firm of Rassner, Rassner, Kramer & Gold, representing Bel-Aire.

The repayment of the loan also is expected to settle three counts of a lawsuit against RRSC, Bel-Aire and others filed by ICA in U.S. District Court in Miami.

However, ICA and Bel-Aire continue to press fraud charges against each other, each claiming that the other induced it to enter the loan agreement.

ICA and Dyna Span, both headed by A.R. Johnson of Boca Raton, have been hit with cease and desist orders or injunctions in several states (BI, June 1; May 26, 1986).

ICA claims to operate free from state regulation under two court decisions allegedly issued by a federal judge in Delaware in 1911 and

1914. Regulators from four states—Florida, Connecticut, Iowa and Wisconsin—are challenging the authenticity of the rulings in a declaratory judgment action filed by ICA in U.S. District Court in Wilmington earlier this year.

Mr. Johnson conceded in an interview earlier this year that he purchased ICA in 1986 from corporations controlled by Robert Eugene Bailes, a convicted felon indicted in August on fraud charges related to his sale of several allegedly bogus insurance companies, including ICA (BI, Aug. 24).

However, Mr. Johnson defended ICA as a legitimate insurer despite Mr. Bailes' indictment.

Meanwhile, a new insurer formed by Mr. Johnson and others recently received a certificate of authority in Kentucky.

American Insurance & Indemnity Co., which plans to insure or reinsure purchasing and risk retention groups, has been capitalized with \$3.5 million and was is-

sued a certificate of authority as a multiline property/casualty insurer Oct. 27, a Kentucky Insurance Department official said.

AIIC is owned by American Lexington Group, a holding company newly formed by Mr. Johnson and others.

Mr. Johnson also has formed two other corporations, American Lexington Premium Finance Co. and American Purchasing & Risk Retention Assn., which will act on behalf of purchasing groups in placing coverages with AIIC or other insurers, according to Peter M. Feaman, an attorney with the Boca Raton firm of Marchbanks & Feaman and vp and general counsel of AIIC.

AIIC may write coverage for clients of Dyna Span that had been insured by New England International Surety Inc. of Panama and for business formerly insured by Bel-Aire, Mr. Feaman said, adding that each such risk will be individually underwritten.

In a press release announcing its licensing, AIIC noted that it would seek approved status in other states next year, though Mr. Feaman said that other state regulators have not yet been approached. The press release also notes that the holding company may seek to purchase or form a life insurance unit.

Kentucky was chosen because of its "receptiveness towards the establishment of new industry within the state," according to the press release, which adds that AIIC was represented in its application by the Frankfort firm of Wyatt, Tarrant & Combs, headed by former Kentucky Gov. Bert Combs.

AIIC also had applied for a license in Nebraska after separately incorporating there with more than \$1 million in capital, Mr. Feaman confirmed.

The Nebraska application—in which AIIC was represented by Benjamin Nelson, an Omaha lawyer and former Nebraska insurance commissioner—was withdrawn after the Kentucky approval came through, and the Nebraska company's capital was transferred to Kentucky, Mr. Feaman said.

One condition of any Nebraska license would have been that AIIC not do business with ICA or Dyna Span, according to Nebraska Insurance Director Bill McCartney.

No such condition was imposed in Kentucky, Mr. Feaman said, though he added that AIIC will not be reinsured by ICA. AIIC is currently negotiating reinsurance covers, he said, though he declined to provide the names of prospective reinsurers.

While Mr. Johnson is the principal shareholder of AIIC's parent company, AIIC's president and chief executive officer is John H. Grote Jr.

Mr. Grote, a Florida agent, is currently facing Florida Insurance Department charges that he sold an ICA policy after a state court had enjoined ICA from doing business, according to Susan Stafford, an Insurance Department attorney.

Mr. Feaman admitted that Mr. Grote had sold the policy, but said that it was later canceled flat and the premium returned.

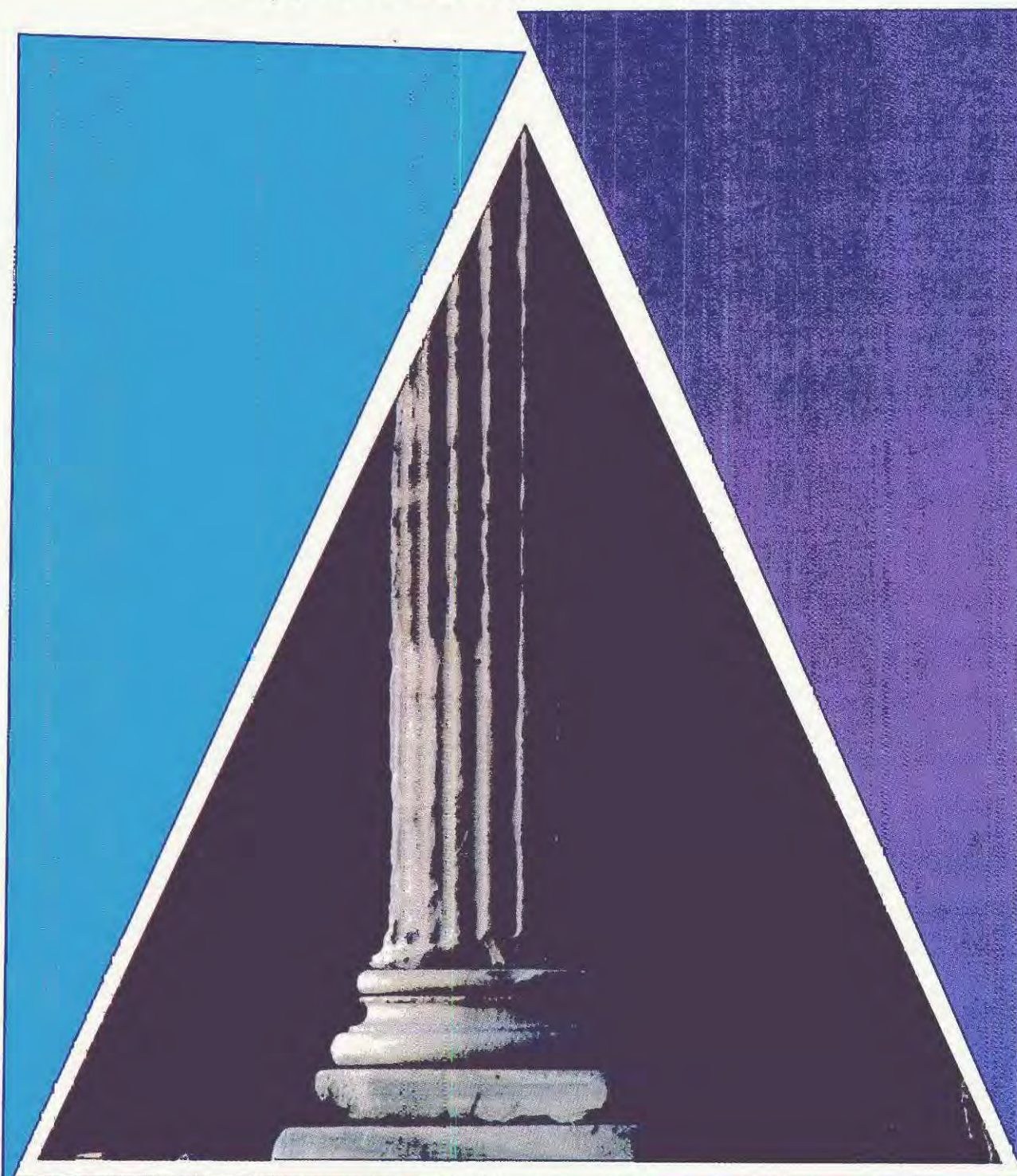
He called the Florida department charges "vindictive," saying that Mr. Grote has been "clean for 30 years."

Ms. Stafford said that Mr. Grote also sold ICA policies covering risks in other states after the Florida injunction was issued, though the Insurance Department did not include these in its complaint because of uncertainties over whether the injunction would be interpreted as applying outside of Florida.

Meanwhile, ICA is pursuing its lawsuit against Bel-Aire, Risk Retention Service Corp., Mr. Blumeyer and his wife, Hope Blumeyer.

*Continued on page 66*

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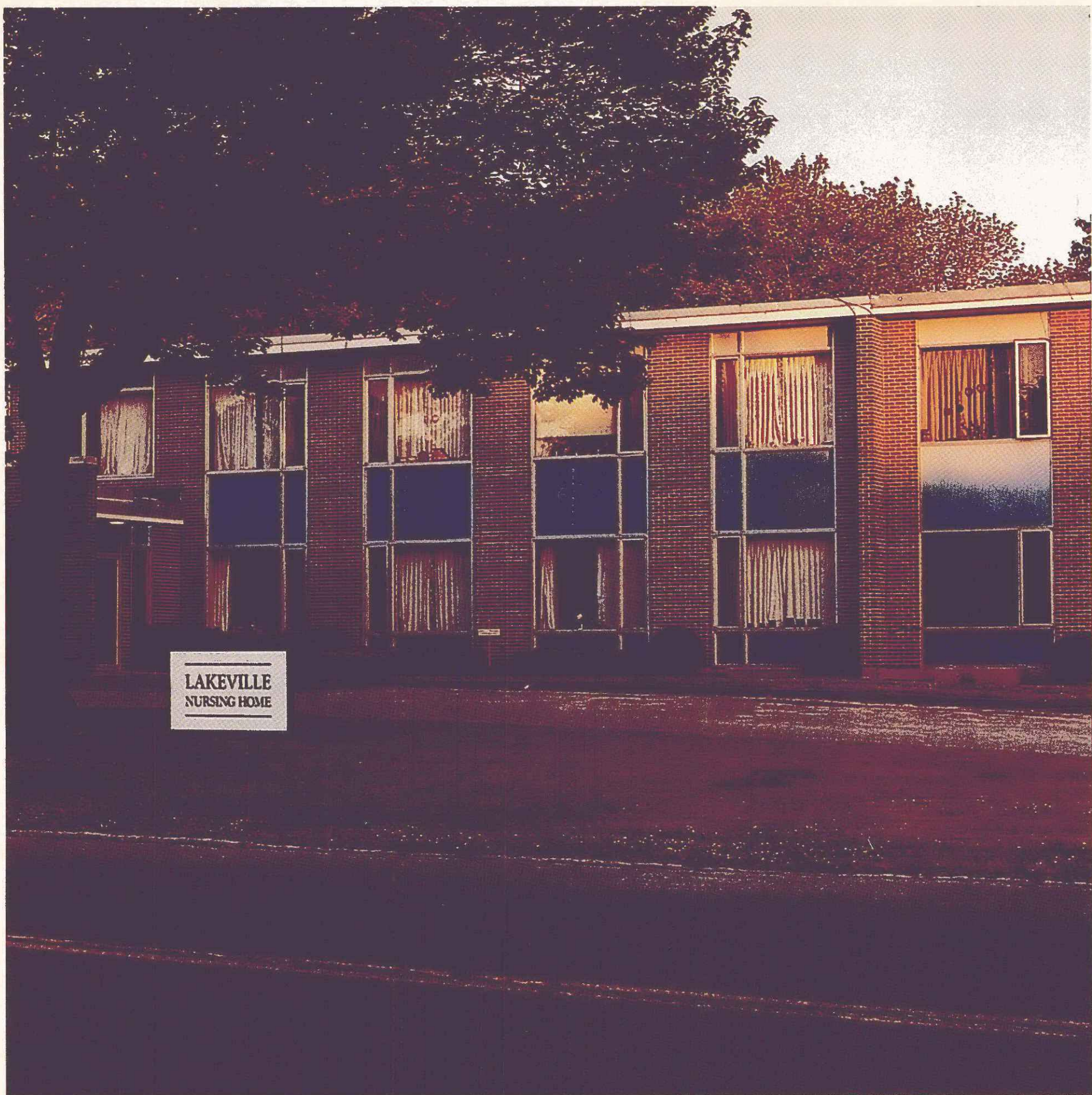
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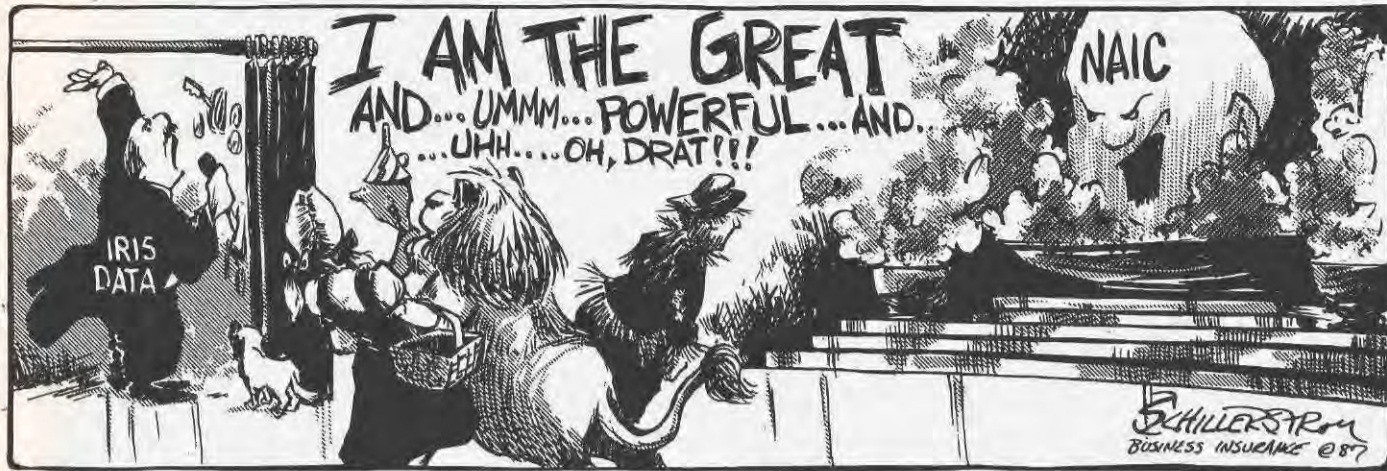
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## Unfair to withhold IRIS results

**J**USTICE PREVAILED in the court-ordered release of the previously confidential information on the financial condition of insurers compiled by the National Assn. of Insurance Commissioners.

As we reported, a District of Columbia Superior Court ordered district insurance regulators to release three 1987 Insurance Regulatory Information System reports. The reports had been requested by University of Indiana professor and newsletter publisher Joseph Belth (*BI*, Nov. 30; Nov. 23).

The court found that keeping the reports confidential violated the Freedom of Information Act.

One of the three reports covers five-year trends showing property/casualty and life/accident/health insurers that need immediate regulatory attention or were targeted for attention. The other two reports provide supplemental ratios on life/accident/health insurers, including one on the adequacy of loss reserves.

These insurers needing immediate regulatory attention are identified by the results of certain financial tests that are designed to send up a red flag when an insurer's results fall outside predetermined norms.

The NAIC had fought to keep the results of these financial tests confidential, contending that the designation as needing immediate regulatory attention does not necessarily mean that the insurer is facing financial adversity. The NAIC has contended that releasing the names of these insurers could lead consumers to such an erroneous conclu-

sion and perhaps start a run on an otherwise financially sound insurer. We think that's unlikely, and we expect that the NAIC will be proved wrong now that the information has been released.

Insurance consumers are entitled to know the names of insurance companies that insurance regulators have identified for the highest priority in the surveillance process. Then, the insurance buyers and/or their brokers can further investigate the financial health of an insurer under special scrutiny. And, when there are valid reasons for an insurer's results to have thrown up the red flag without indicating that the insurer is heading for financial trouble, we believe that sophisticated insurance buyers and certainly their agents and brokers will be able to understand and accept the reasons, once they are explained.

Consumers are entitled to this regulatory information from government employees. Furthermore, it has been unfair to withhold this information that can otherwise be obtained by the largest brokerage firms. Those with the money and the computer power can run their own IRIS tests and get the same results as the NAIC.

An interesting footnote is that the district regulators received the reports by accident. The NAIC had intended to keep the reports from regulators in states where requests for the IRIS information were pending. But, due to a clerical error, the district regulators received the reports.

As we said, justice prevailed.

## Letters

### Purchasing group insurers need regulatory scrutiny

To the editor: One of the points Jon Harkavy brings up in his letter on the Risk Retention Act (*BI*, Nov. 9) relates to regulatory solvency overview of risk retention groups. Although Mr. Harkavy does not cite the specific section of the act that provides for this, it is contained in Section 7. Because of this section, as Mr. Harkavy correctly observes, "a state insurance commissioner has more powers in this area over a risk retention group under the act than over a traditional insurer." He further points out that "a commissioner can go to federal court to enjoin a risk retention group operating nationwide, if it can establish that the group is operating under a 'hazardous financial condition.'" Finally, he notes that, "under the traditional regulation of insurance, a commissioner has authority only in his or her own state."

While Mr. Harkavy brought up this point to rebut the proposition that risk retention groups were not adequately regulated, he has indirectly raised a related issue that bears equal consideration. This issue relates to insurers of purchasing groups. The question relating to purchasing group insurers is whether or not state insurance commissioners in non-chartering states have available to them a corresponding procedure as is provided in Section 7 for risk retention groups. It would appear that they do not. Thus, if a state insurance commissioner found a purchasing group insurer chartered in another state to be in a "hazardous financial condition," the commissioner would be confined to an action in state court. Although the commissioner might obtain an injunction to shut the purchasing group insurer down in its state, the insurer would be free to operate nationwide until each individual commissioner took similar action to stop it from operating.

The irony of this result is particularly apparent when comparing a risk retention group to a newly licensed insurer formed for the express purpose of becoming a purchasing group insurer. While the act requires the risk retention group to file a lengthy feasibility study with its licensing state and with all states in which

it intends to operate, as well as annual statements, the new insurer is unburdened by any of these mandates. In fact, this "hybrid risk retention group" never even mentioned in the act is free to operate nationwide upon the filing of a cursory notice. While the act never expressly carved out federal pre-emption for purchasing group insurers, such a pre-emption has, in effect, been created through the interpretation of language in the act relating to the "location" of a purchasing group.

It would seem that expansion of Section 7 to empower state insurance commissioners with the same authority over purchasing group insurers as they are given over risk retention groups found to be in a "hazardous financial condition" is well worth our consideration. While all eyes are focused on the purchasing group itself, we must consider that this entity will not ultimately be called upon to pay the claims of policyholders, nor will it become insolvent. Thus, to concentrate our energies on a group of insurance buyers, rather than on the ultimate risk bearer, is to divert analytical and critical thinking from where it is most needed.

**Karen Cutts**  
Managing Editor  
Risk Retention Reporter  
Pasadena, Calif.

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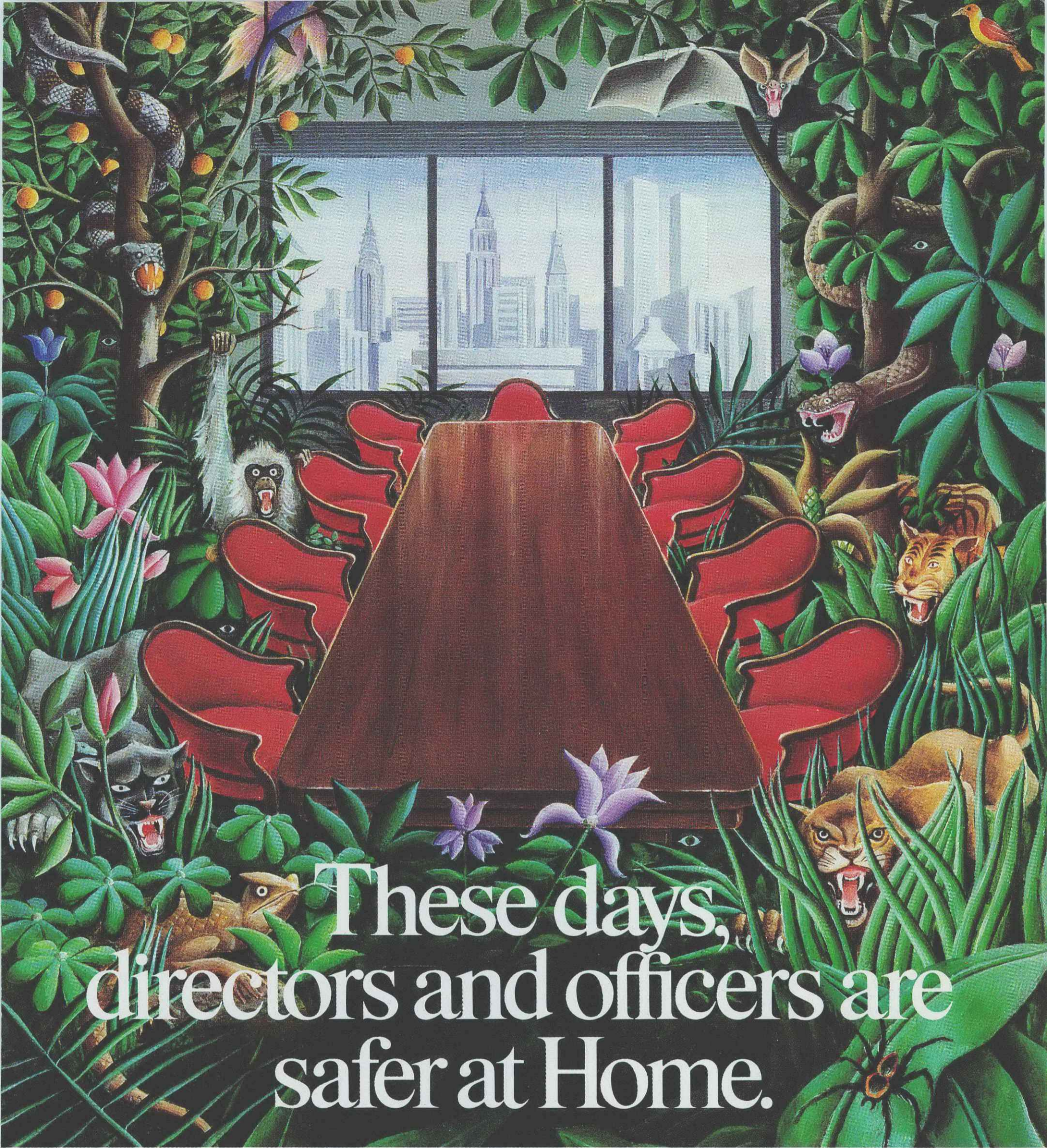
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## Home Insurance

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# Reinsurers oppose regulatory changes

By GLENN HUNTLEY

SAN FRANCISCO—The California Insurance Department should think twice before toughening reinsurer regulations because it could trigger a tighter market, reinsurers warn.

Reinsurers at a two-day forum the California Department of Insurance held in San Francisco Nov. 23-24 said they oppose several regulatory modifications the department is pondering.

The department held another forum on the issue in Los Angeles late last week.

While the department has not proposed any new or modified reinsurance regulations, it discussed with reinsurers and other interested parties who attended the forum last month a variety of possible new and modified regulations, including:

- Modifying the wording of arbitration clauses in reinsurance contracts to force reinsurers to settle claims from ceding insurers more quickly.

- Developing standardized reinsurance contract language.

- Limiting the use of letters of credit to secure reinsurance obligations to ceding companies.

- Establishing a lead/follow system on reinsurance contracts involving many reinsurers.

"Depending on our findings, we may recommend changes to the laws regarding reinsurance," said Insurance Commissioner Roxani Gillespie in an interview following the first forum in San Francisco.

Ready availability of reinsurance played a major role in the last soft market cycle, which led to the hard market of the mid-1980s, she said.

"It was a significant contributor to the problems that happened in the last cycle," Ms. Gillespie said.

The availability of reinsurance contributed to the trend toward cash-flow underwriting in which insurers and reinsurers sought to generate premium income that they could plow into high-interest bearing investments. But when claims far exceeded premiums plus investment income, eating up surplus, reinsurance and insurance capacity shrank—and dried up entirely for some risks—and rates for all risks soared.

However, reinsurers and many others at the forum said they generally opposed additional regulation, except when it would not hinder reinsurers' ability to respond to insurers' needs.

"The goals should be to promote, not to deny, entry into the marketplace. We need the capacity in California. It's the largest insurance market in the United States," said Joseph W. Brown Jr., chief financial officer of Fireman's Fund Insurance Cos. of Novato, Calif.

"In my humble opinion, after 25 years in the business, I say 'No,'" to more regulation, said Darrington Semple Jr., general counsel of American Re-Insurance Co. of New York, a unit of Aetna Casualty & Surety Co. of Hartford, Conn.

Existing law gives state regulators enough latitude to check into the reinsurance business, he said. "You have the tools, if you use them."

But attorney Karl L. Rubinstein of the law firm of Rubinstein & Perry in San Francisco told state regulators that he believes existing laws are inadequate to effectively regulate reinsurance.

"Unless the commissioner has jurisdiction over a reinsurer's assets in this state, the value of a reinsurance contract is, at best, dubious," Mr. Rubinstein said.

He urged the state to require reinsurers to keep a substantial amount of their assets within California to secure their obligations to

ceding companies in the state.

And although Mr. Brown of Fireman's Fund said the state should try to attract additional reinsurance capacity, he said he did see a need for higher standards of financial wherewithal, management and experience for new reinsurers in the state.

"I can't believe we make it hard enough for someone to hang up a shingle and say they are a reinsurer," he said.

State regulators should look at the entering reinsurer's track record and professional management before allowing it to offer capacity in the state, Mr. Brown said. Until a new reinsurer has a proven track record, the state should require it to post letters of credit or cash deposits to cover its liabilities, he added.

And, strict requirements should apply to any new reinsurer, not only alien reinsurers, Mr. Brown said.

However, he added, "We should not pay a penalty when doing business with a qualified foreign reinsurer."

Delays in payment of reinsurance claims may be one area where industry and government can make improvements, said reinsurers and others as well as state regulators.

"It appears that delay is a way of business in certain situations," Ms. Gillespie said.

About 10% to 20% of reinsurance may be uncollectible nationwide, according to industry estimates, said Norris W. Clark, deputy insurance commissioner.

And of the 649 property/casualty insurers licensed in the state in

1986, 305—or nearly 50%—reported recoverable reinsurance that exceeds their surplus, Mr. Clark said.

The concern is that if a substantial portion of the reinsurance recoverable is not collectible, ceding companies will have to drain their surplus to pay claims.

Reinsurers and regulators made frequent references to Mission Insurance Co. and several of its subsidiaries, which were forced into liquidation early this year (*BI*, March 2; Feb. 9). The insolvency was blamed at least in part on uncollectible reinsurance.

The liquidation of MIC showed that foreign and alien reinsurers without significant assets can cause problems, said Mr. Rubinstein, who served as a special deputy insurance commissioner on the

Mission case.

Among the several possible modifications to regulations that the department, in legal notices announcing the forum, asked attendees to comment on were:

- Arbitration. While many contracts include arbitration procedures to settle claims, the system often fails to bring speedy resolution, said many reinsurance experts attending the forum.

Some reinsurers use weak arbitration clauses as a method to delay payment indefinitely, asserted Richards D. Barger, an attorney with Barger & Wolen in Los Angeles.

"I don't think it's any surprise to anyone here that some reinsurers will not pay whatever," Mr. Barger said.

*Continued on page 61*

## DAVE GRUPP HAS A LOVE FOR HIS JOB



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# Insurer's lawyer blasts bad faith award

By **STEPHEN TARNOFF**

LOS ANGELES—A recent jury verdict, if allowed to stand, expands the duty of good faith owed by insurers of a parent company to include that company's subsidiaries, even if they are not covered by the policy, says an attorney for the insurer in the case.

However, the policyholder's attorney says the verdict protects policyholders from bad faith practices of insurers and does not extend insurers' requirements of good faith.

A California superior court jury recently ordered Harbor Insurance Co. to pay \$23.2 million, including \$13 million in punitive damages, to policyholder American Motor Inns Inc., because the Los Angeles-based insurer exercised bad faith

in settling a lawsuit against AMI subsidiaries (*BI*, Nov. 23).

"The effect of the verdict is to suggest that a parent corporation can expect to be protected against liabilities to its separate subsidiary corporations even though it chooses not to provide and pay for insurance coverage for them," said Harbor attorney Henry G. Bodkin, Jr., with the Los Angeles firm of Bodkin, McCarthy, Sargent & Smith.

"Harbor was trying to protect itself against a move to coerce it to pay money to settle on behalf of a company not covered by its policy," said Mr. Bodkin. "It's going to make vastly new law in California."

However, AMI's attorney disagrees.

"The entity going to get hurt was

a wholly owned subsidiary of the policyholder. You don't go around hurting your own policyholder," said William Shernoff, who is with the Claremont, Calif. firm of Shernoff & Levine.

"This case will awaken the business community to the fact that insurance companies don't treat businesses much better than the little guy," he added.

The verdict against Los Angeles-based Harbor arose out of litigation involving a man who was severely injured in a 1977 swimming pool diving accident at the Frenchmen's Reef Holiday Inn in the U.S. Virgin Islands.

The plaintiff, Richard Utesch, sued two subsidiaries of Roanoke, Va.-based AMI—Atlas Motor Inns Inc., the operator of the hotel, and Flamboyant Investment Co., which

owned the hotel, in 1979.

Holiday Inns, the franchisor of the hotel, also was named as a defendant, but AMI—Atlas' and Flamboyant's parent company—was not.

Although Flamboyant and Atlas were subsidiaries of AMI, they were insured under separate policies.

According to court papers filed by Harbor, AMI's U.S. continental operations and Atlas were insured for liability under a \$300,000 primary policy written by Affiliated FM Insurance Co., a \$5 million excess policy written by Harbor and a \$5 million second excess policy also written by Affiliated FM.

These policies did not insure Flamboyant. And, Harbor contended, they did not insure any aspect of the Virgin Islands opera-

tions, even though Atlas was named in the policy, because Harbor was never asked to insure those locations.

Flamboyant and the Virgin Islands operation "for the sake of convenience and lower cost," was insured separately under primary and excess policies written by Commonwealth Insurance Co. of Puerto Rico, Harbor said in the papers. The papers did not specify the limits of the Commonwealth policies.

However, Commonwealth was in financial trouble at the time of Mr. Utesch's accident. In July 1978—nine months after the accident—the insurer was placed in liquidation.

"AMI's decision to have Flamboyant insured under a program separate from that for its continental U.S. operations thus proved unwise," Harbor said in court papers. "AMI's conscious sacrificing of quality coverage for low rates has led to this litigation today."

In March 1980, several months after the accident, AMI sued Harbor and others in a declaratory judgment action in U.S. District Court for the Western District of Virginia, asking the court to determine the parties' rights under the policies.

In April 1981, less than two months before trial in the case involving Mr. Utesch, Harbor and AMI settled their coverage dispute on the basis that because of Commonwealth's insolvency Harbor would provide AMI with insurance coverage up to \$5 million in excess of \$300,000 for the Frenchmen's Reef location.

However, the settlement did not address whether AMI subsidiary Flamboyant was insured by Harbor. Ultimately, in a separate declaratory judgment action in May 1984, the U.S. District Court for the Western District of Virginia held that Flamboyant was not insured under the policy that Harbor issued to AMI.

During the course of Mr. Utesch's suit, settlement negotiations were conducted by the parties but were unsuccessful.

According to court papers filed by AMI, Harbor had the opportunity to settle the case within policy limits on at least three occasions, including demands of \$4 million, \$2.4 million and ultimately \$2 million on the day of trial.

According to AMI's attorney Mr. Shernoff, even though everyone including the plaintiff, agreed on a settlement amount of \$2 million, Harbor said it would only pay \$1.5 million, contending that Flamboyant should pay the additional \$500,000. Flamboyant could not pay the \$500,000 at the time, said Mr. Shernoff.

If there is a dispute as to coverage, an insurance company's duty is to settle the case for the policyholder, as long as it is reasonable, and then go after the company for contribution, Mr. Shernoff said last week. "Almost every expert and case agrees that is the appropriate thing to do," he added.

However, Harbor's attorney Mr. Bodkin said that Harbor believed Flamboyant was not an insured under a separate corporate entity from Atlas and AMI, and was largely at fault for the accident.

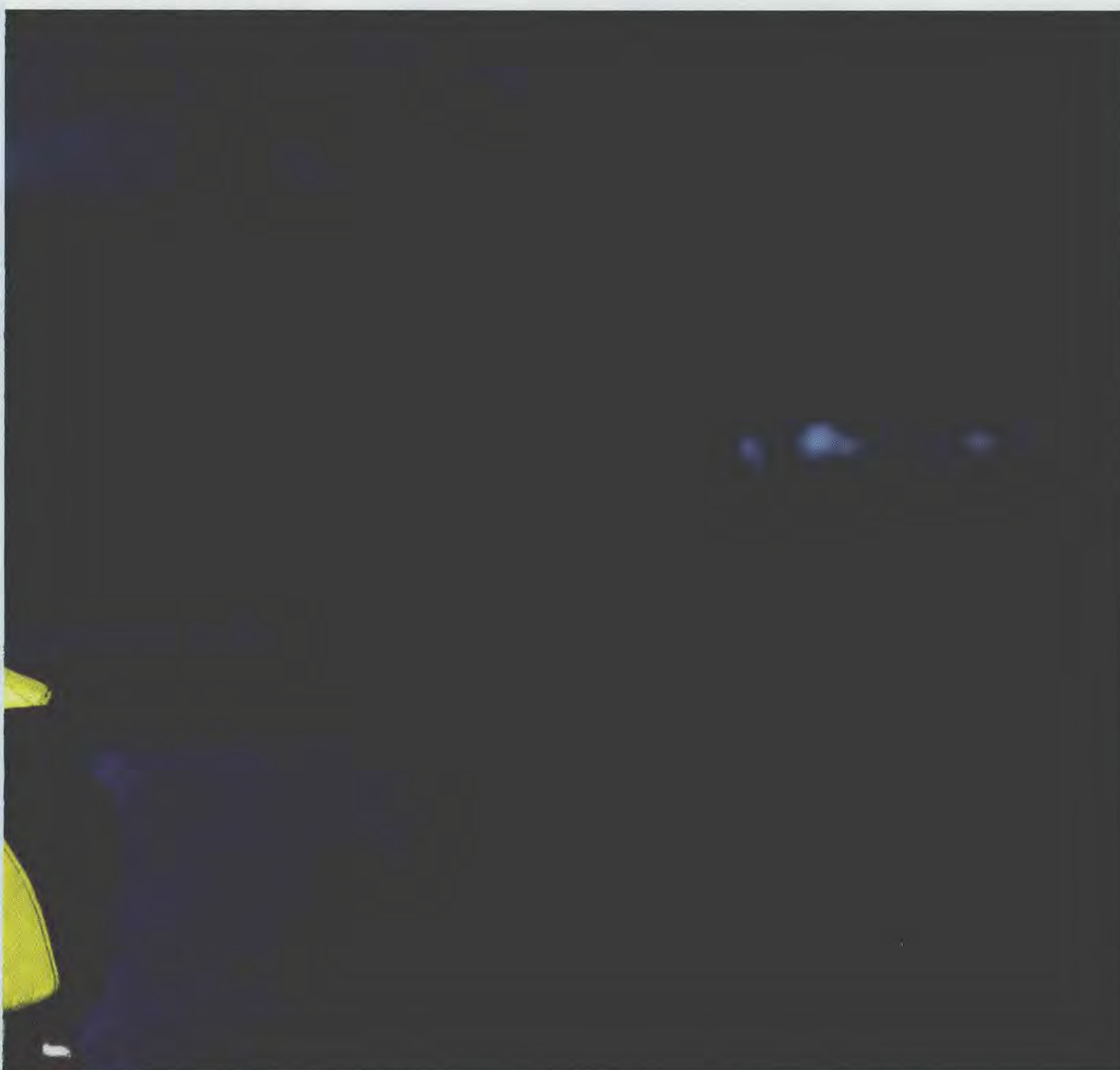
Thus it was proper for Harbor to not pay the entire amount of the settlement, he said.

In addition, if Harbor had paid the entire \$2 million, it would have had to effectively try the entire plaintiff's case establishing the defendants' proportionate share of liability, which was very impractical, Mr. Bodkin said.

It would have been much easier for Flamboyant to pay the amount

*Continued on next page*

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## Bad faith verdict

Continued from previous page and then sue Harbor in a declaratory judgment action, he added.

As a result of the failure to settle for \$2 million, the case went to trial.

On May 23, 1981, a jury awarded Mr. Utesch \$8 million, which was reduced to \$6.8 million because of his 15% comparative fault assessed by the jury (BI, June 8, 1981).

In addition, Flamboyant was found to be 40% liable, for \$3.2 million; Atlas, 25% liable, for \$2 million; and Holiday Inns, 20% liable for \$1.6 million. Atlas and Flamboyant appealed.

During the course of the appeal, Harbor and representatives of AMI, Atlas and Flamboyant began meeting again to settle the case pending the outcome of the appeal.

According to AMI, the discussions were abandoned by Harbor, which in April 1982, "secretly and unilaterally" settled with Mr. Utesch for \$2.5 million.

In the agreement, Harbor guaranteed Utesch an additional sum of up to \$1 million conditioned upon Mr. Utesch attempting to collect the remaining \$4.3 million in the verdict plus interest from Flamboyant.

"The effect of the... clause which Harbor negotiated was to protect Harbor's interests at the

**AMI says Harbor 'secretly and unilaterally' settled with Mr. Utesch for \$2.5 million.**

expense of AMI," AMI contended. "By guaranteeing Utesch an additional sum up to \$1 million if he was unable to collect the balance of his judgment against Flamboyant, Harbor saved substantially on the settlement agreement. Harbor paid Utesch much less money than it would have had to if it had to

negotiate a settlement on behalf of all the parties."

"Harbor never advised its insureds of these settlement discussions, and Harbor did not invite its insureds to participate therein," AMI added. "Harbor secretly approached Utesch's counsel and negotiated a settlement which severely damaged its insured, AMI."

In its brief, however, Harbor contends that it negotiated with Mr. Utesch's attorney independently but with AMI's knowledge because AMI representatives were unwilling to participate in negotiations.

Mr. Bodkin said a fundamental issue was whether Flamboyant could be treated as a separate cor-

porate entity, which Harbor thought it was.

"If a corporation wants to do business through separate corporate entities because there are advantages to do so, they have to take the disadvantages with them," he explained. "This was not something AMI was willing to do."

Approximately a month after the settlement between Harbor and Mr. Utesch, in May 1982, AMI and Atlas sued Harbor in a bad faith action in state Superior Court in Los Angeles.

AMI charged Harbor with breach of the California Insurance Code, breach of contract and breach of the implied covenant of fair dealing.

Harbor replied with a cross-complaint seeking damages for conspiracy to abuse the legal process and for fraud and deceit by AMI, Atlas and Flamboyant.

Harbor also sought damages from AMI and Atlas for breach of the implied covenant of good faith and fair dealing.

Three months later, in August, the U.S. Court of Appeals reversed the judgment for Mr. Utesch and ordered a retrial of the case against the remaining defendant, Flamboyant.

On April 4, 1983, one day before retrial of the case was to begin, AMI, on behalf of Flamboyant, settled with Mr. Utesch for \$1.9 million.

As a result, Mr. Utesch recovered \$4.4 million—\$2.5 million from the settlement with Harbor and \$1.9 million from the settlement with Flamboyant—in a case that could have been settled for \$2 million.

Approximately 13 months later the federal court in Virginia ruled that Flamboyant was not insured by Harbor.

The bad faith action between AMI and Harbor, meanwhile, was decided last month when the jury ordered Harbor to pay AMI \$10.25 million in compensatory damages and \$13 million in punitive damages. Harbor has filed a motion for a new trial.

AMI's demand for compensatory damages included losses it says it suffered when it could not raise additional capital due to the insurance coverage dispute involving the judgment for Mr. Utesch.

According to insurance brokers and risk management consultants, generally corporations avoid the problems that can be created when different policies insure different subsidiaries of a corporation.

"The most common insurance practice for a national or multinational company is to try to have one overall program for the parent and all subsidiary companies," said John T. Sinnott, executive vp of Marsh & McLennan Cos. Inc. in New York.

However, he noted that there are "all sorts of reasons" why, in a particular country or jurisdiction, companies have to operate differently. Some countries, for example, require that companies purchase insurance from admitted companies in those countries.

In addition, other factors such as the ability to obtain lower prices for insurance or an insurer's unwillingness to insure a subsidiary also can cause a parent company to purchase separate coverage for subsidiaries, some say.

According to C.C. "Bud" Griffin, chief executive officer of the risk management consulting firm of Warren, McVeigh & Griffin based in Newport Beach, Calif., the "typical approach is to have umbrella and excess carriers apply on a blanket basis."

Often, however, even when a company is compelled to purchase coverage from a different insurer for one of its subsidiaries, the corporation may buy very low limits for the subsidiary and then arrange for a master excess or umbrella policy to apply to the subsidiary, Mr. Griffin added.

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## Comings & goings: industry

Continued from page 14

former president of Risk Management Analytica in Reading, Pa.

**Fred J. Eder Jr.** joined the New York marketing staff of Walter Kaye Associates Inc. as national accounts casualty manager. Most recently, Mr. Eder was vp-general manager of Andreini & Co. in San Mateo, Calif.

Also at Walter Kaye, **Paul Kushner** joined as manager in the marketing department. Previously, Mr. Kushner was New York City branch manager for American International Group Inc.

At Fairlane Associates Inc. in Dearborn, Mich., **Robert D. Charette** named vp-new business development. Mr. Charette has been with Fairlane for 10 years.

**Richard L. Wellner** named executive vp of the property/casualty division of The MBA Group in Braintree, Mass. Previously, Mr. Wellner was resident manager and vp in the Boston office of Jardine Insurance Brokers of Massachusetts.

**Eugene P. Potloff** promoted to president and chief operating officer of L.K. Lloyd & Associates. Mr. Potloff, formerly executive vp, joined the San Francisco brokerage in 1978.

Also at L.K. Lloyd, **Greg J. Baker** appointed senior vp. Previously, Mr. Baker was regional vp with American General Life Insurance Co. in San Francisco.

**Rita Harfield** promoted to vp-underwriting from underwriter at the Lawrence Agency Corp. in Albany, N.Y.

**H.P. Van Ingen Jr.** named senior vp of Frank B. Hall & Co. of New York Inc. Prior to this appointment, Mr. Van Ingen was an executive producer.

### Reinsurance

**Paul D. Hawksworth** elected to succeed **Richard F. Gilmore** as president and chief executive officer of Mercantile & General Reinsurance Co. of America, effective Jan. 1. Mr. Gilmore will retire from the Morristown, N.J.-based insurer Dec. 31. Mr. Hawksworth also will succeed Mr. Gilmore as chairman, president and CEO of Toa-Re Insurance Co. of America—which has been managed by Mercantile & General for the past five years—as of Jan. 1. Mr. Gilmore has been CEO of Mercantile & General since 1977.

Also at Mercantile & General Re, **Robert B. Cross** elected vp.

**William H. Stempson** named senior vp-treaty underwriting director at North American Reinsurance Corp. in New York. Previously, Mr. Stempson was vp in the treaty marketing department.

**Harold E. Shergold** appointed vp of Allstate Insurance Co. and general manager of its reinsurance division in Northbrook, Ill. Before joining Allstate, Mr. Shergold was executive vp of North American Reinsurance Corp. in New York.

**Kurt A. Kraushaar** elected a vp at Trenwick America Reinsurance Corp. in Westport, Conn. Mr. Kraushaar joined Trenwick in 1986 as assistant vp-reinsurance services.

**Kenneth J. Bolen** elected senior vp of StellaRe Management Corp. in Tarrytown, N.Y. Mr. Bolen joined StellaRe as a vp in 1985.

### Excess/surplus

**Marcus Payne** has joined Crump Excess/Surplus Lines Group of Dallas as executive vp and chief operating officer. Pre-

viously, Mr. Payne was a senior vp at Unigard Security Insurance Co. in Seattle.

**Gary J. Gudex** elected vp-underwriting in the specialty risk division and **Richard G. Gustafson** elected vp-property/casualty underwriting in the Athena division of Atwater McMillian Inc., the surplus lines and specialty risk underwriting subsidiary of St. Paul Fire & Marine Insurance Co. in St. Paul, Minn. Mr. Gudex joined Atwater McMillian in 1985 as a major accounts underwriting officer. Most recently, Mr. Gustafson was vp-underwriting operations.

**Carl S. Billeter** named vp-underwriting of Aegis Insurance Services Inc. in Jersey City, N.J. Previously, Mr. Billeter was special accounts manager for Atlantic Mutual Insurance Co. of New York.

**John Zachry** elected vp of ex-

cess insurance at Transamerica Insurance Group in Los Angeles. He joined Transamerica in 1985 as excess property manager.

### Other suppliers

**William E. Adams** joined George Beram & Co. Inc. of Newton Highlands, Mass., as an employee benefits consultant. Previously, Mr. Adams was a vp at Fred S. James & Co. Inc. in Boston.

**Marc E. Reinecke** joined Efficient Health Systems Inc. in Atlanta as Southeastern regional vp. Prior to joining EHS, Mr. Reinecke was a senior account executive at Provident Life & Accident Insurance Co. in Atlanta.

**John J. Petillo Jr.** joined Insurance Consulting Associates in South Hackensack, N.J., as a senior consultant responsible for the risk management consulting division.

Previously, he was vp and general manager of Natcontainer

Corp. in North Bergen, N.J.

**Richard J. Fallquist** promoted to a principal from director of actuarial services at Coopers & Lybrand in Seattle.



Mr. Fallquist

**J. Michael Bickerstaff** joined Hazlehurst & Associates Inc. in Atlanta as a benefits consultant.

Prior to joining Hazlehurst & Associates, Mr. Bickerstaff was director of recordkeeping services at American Transtech in Jacksonville, Fla.

**Howard A. Freidin** joined the Chicago office of Ernst & Whinney as a senior manager in the employee benefits group of the tax department.

Previously, Mr. Freidin was manager at Touche Ross & Co. in Chicago.

### HMO/PPO

**Dr. Carl Mankowitz** appointed to the newly created position of vp-medical director at Corporate Health Strategies Inc., which has recently relocated to Westport, Conn., from New Haven, Conn. Pre-



Mr. Freidin

viously, Dr. Mankowitz had served as the medical director at Health America Corp., in Pittsburgh.

**Charles R. Stark** named chief executive officer at MetLife HealthCare Network of St.

Louis, replacing interim CEO **Dan DeGood**. Mr. DeGood has returned to his primary role of regional vp of MetLife HealthCare Management Corp. Mr. Stark previously served as CEO at MetLife HealthCare Network of Colorado. ■





Photo: AP/Wide World

Not a dime has been paid to plaintiffs seeking hundreds of million of dollars in damages as a result of the July 1977 floods.

## Johnstown flood

Continued from page 2

consolidate their cases into a class action, there has been little movement on the cases for about a year.

The plaintiffs have appealed Judge McWilliams' ruling to the Pennsylvania Supreme Court.

Judge McWilliams, who did not return numerous phone calls, expressed frustration with the delays in the case in a July interview with the Pittsburgh Press. "Every time we turned around, there would be another motion or something filed in it," he was quoted as saying.

The flood occurred after about 12 inches of rain fell during a 12-hour period on July 19, 1977.

About midnight, the swollen waters of the Conemaugh River's tributaries breached two dams owned by local water authorities. The rupture of Laurel Run Dam northeast of Johnstown, owned by the Greater Johnstown Water Authority, is blamed for causing most

of the deaths and the greatest amount of property damage.

A smaller dam on the Sandy Run stream—owned by the Highland Water Authority—also burst.

Compounding the disaster, heavy rains washed out an embankment of a state road under construction, creating a dam-like barrier in the Solomon Run stream. The stream then broke that barrier, and another wall of water blasted the Johnstown area.

The floodwaters inundated the city and surrounding area, killing 85 people and injuring more than 2,600 others. The flood destroyed 413 houses, 135 mobile homes and more than 50 apartments as well as damaging more than 400 small businesses.

Plaintiffs have filed suits seeking unspecified damages in "excess of \$10,000" each.

William Barbin, solicitor for the Greater Johnstown Water Authority, another defendant in the case, explains that setting damages

"in excess of \$10,000" assures that the cases would not be sent to arbitration as required under state and county law.

Under Pennsylvania law, counties can require that civil suits involve a minimum amount of damages before they can be sent to court rather than an arbitration panel, explained Mr. Barbin, an attorney with the Johnstown firm of Gleason, DiFrancisco, Shahady & Markovitz.

One defendant in several of the suits is the commonwealth of Pennsylvania. Plaintiffs have alleged that the state, its agencies, officials and employees were, among other things, negligent in inspecting the dams before the flood.

However, money in two state tort claims funds that could respond if damages are awarded falls far short of the potential liability.

Two of the chief commonwealth defendants are the Department of Environmental Resources and the Department of Transportation. The Department of Environmental Resources is responsible for inspecting dams. The Department of Transportation was named as a defendant because it was constructing the road embankment that washed into the Solomon Run stream.

Any awards made against those agencies and their one-time officials and employees would be paid by the state's tort claims funds, the Tort Claims Motor License Fund, which applies only to liabilities incurred by the state Department of Transportation, and the Tort Claims General Fund, which covers all state agencies and is financed by Pennsylvania's general fund.

The funds were established by the Sovereign Immunity Torts Claims Act of 1978, which allow suits against the state and its agencies in civil matters under certain circumstances. The Pennsylvania Supreme Court had voided the doctrine of sovereign immunity in the 1973 case *Ayala vs. the Philadelphia Board of Public Education*.

Even though the flood occurred a year before the funds were established, the immunity waiver provisions were made applicable to any suits that were pending against the state in 1978.

There are nine situations under which the state waives immunity under the 1978 act:

- When state-owned real estate is a contributing factor in injuries or damages.
- Injury caused by state-owned automobiles.
- Malpractice by state health officers.
- Injury to animals under state control.
- Injury to personal property under state control.
- Injury caused by National Guardsmen.
- Injury caused by state-administered vaccines.
- Injury caused by state-controlled liquor stores.
- Damages caused by potholes in state roads when the state was previously aware that the pothole existed.

A spokeswoman for the state's Department of General Services Department, whose Bureau of Risk and Insurance Management administers the funds, said the department does not believe any of the waivers apply in the Johnstown cases. However, if the litigation is not settled, Judge McWilliams, his successor or a jury would have to determine whether plaintiffs are entitled to recovery under any of the waivers.

The two state funds and another tort fund that covers claims stemming from state agencies' automobile liabilities have about \$56.7 million on hand for the current fiscal year, according to the General

Continued on next page

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# Johnstown flood

Continued from previous page  
Services spokeswoman.

There is no separate reserve fund for the Johnstown cases.

But the size of awards the funds can pay is circumscribed by law.

Awards from each fund are capped at \$250,000 per person and \$1 million per occurrence.

However, if a court rules the state funds should respond to flood claims, it also would have to determine what constitutes an occurrence, according to the General Services spokeswoman. For example, a court may rule the flood was a single occurrence, or the loss that each plaintiff sustained was an occurrence.

Mr. Minihan, the deputy attorney general, stressed that no matter what mechanism is used to pay any potential commonwealth liability, the burden of payment will fall on the state's citizens. "Ultimately, the poor taxpayer gets

socked," he said.

Bethlehem Steel of Bethlehem, Pa., also has been named as a defendant in many of the flood lawsuits.

At one time, Bethlehem Steel controlled the Laurel Run Dam through a wholly owned subsidiary.

Bethlehem's subsidiary—Johnstown Water Co., the original owner of the dam—divested itself of the dam several years before the flood, and control of the dam passed to the Greater Johnstown Water Authority.

A legal official at Bethlehem Steel's headquarters said in a prepared statement: "The suit is still active and the matter is in litigation. We will make no further comment."

Bethlehem Steel would not comment on any insurance it may have had at the time of the flood to respond to any court awards or settlements.

However, Bethlehem Steel was

**The amount of rainfall suggests "the act of God defense could be supported," Mr. Barbin says.**

self-insured for its unspecified share of a \$4.5 million settlement with a survivor of a 1979 oil rig accident (BI, June 7, 1982).

And, a source who asked not to be identified said, "It's safe to say Bethlehem Steel was self-insured at the time" of the Johnstown flood.

The Greater Johnstown Water Authority is responsible for Laurel Run Dam. The water authority and Laurel Management Corp. in Johnstown, which operated the Laurel Run Dam site for the Water Authority, are named as defendants in some of the lawsuits.

Mr. Barbin, the solicitor for the water authority, who has no role in presenting the water authority's defense, said the authority had general liability insurance with no exclusion for dams at the time of the flood. The policy, which was written on an occurrence basis by Fireman's Fund Insurance Co. of Novato, Calif., had limits of \$500,000.

A spokeswoman for Fireman's Fund confirmed that the dam liability coverage was written by the insurer's Pittsburgh office.

Mr. Barbin said the water authority can no longer obtain liability insurance without a dam exclusion.

Another defendant in some of the suits is the water authority's engineering consultant, Gannett, Fleming, Corrdry & Carpenter in Harrisburg, Pa., which was the authority's engineer at the time of the flood.

Gannett Fleming provides transportation, civil, water and was-

tewater engineering services nationwide.

A Gannett Fleming official said the firm had professional liability insurance written on a claims-made basis but declined to name the insurer or the policy limits, saying that insurance coverage in the Johnstown matter was "a somewhat touchy matter."

However, the official did say that the coverage was "obviously not in the total amount that the plaintiffs may be seeking."

Gannett Fleming would not comment on the possibility of out-of-court settlements.

The Highland Sewer & Water Authority of Richland Township, Pa., a suburb of Johnstown, owned and operated the Sandy Run dam. However, the authority is named in fewer lawsuits than many other defendants because the damage attributable to the burst Sandy Run dam is less extensive than the damages plaintiffs blame on the Laurel Run dam and the Solomon Run stream.

A spokesman for Highland would not comment on its insurance.

Chief Deputy Attorney General Minihan emphasized that the complexity of the Johnstown cases goes beyond the number of cases filed and the amount of money that might be at stake. Procedural matters also have complicated the matter.

For example, all of the wrongful death suits were filed individually but will be consolidated when a trial date is set.

However, Judge McWilliams denied a motion by many plaintiffs to consolidate their negligence suits. Plaintiffs selected the defendants to sue based on their determination of what caused them the most damage: either of the two burst dams or the Solomon Run overflow.

The plaintiffs appealed Judge McWilliams' decision to the Commonwealth Court of Pennsylvania, but a panel of three Commonwealth Court judges upheld Judge McWilliams' decision.

The plaintiffs appealed to have the matter heard by the full Commonwealth Court. Once again, the appellate court upheld Judge McWilliams' denial of class-action status.

The plaintiffs now await a decision by the Pennsylvania Supreme Court on whether it will hear their appeal.

Mr. Barbin of the water authority said that when the cases finally do come to trial, the fact that a "phenomenal amount of rain" fell in the Johnstown area during the hours immediately preceding the flood could have some effect on the defendants' liability. The amount of rainfall presents "a real possibility that the act of God defense could be supported here," he said.

Although Mr. Barbin admits that acts-of-God defenses have not been very successful in recent years, he said he thinks the Johnstown cases may prove to be the exception and that the defendants might prevail given the circumstances surrounding the dam breaks.

Neither attorneys for Bethlehem Steel, the water authority and Gannett Fleming nor the plaintiffs would comment on any aspect of the cases.

The 1977 disaster was the third major flood to hit Johnstown in less than a century.

The most infamous of the deluges, the flood of May 31, 1889, killed more than 2,200 people and destroyed \$10 million in property. As was the case in 1977, the 1889 flood occurred when a dam broke.

In 1936, a flood killed 25 people and caused an estimated \$40 million in damage in Johnstown. After that disaster, the U.S. Army Corps of Engineers spent about \$7 million on flood control projects.



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# U.S. workplace injury rate holds steady

By DEBORAH SHALOWITZ

## Washington

WASHINGTON—The workplace injury and illness rate remained unchanged in 1986 from 1985 at 7.9 per 100 full-time workers, according to a federal government survey.

However, the actual number of injuries and illnesses in 1986 rose to 5.6 million from 5.5 million in 1985, noted the Labor Department's Bureau of Labor Statistics.

The BLS survey explained that the workplace injury and illness rate remained the same while the actual number of injuries and illnesses increased because of increases in employment and hours of work in 1986.

The industries with the highest occupational injury and illness rates per 100 full-time workers

are:

- Construction, where the rate was 15.2 in 1986, unchanged from 1985.

- Agriculture, forestry and fishing, where the rate dropped to 11.2 in 1986 from 11.4 in 1985.

- Manufacturing, where the rate rose to 10.6 in 1986 from 10.4 in 1985.

- Mining, where the rate dropped to 7.4 in 1986 from 8.4 in 1985.

Injury rates vary substantially by company size, according to the BLS survey.

For example, firms with between 100 and 249 employees reported the highest injury rate—11.0 per

100 workers in 1986, down from 11.3 in 1985.

The injury rate in firms with 50 to 99 employees was 10.0 per 100 workers in 1986, down from 10.1 in 1985. Companies with 250 to 499 employees recorded a rate of 9.9 in 1986, up from 9.8 in 1985.

The lowest injury rate was found in firms with between one and 19 employees. In those firms, the injury rate was 3.6 in both 1986 and in 1985.

The BLS survey also measured the severity of workplace injuries by calculating the rate of lost workdays per 100 full-time workers.

The lost workdays rate for all in-

dustries was 65.8 in 1986, up from 64.9 in 1985, according to the survey.

In manufacturing, however, the lost workdays rate increased to 85.2 in 1986 from 80.2 the previous year. In contrast, the lost workdays rate in mining—the industry with the highest lost workday rate—dropped to 125.9 in 1986 from 145.3 in 1985.

The BLS survey involved a sample of 280,000 businesses. The estimates generated from the survey represent the occupational injury and illness experience of about 83 million workers in the private sector of the U.S. economy, noted the survey.

Self-employed persons, farms with fewer than 11 employees and private households were not included in the BLS survey.

## Parental leave

A bill requiring employers to grant workers unpaid leave to care for a new or ill child or their own illness would cost employers a maximum of \$500 million annually, according to a government official.

This amount reflects the cost to employers of continuing health insurance coverage for employees during their unpaid leave, according to William J. Gainer, associate director in the human resources division of the General Accounting Office.

Mr. Gainer presented the GAO estimate during testimony on a Senate version of an unpaid parental leave bill before the Senate Labor and Human Resources Subcommittee on Children, Families, Drugs and Alcoholism. The subcommittee has held seven hearings on the bill, S. 249, since it was introduced by Subcommittee Chairman Christopher Dodd, D-Conn., in January.

Sen. Dodd's bill would require federal, state and local governments and companies with 15 or more employees to grant workers up to 18 weeks of unpaid leave over a 24-month period upon the birth, adoption or serious health condition of a child and up to 26 weeks of unpaid leave over a 12-month period for an employee's own serious health condition.

The bill also would require employers to continue health benefits for a worker during unpaid leave on the same basis as if the employee were working. Other benefits, such as life insurance and retirement plans, would not have to be continued.

A somewhat similar House version of an unpaid parental leave bill was approved recently by the House Education and Labor Committee (BI, Nov. 23). Under that bill, H.R. 925, companies with 50 or more employees would be required to grant to workers unpaid leave of 10 weeks over a two-year period after the birth or adoption of a child or to care for an ill parent or child. Seriously ill employees would be entitled to 15 weeks of unpaid leave in a year.

Mr. Gainer told the subcommittee that the cost for health care continuance for workers on unpaid leave to care for new children would be no more than \$340 million annually. "This is an upper estimate and it is our belief that the actual cost will be less," he said.

The cost of granting unpaid leave to workers to care for seriously ill children would be about \$22 million annually, according to the GAO, and the cost of temporary medical leave would be about \$138 million annually.

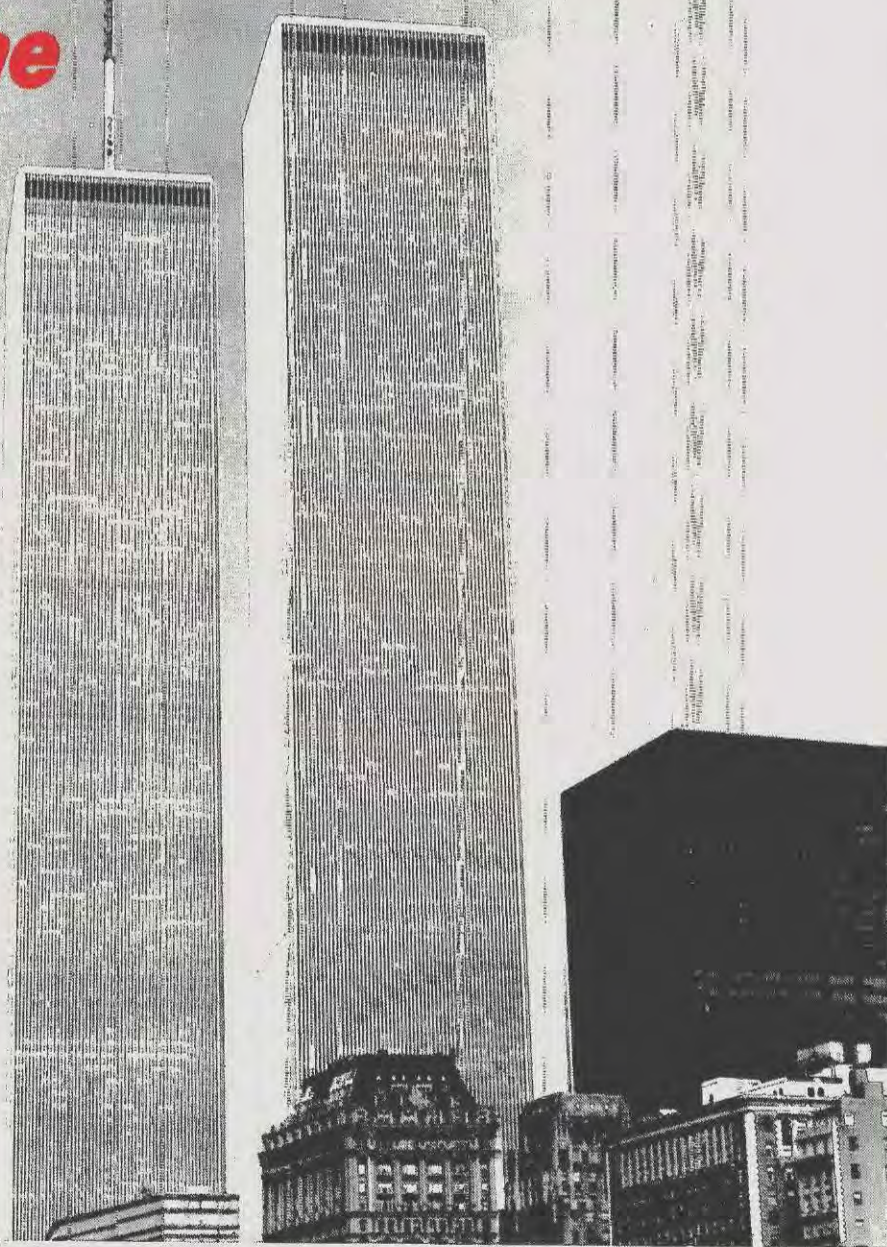
While opponents of the bill have said that it will force employers to incur significant costs to replace workers on leave and subsequent productivity losses, Mr. Gainer said that GAO's analysis of S. 249 "leads to the conclusion that there will be little, if any, measurable net cost to companies resulting from a firm's method of adjusting to the absence of a worker on temporary leave."

According to Mr. Gainer, the GAO conducted a survey of about 80 firms in Detroit and Charleston, S.C., to get a sense of how employers adjust to employees taking temporary leave.

The cost of replacement workers was generally similar to or less than the cost of the worker replaced and, in general, "employers did not believe that the use of a replacement resulted in a significant loss of output," said Mr. Gainer.

Furthermore, "in most cases, no  
*Continued on page 22*

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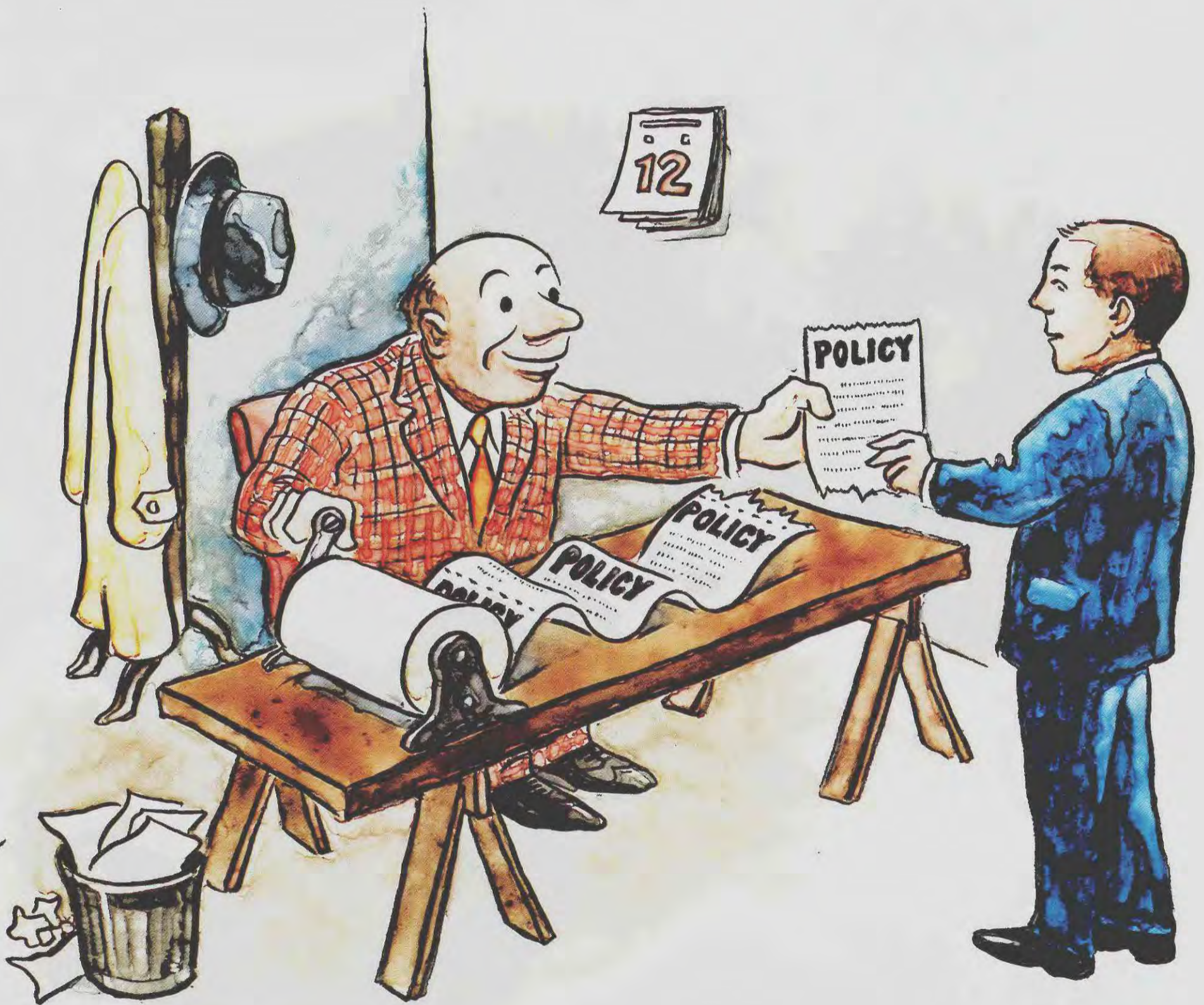
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# New Hampshire begins disbanding MAP

CONCORD, N.H.—New Hampshire is dismantling its market assistance program for day-care and municipal liability risks because of recent improvements in insurance availability.

The MAP had been set up in October 1985 as a temporary measure to help insurance buyers in the state find scarce day-care, municipal and liquor liability coverages (*BI*, Nov. 11, 1985).

In addition to providing market assistance, the MAP established an insurance arrangement in which three New Hampshire insurers and 20 out-of-state reinsurers voluntarily shared the risks on a pro rata basis, according to Robert S. Plumb, director of property, liability and licensing for the New Hampshire Insurance Department.

The three primary insurers involved in the MAP—New Hampshire Insurance Co. of Manchester, N.H.; Continental Insurance Co. of Concord, N.H.; and The Home Insurance Co. of Manchester, N.H.—wrote municipal, day-care and liquor liabilities, respectively.

The day-care and municipal programs were suspended on Nov. 1, said Mr. Plumb. However, the liquor liability program will remain in effect, although availability is easing in that line of coverage as well, he said.

## Around the states

Eventually, the liquor liability program also will be eliminated, he added.

Policyholders that obtained coverage through the MAP will be notified at least 45 days prior to their policy expiration dates on where to go in the commercial market to obtain replacement coverage, said Mr. Plumb.

Insurance Commissioner Louis E. Bergeron announced his intentions to begin dismantling the MAP at the October annual meeting of the participating insurers and underwriting committee members, said Mr. Plumb.

Mr. Plumb cited improved insurance market conditions, the resolution of tort reform issues and an increased willingness of insurers to take risks as instrumental in the MAP phase-out.

—By Laura Mazzuca

## N.Y. flex rating

NEW YORK—The New York Insurance Department will

hold a public hearing Dec. 18 to consider possible adjustments to its flexible rating system and to evaluate the impact of changing market conditions and practices.

Scheduled to begin at 10 a.m. in the Insurance Department's New York office, testimony on several issues will be heard, including:

- Whether current exemptions from flex rating or particular flex bands should be modified.

- The re-emergence of cash-flow underwriting by insurers.

- Repercussions of recent stock market volatility on rating and market practices.

- Flex rating violations.

- Rating abuses or unfair competitive practices that may be developing in the marketplace.

New York in 1986 adopted a hybrid of prior approval and open rating approaches for most types of commercial liability insurance called flex rating.

Under New York's flex rating system, rate changes within broad flex bands can be made on a file-and-use basis, with only rate changes above or below such bands requiring prior approval before the proposed change can take place.

—By Douglas McLeod

## Washington

Continued from page 20

replacement worker was hired," he continued. "Instead, employers tended to reallocate the work of those on leave to other employees. While some work was postponed or delayed. . . employers said that in general, they felt they were able to adjust to the situation."

## OSHA eyes AIDS

The Occupational Safety and Health Administration is seeking data and opinions on the development of a standard to protect workers against bloodborne diseases such as hepatitis B and acquired immune deficiency syndrome.

OSHA's information request, which is called an advance notice of proposed rule-making and was published in the Federal Register on Nov. 25, is the first step in its rule-making process.

OSHA is seeking information on:

- Which occupations should be covered? For example, should the standard cover only employees in health care facilities or should it include others?

- How would the standard apply to state and municipal employees? OSHA provisions do not apply to state and local governments in their role as employers. However, any state that wants to administer its own job safety and health program must cover its state and local government workers with standards at least as stringent as those for private employees.

Currently, there are 25 OSHA-approved state safety and health programs that would have to either adopt the new OSHA rule or develop their own standard for state and municipal workers.

- How many people are at risk from exposure to these viruses in the workplace, and which jobs present the greatest risk?

- How are the viruses transmitted in workplaces?

- What current methods are being employed to control exposure to these viruses in the workplace?

- What personal protective clothing and equipment should be required?

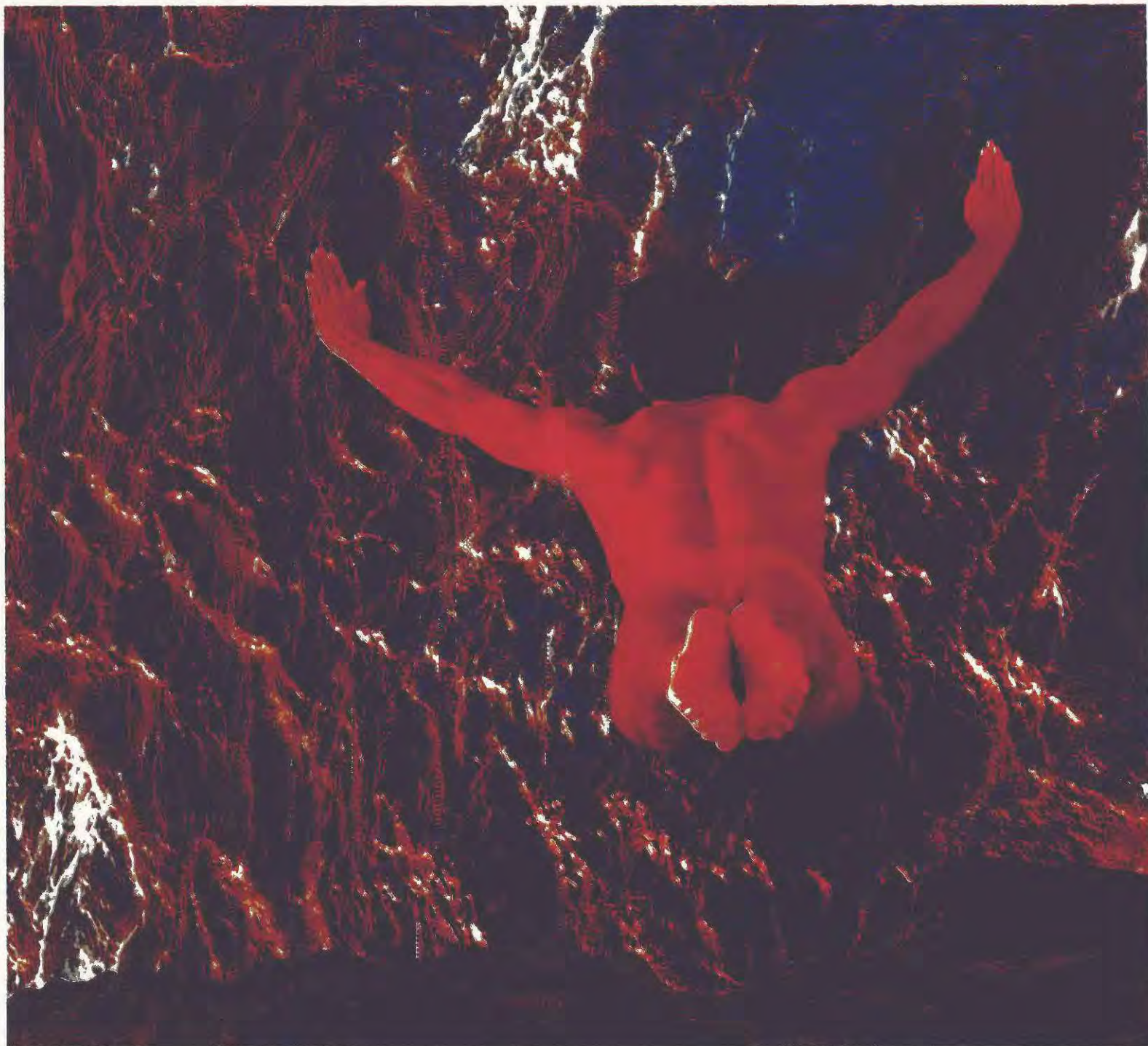
- Should vaccination programs be instituted?

- How should occupational injuries, such as being pricked by a contaminated hypodermic needle, be managed?

- What type of medical surveillance should be used?

- What kind of training and education should be required?

Comments should be sent in quadruplicate to the OSHA Docket Office, Docket No. H-370, Room N-3670, 200 Constitution Ave. N.W., Washington, D.C. 20210. ■



# JUDGEMEN

# French insurer privatization delayed

PARIS—Privatization of state-owned French insurance companies will proceed much more slowly than originally announced due to the worldwide stock market tailspin.

Union des Assurances de Paris, the first state-owned insurance company to be listed on the French stock exchange, known as the Bourse, originally was scheduled to be listed by the end of this year.

However, the public sale of the company by the government has now been postponed until some time in 1988. While the exact date is not yet known, many observers believe the offering could be as early as January if there is improvement in the stock market.

The privatization of a second state-owned French insurer, Assurances Generales de France,

## Worldwide

could be delayed even longer because of the French general election that takes place in the spring.

The delays in the privatization program, announced by French Finance Minister Edouard Balladur last month, are not just affecting the insurance sector. Matra S.A., the defense contractor and electronics manufacturer that was to be privatized last month, will not be offered to the public until conditions on the French Bourse improve.

However, public interest in selling off state-owned companies remains high, sources say. It is now estimated that there are about 6 million private investors in France,

or three times as many as a year ago. Throughout 1987, three of the five most actively traded companies on the French Bourse have been state-owned companies that are newly privatized.

—By Denise Claveloux

### Spanish insurer

MADRID, Spain—Corporacion Mapfre Cia Internacional de Reaseguro S.A., the publicly traded arm of the Spanish Mapfre insurance group, went ahead with its 4.8 billion pesetas (\$42.7 million) stock issue at the end of last month despite uncertainty in global stock markets.

The company made the decision on Oct. 20—the day after “Black Monday”—at its annual shareholder meeting, said Corporacion Mapfre Chairman Ignacio Hernandez de Larramendi y Montiano. The company did not foresee a problem with the stock issue, Mr. de Larramendi said, “but if there is a problem we will cover it ourselves.”

The offering, which began Nov. 29, expires Dec. 28.

Corporacion Mapfre's major shareholder, auto insurer Mapfre Mutualidad de Seguros, has guaranteed 60% of the offering. However, “if there is another crash, we will absorb it ourselves,” said Mr. de Larramendi.

The Mapfre group's total premium volume increased 46% in the first 10 months of 1987 to 56.7

billion pesetas (\$504.6 million).

According to information from Alberto Manzano Martos, secretary to the board of directors of Corporacion Mapfre, the aim of the new stock issue is to finance the company's 1988 investment program.

Madrid stock market sources say insurance stocks have fallen an average of about 40% since the Oct. 19 crash. However, the sources say the effect of the crash was exaggerated on the Madrid stock market because of the market's relatively low liquidity and the massive increase in foreign investment in Spain last year prior to the country's official entry into the European Community.

The stock market sources add that most Spanish insurers, which generally are owned by banks or other financial institutions, are very profitable.

—By Maria Kielmas

### Philippines storm

MANILA, Philippines—Property damage from Typhoon Nina, which battered the Philippines last month, is still being determined, but observers say losses will be heavy.

The worst typhoon in Philippine history killed close to 800 people, with scores of others still missing last week. Approximately 100,000 people were left homeless after the storm hit the East-Central coast of the nation on Nov. 26.

President Corazon Aquino has proclaimed 11 provinces as disaster areas, but because of the isolation of the region and a lack of communication in normal times, there were no damage reports from some of the affected regions four days after the storm struck.

Virtually all power lines were destroyed in Legaspi City, the capital of the Bicol region. Authorities there estimate it will take three months to restore power in urban areas and far longer in rural regions.

—By Kathleen Barnes

### No coverage

SYDNEY, Australia—Telecom,  
Continued on next page



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## Worldwide

*Continued from previous page*  
the Australian telephone company, is not insured for the estimated \$2 million Australian (\$1.4 million U.S.) it cost to repair lines that were slashed by saboteurs.

Telecom says that under an act of Parliament, the company is not liable for business interruption losses or data losses due to equipment failures. It does not purchase property insurance.

Late last month, an unknown number of saboteurs familiar with Sydney's underground communications network slashed cables and cut telephone service to hundreds of businesses and some apartments. But, because they attacked on a weekend and concentrated their activity on the central business district, there was very little business interruption. Automatic teller machines outside some banks

were slightly affected, but Telecom quickly diverted services around the trouble spots while the damage was being repaired.

A team of up to 200 technicians worked for three days to repair the damage.

—By Geoffrey Lee-Martin

### Landoil dispute

MANILA, Philippines—Fraud charges have been filed by the Philippine Department of Justice against Landoil Resources Corp. and several of its officers.

The government alleges that Landoil has failed to meet its financial obligations. However, Landoil President Ambrosio Colorado said the issue was a matter of delayed payments, not fraud.

Landoil filed suit in December 1985 against Lloyd's of London, a

Lloyd's syndicate, broker Alexander & Alexander Inc. and A&A subsidiary Alexander Howden Group Ltd. for allegedly not paying claims on a \$50 million political risk insurance policy (BI, Jan. 20, 1986). The suits are still pending in Philippine courts.

The claims arose from four contracts into which Landoil entered with state-owned companies in Libya and Iraq, court papers show.

Former Landoil President Jose de Venecia, who is now a Philippine congressman and is named in the suit, said the delay in payments was the result of the failure of the Middle East contractors to pay Landoil.

—By Kathleen Barnes

### Skandia profits

STOCKHOLM, Sweden—Skandia International Insurance Corp. predicts that its operating earnings will decline by more than 36% this year, in part because of the October stock market crash.

Predicting its 1987 results, the company said operating profits are expected to drop to 200 million Swedish krona (\$32.8 million at current exchange rates) from 316 million Swedish krona (\$46.8 million at year-end 1986 exchange rate) in 1986.

Reviewing Skandia International's fall report, President and Chief Executive Officer Hans F. Dalborg said that "the development of the insurance operations continue uniformly in the right direction."

The company's strategic objective, he said, is to expand direct insurance and financial services operations. With that in view, Skandia has acquired a majority holding in Danish insurer KGL Brand, as well as an option to acquire a majority of shares in The Copenhagen Reinsurance Co. Ltd.

"Our reinsurance operations are being reoriented toward specialized niches where we can become leaders in the market and thereby improve profitability," Mr. Dalborg said. "This development within the company permits me, in spite of recent turbulence on the financial markets, to view the future development of Skandia International with great confidence."

The acquisition of a further 16% of KGL Brand means that Skandia International now holds a 51% stake in the company. KGL Brand's results will now be included in Skandia's consolidated financial statements, he said.

KGL Brand, founded in 1798, is Denmark's seventh-largest direct insurance group with gross premium volume of 1.1 billion Danish krone in 1986 (\$149.7 million at year-end 1986 exchange rates). The company operates throughout Denmark and writes all classes of business including life insurance and reinsurance.

"We have confidence in the Danish market and we believe in KGL Brand," Mr. Dalborg said.

Copenhagen Re has affiliates in the United Kingdom, the United States, Australia and the Far East. Copenhagen Re's principal shareholders are KGL Brand and Sampo Mutual Insurance Co. of Finland, which has ceded its rights to Skandia International to enable the Swedish company to have a majority share in the reinsurance operation.

Gross premium volume of Copenhagen Re in 1986 was 1.7 billion Danish krone (\$225.5 million at year-end 1986 exchange rate), of which just over half came from property reinsurance.

"The acquisition of options (on Copenhagen Re) is based on our intentions to strengthen our Scandinavian base in the reinsurance sector while at the same time using Copenhagen Re as a springboard for other European operations," Mr. Dalborg said.

—By John Parry

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## NEW ENGLAND RE

# Most firms oppose Kennedy bill: Study

By JERRY GEISEL

NEW YORK—Sen. Edward Kennedy, D-Mass., is coming up short in his drive to win more business support for his legislation to require all employers to offer group health insurance coverage.

Some 83% of employers surveyed by New York-based benefit consultant William M. Mercer-Meindinger-Hansen Inc. said they opposed the mandatory group health insurance bill, S. 1265, introduced by Sen. Kennedy.

Only 13% of 5,682 employers who responded to the Mercer survey said they favored the Kennedy bill, while 4% of employers were undecided.

The Kennedy bill would require virtually all employers to provide a health care plan with at least prescribed minimum benefits to their employees and their employees' dependents on Jan. 1 of the second year following the bill's enactment (BI, May 25; June 29).

Of those employers opposed to the bill, some 72% said they were against Congress mandating any employer-provided benefits.

"I was quite surprised at the number of employers against the Kennedy mandate," observed survey author Carson Beadle, a managing director in Mercer's New York office.

"There is something quite deep at work. Employers don't want someone to say: 'You must do this.' We want to do this (offer coverage) on our own without a mandate and we will take the responsibility to do so," Mr. Beadle added.

In fact, some 46% of respondents said that employers alone or employers with their employees together should have the primary responsibility for providing coverage to the non-elderly, compared with 12% who said employees alone should bear the responsibility and 8% who said the responsibility belongs with the federal government.

The survey, which was conducted in September, illustrates that backers of the Kennedy legislation still have not made much progress in defusing employer opposition, which is a necessity if the measure is to have a chance of passage during the current congressional session.

When Sen. Kennedy, who chairs the Senate Labor and Human Resources Committee, introduced the legislation in May, some thought that the measure would attract support from employers that already provide health care plans exceeding the minimum levels of coverage laid down by the Kennedy measure.

In fact, the Kennedy bill did win support from a handful of large employers, such as Chrysler Corp., which said their health care costs now are inflated because hospitals pass on the costs of the uninsured in the form of higher charges to insured patients.

If all employers were required to offer health care coverage to employees, as Sen. Kennedy wants, supporters of the bill presume the problem of cost-shifting would be eased.

But many employers are skeptical of that claim. In fact, a substantial majority of those employers surveyed by Mercer believe the Kennedy legislation actually will inflate their employee health care costs.

Some 71% of employers said they thought their health care costs would increase if the Kennedy bill were enacted.

Of those employers, 28% said the cost increase would be significant and 43% simply said health care costs would rise.

However, 20% of employers said costs would remain the same, while

6% were not sure and 3% said costs would decrease or decrease significantly.

Employers were especially opposed to a provision extending health care coverage to part-time workers. Of employers opposed to the measure, some 62% objected to the provision that would require employers to offer health insurance coverage to part-time employees working as little as 17.5 hours per week.

Those employers say such a provision would be costly and could result in the elimination of part-time jobs.

In fact, 25% of respondents said it would be very likely that their organizations would reduce the number of part-time employees if they were required to offer health care coverage to those working at

**'Employers don't want someone to say: "You must do this,"' says Carson Beadle.**

least 17.5 hours a week, while 23% said reductions in the number of part-time workers was likely.

On the other hand, 40% said they were unlikely or very unlikely to reduce the number of part-time employees if health care coverage for those workers were federally mandated. Another 12% weren't sure what the effect of a federal health care mandate would be on the number of part-time workers

they employ.

While companies vary in the minimum number of hours they require a part-time employee to work before he or she is eligible for health care coverage, it is unusual for companies to allow those working fewer than 20 hours a week to participate in a group plan, consultants say.

Because of employer opposition, Kennedy staffers, who have shown interest in the views of the business community, are considering a variety of new approaches to providing coverage to part-time employees, Mr. Beadle said.

Under one approach now being considered, employers would only have to offer coverage for catastrophic expenses for part-time employees—those working between 12 and 30 hours a week.

Under another approach, coverage only would have to be provided to those working at least 20 hours a week, Mr. Beadle said.

Some 55% of respondents opposed to the measure said not enough thought has been given to the proposal's broad economic implications for the country.

And, some 47% of those opposed said a provision that limits how much employees can be required to contribute toward coverage would be too costly for employers.

Under the measure, employees could be required to pay no more than 20% of the premium for individual or family coverage. And, in the case of low-wage employees—those who earn less than 125% of the federal minimum wage—the employer would have to pay 100%

*Continued on next page*



## To A Lot Of Insurance This Was A Stop Sign.

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Continued from previous page of the premium.

The survey found that 33% of respondents said their corporate plans required employees to pay more than 20% of the premium for individual or family coverage, while 7% weren't sure.

On the other hand, 60% of respondents said their plans did not require employees to pay more than 20% of the premium for coverage.

A relatively small percentage—24%—of those opposed to the measure said the mandated benefits were too generous.

Under the proposed measure, the maximum annual deductible for individual coverage generally would be \$250, while the maximum family deductible would be \$500. Above the deductibles, employees could be required to pay 20% of costs for covered services with an annual \$3,000 stop-loss limit on out-of-pocket expenses.

A surprisingly high percentage of employers—56%—said their health care plans now meet the major minimum requirements established by the Kennedy bill. Another 40% of employers said their plans did not comply, while 4% were not sure.

This relatively high percentage of employers that say their plans meet the major coverage requirements in the Kennedy bill contrasts with a survey conducted earlier this year by consultant Towers, Perrin, Forster

& Crosby Inc. In that survey, none of the health care plans offered by 74 employers provided all the benefits required by the Kennedy bill (BI, Aug. 31).

The reason for this apparent discrepancy is that TPF&C asked employers if their plans were in compliance with all the requirements set by the Kennedy bill, including free coverage for well-baby care and a 30-day maximum waiting period for coverage.

Mercer, by contrast, asked employers if their plans complied only with the general requirements in the Kennedy bill establishing maximum \$250 and \$500 deductibles, placing a \$3,000 cap on out-of-pocket employee expenses, capping employee premium contributions at 20% and providing coverage to those working more than 17.5 hours.

As would be expected, employers that favored the legislation were more likely to provide health care plans that comply with the Kennedy bill's major coverage requirements than those opposed.

For example, some 76% of employers endorsing the legislation said their plans meet the Kennedy bill's coverage requirements, while 52% of those against the legislation said their health care programs meet the bill's requirements.

Summaries of the survey: "Mandated Health Insurance for U.S. Workers," are available from any local William M. Mercer-Meidinger-Hansen Inc. office.

# Health benefit costs unstable: Consultants

By KARI BERMAN

NEW YORK—Employers will be searching for more health care cost-containment strategies as medical care costs are expected to continue rising in 1988, according to employee benefit consultants.

"We are at the worst point ever in terms of health care inflation, with health care cost increases possibly reaching 20%," Theodore J. Nussbaum, a principal at the New York office of Coopers & Lybrand, said last month at an executive briefing on benefits sponsored by the accounting and consulting firm.

In his discussion of rising health care costs, he identified some of the primary factors responsible for

employers' increasing benefit expenditures:

• Retiree benefits. "The cost of retiree health care benefits has increased dramatically since they were introduced 20 years ago," Mr. Nussbaum explained.

According to the U.S. House of Representatives' Select Committee on Aging, estimates of future health care benefit liabilities for current retirees vary from \$125 billion for all U.S. companies to as much as \$2 trillion for the largest 500 industrial corporations alone, Mr. Nussbaum reported.

The Fortune 500 corporations only have aggregate assets of \$1.3 trillion, he pointed out.

• The aging work force. The average age of those in the workforce is increasing and will continue to rise as the Baby Boom generation remains in the workplace longer. Because older people have more health care needs that often are more costly as well, companies with health benefit plans must pay the price, according to Mr. Nussbaum.

• Technology. Although modern medical technology prolongs life expectancy while improving the overall quality of life, it is also costly for employers with health care plans, Mr. Nussbaum said.

He advises companies to control employees' expenditures by conducting claim audits, making sure that employees are not receiving unnecessary, expensive treatment.

Managed care systems, like health maintenance organizations and preferred provider organizations, are two options demonstrating success at controlling medical care costs, Coopers & Lybrand experts concur.

HMOs and PPOs are successful at lowering costs because they reduce the use of traditional health care services. According to Mr. Nussbaum, one measure of the use of health services is the number of days spent in the hospital per 1,000 people with medical claims. HMO members only spend an estimated 400 days per 1,000 people in the hospital, whereas the general population spends more than 900 days in the hospital per 1,000 individuals.

"HMOs were developed in response to rising costs and are a good alternative to indemnity plans," said Catherine E. Egan, an actuarial, benefits and compensation consultant in the New York office of Coopers & Lybrand.

"From June of 1984 to June of 1986, the number of HMO members doubled and by the end of 1987, an estimated 29 million will exist," she added.

"Because utilization costs are lower in HMOs, there is a positive impact on company employee benefit costs because claims are not as high," she added.

However, she also pointed out that HMOs, tend to attract better-risk employees than traditional fee-for-service plans.

"HMOs often appeal to younger and healthier employees because of the child care benefits often covered," Ms. Egan explained.

Also, younger employees are less likely to have strong ties to their doctors than older people, making it easier for younger people to accept medical care from a new physician.

But she noted that "employee benefit costs can't be contained with the low-risk employees going to the HMO while the poor risks remain in the indemnity plan."

And, she urged employers to be selective about HMOs, recommending older and more established HMOs with solid utilization track records.



# Companies,

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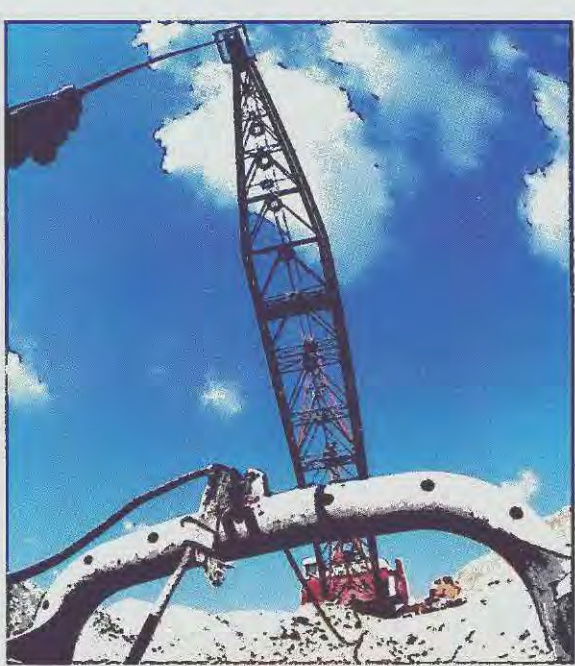


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# Bathroom can be safe haven in high-rise hotel fires: Scholar

By MICHAEL BRADFORD

COLLEGE STATION, Texas—An associate professor at Texas A&M University has developed a system he believes will save lives in high-rise hotel fires.

Larry W. Grosse, who calls his plan the "high-rise hotel fire refuge concept," says it is a simple method of using the hotel room's bathroom to create a safe haven from toxic gases produced by a fire.

Mr. Grosse, who is an architect, a volunteer fireman and an associate professor in the department of construction sciences at Texas A&M said case studies of hotel fires like those that claimed a total

of 110 lives in 1980 at the MGM Grand Hotel in Las Vegas, Nev., and at the Stouffer Inn in Harrison, N.Y., show that most of the deaths were from gases produced by the fire (BI, Dec. 1, 1980; Dec. 15, 1983).

"What was causing the deaths were the toxic fire gases, not the fire itself," said Mr. Grosse. So he figured, "Hey, if we can prevent the migration of the gas, we can solve a lot of the problems."

The plan is outlined in a dissertation Mr. Grosse prepared as a requirement for his doctorate in urban and regional science. He plans to approach hotel chains with his idea soon, he said.

Mr. Grosse's system involves

sealing off the bathroom and using its exhaust fan to pump in fresh air. If a hotel guest could not evacuate the building safely, he could take refuge in the bathroom and survive from air supplied by the system until help arrived or the fire was extinguished, he explained.

"Every hotel has a bathroom," said Mr. Grosse, and building codes require that the bathrooms be equipped with exhaust fans.

By simply reversing the direction of the fan, fresh air could be drawn into the bathroom automatically after a fire alarm is sounded, Mr. Grosse explained. Hotel bathrooms are "tightly constructed," he said, and could effectively protect an occupant from toxic gases that might be swirling in the hotel room.

An occupant could remain in the bathroom until an all-clear signal was sounded or they were evacuated by fire department personnel, according to Mr. Grosse.

The system would be inexpensive, he added, because it would have "very few moving parts, per

**The system involves sealing off the bathroom and using its exhaust fan to pump in fresh air.**

se." A hotel that installed the system would be able to use existing ducts to pump fresh air into the hotel, he explained.

Another facet of Mr. Grosse's plan is a communications system that would allow a guest to push a button on a control panel in the bathroom to find out where the fire is located in the hotel and how to evacuate if possible. The communications system would not only alleviate some of the occupant's apprehension about the extent of the fire, but would enable rescuers to identify the exact location and condition of guests and attend to the those in greatest danger first.

Installing such a system would not require "a lot of remodeling," he remarked. "It would just be a matter of pulling the wiring through the building."

Mr. Grosse said his refuge system could be particularly effective for saving lives on the upper floors of a hotel.

The fire that ravaged the MGM Grand and claimed 84 lives began in the hotel's delicatessen and "studies show it burned a long time before being detected," Mr. Grosse remarked. When the flames reached the casino, they raced across the floor at an estimated rate of 17 feet per second, he said.

Deaths at the MGM Grand were attributed to toxic gases as high as the 23rd floor, although there was no smoke damage to rooms, said Mr. Grosse.

Toxic gases including carbon monoxide and hydrogen cyanide are produced by burning carpet padding, dry wall, plastics and other materials commonly found in hotels, he explained.

Mr. Grosse concedes that his concept faces one towering obstacle: the human instinct to survive. Hotel guests trapped in fires often react by trying to get out of the burning building at all costs, he acknowledged.

Mr. Grosse recalled that during his stay at a high-rise hotel several months ago, a false fire alarm woke up guests. "My first instinct was to get out of there," he said. ■

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## London

Continued from page 30  
company's overseas operations.

Mr. Davidson left Bain Clarkson about a month ago. His responsibilities will be assumed by Jonathan Hagger, Bain Clarkson's finance director, according to Bain Clarkson Chairman Simon Arnold.

Mr. Davidson "will be working closely with Anthony Howland-Jackson" at HRGM, the company said. Mr. Howland-Jackson, former deputy chairman of Bain Dawes, was appointed deputy chairman and managing director of HRGM earlier this month.

Meanwhile, the on-and-off departure of a team of political and credit risk insurance brokers from Hogg Robinson to rival broker Lloyd Thompson Ltd. P.L.C. seems to be on again.

Hogg Robinson announced in October that it had "curtailed" the departure of 17 employees from its political risk division (*BI*, Oct. 12). However, market sources say some of the employees have resigned from Hogg Robinson and already are on Lloyd Thompson's payroll. Under their contracts with Hogg Robinson, the employees cannot start work with Lloyd Thompson until next April, sources say.

Officials from Hogg Robinson and Lloyd Thompson would not comment on the situation.

### Chase Manhattan LOCs

Chase Manhattan Bank N.A. has stopped offering letters of credit to London underwriters that participate on multiple-party North American reinsurance contracts.

Chase Manhattan will sell its North American LOC program related to multiparty reinsurance contracts to Barclays Bank for an undisclosed sum by year-end, according to Richard Hogsflesh, vp of Chase Manhattan in London.

Until Barclays is approved by U.S. regulators, Chase Manhattan will confirm Barclays' letters of credit.

Chase Manhattan began its LOC operation for the London market about four or five years ago to compete with Citibank's successful North American LOC program for the London market, Mr. Hogsflesh noted. However, Chase Manhattan "never received the support that the London market promised," he said. Chase Manhattan's LOCs in this area only totaled \$60 million, "which is a drop in the ocean compared to Citibank," Mr. Hogsflesh said.

### Broker regulations

Lloyd's of London's new broker regulations will not force small Lloyd's brokers out of business or into mergers with larger companies, says Lloyd's Deputy Chairman Alan Parry.

Proposed broker regulations were published by Lloyd's last month. The proposed rules cover the ownership, control and operation of Lloyd's brokers and impose strict financial requirements (*BI*, Nov. 23).

"Brokers are the lifeblood of Lloyd's and the smaller ones, which often handle highly specialized business that is important to the market, epitomize the entrepreneurial spirit which is one of our traditional strengths, and their demise would not be in the interests of the market as a whole," said Mr. Parry last month at a dinner held by the Institute of Chartered Secretaries & Administrators.

Mr. Parry also pointed out that Lloyd's underwriters and brokers contributed 2.5 billion pounds (\$3.7 billion at applicable exchange rates) to the United Kingdom's balance of payments in 1986, an amount equal to 26% of the net overseas earnings of Britain's en-

tire financial sector.

### Fire damage

Fire damage in the United Kingdom cost 134.9 million pounds (\$242.8 million) during the third quarter of 1987, according to the Assn. of British Insurers.

The losses, which include both insured and uninsured damage but do not take into account business interruption losses, are a 10.5% increase from second-quarter damages, said the ABI.

There were 27 fires that caused damage exceeding 750,000 pounds (\$1.35 million) from July through September.

Overall fire damage for the first nine months of 1987 totaled 376.6 million pounds (\$677.9 million), an increase of 4.6% from the corresponding nine months of 1986.

### Broker-bank venture

Lloyd's of London broker C.E. Heath P.L.C. is forming a jointly owned company with London-based Midland Bank P.L.C. to provide financial risk management products.

The company will be formed in Bermuda in January and "recognizes the trend towards the use of funding techniques and the financial management of risk in the international marketplace," according to C.E. Heath.

For example, companies that must retain large amounts of liability risks, such as professional liability, will be able to "manage" this deductible by paying "annual premiums" of, for example, a fifth of the deductible for five years, said Heath Finance Director Peter Prestland.

If, at the end of the specified period, a claim has not been filed, the policyholder will receive most of its premium back. If a claim occurs

during the five-year period in excess of the premiums paid and investment already accrued, the remainder of the deductible must be paid by the policyholder, Mr. Prestland added.

Midland will own 59% of the new company and will have overall control of marketing, sales and investment management. C.E. Heath will provide technical support and specialized administration services, including underwriting, according to a statement from C.E. Heath.

Jeffrey Cooper, head of Midland's financial institutions group, will be the company's chairman.

The company will be capitalized at between \$10 million and \$20 million, said Mr. Prestland.

The joint venture will not be a competitor with Pinnacle Reinsurance Co., a Bermuda-based Heath subsidiary specializing in financial reinsurance products, said Michael Burton, Heath secretary.

The joint venture "will be mar-

keting to multinationals rather than insurers. Pinnacle offers similar skills concerned with reinsurance," he explained. "Because the skills involved are very similar, Pinnacle will have a major role to play" in the joint venture, he added.

Meanwhile, C.E. Heath last month reported a slump in its interim pre-tax profits to 9.3 million pounds (\$16.7 million) for the six months ended Sept. 30. Restated profits for the six months ending Sept. 30, 1986 were 16.5 million pounds (\$24.4 million at applicable exchange rates), including Heath's merger with Fielding Insurance Holdings Ltd.

Revenue, including investment income, for the first six months fell 18.9% to 47.3 million pounds (\$85.1 million) from a restated interim revenue last year of 58.3 million pounds (\$86.2 million).

Much of the loss is due to employee resignations in the fall of

Continued on next page

**TITAN'S  
PRICE  
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AND HOW  
IT WORKS  
FOR YOU.**

Continued from previous page  
1986, said Chairman Richard Fielding.

"It is no secret that the greatest impact of this has been seen in the North American property and casualty wholesale operation, where not only did the group lose an important broking team but also suffered as a result of the decision by several major U.S. casualty clients to opt for self-insurance or more favorable terms from U.S. domestic insurers, rather than place their business into the London market at all," he added.

### Increased scrutiny

The British Department of Trade and Industry, which oversees the British insurance industry, is increasing surveillance of insurance companies following the October stock market crash, observers say.

Usually, the DTI checks the financial condition of U.K. authorized insurers once a year, a DTI

spokesman said. However, some categories of companies—those that are newly established, have recently changed ownership or are in some sort of financial difficulty—are monitored on a quarterly basis, he added.

The spokesman confirmed that the DTI was being "extra careful" in its monitoring process "in the light of recent events," including the stock market crash.

Meanwhile, one British life insurance company has already had to trim staff and cut dividends to policyholders as a result of the crash.

London Life Assn. has laid off 100 employees to reduce costs, the company announced late last month.

### Bradstock acquisition

Lloyd's of London broker Bradstock Group P.L.C. plans to acquire Professional Indemnity Group for 1.5 million pounds (\$2.7

million).

Professional Indemnity Group specializes in placing professional liability coverage for accountants and architects and reported brokerage revenues of 463,000 pounds (\$717,650 at applicable exchange rates) for the year ending April 1. Pre-tax profit totaled 222,000 pounds (\$341,000).

"The proposed acquisition will strengthen Bradstock's direct insurance broking and complement (its) existing professional indemnity account," according to a company statement.

Ronald Hart, who founded Professional Indemnity Group in 1958, and two of his colleagues will remain as employees of the group and will enter into service agreements for terms of not less than two years, the statement adds.

The acquisition of Professional Indemnity Group will be funded by the issue of 69,790 new ordinary shares and the payment of 1.36 million pounds (\$2.45 million) in

cash.

### AIDS testing

British life insurance companies may need to require life insurance applicants to undergo blood tests for AIDS, according to the British Institute of Actuaries.

A working party set up by the institute to examine the impact of acquired immune deficiency syndrome on the British insurance industry is expected to recommend this month that all applicants seeking life insurance coverage exceeding a specified amount be tested for AIDS, said a spokeswoman for the institute.

That amount may be about 50,000 pounds (\$90,000), she said. Also, insurance companies will have to include a question to ensure they are aware of people with more than one policy, she added.

Underwriters must seek to exclude all carriers of human immunodeficiency virus, which is be-

lieved to cause AIDS, said Chris Daykin, chairman of the working party, at the Medico Actuarial Symposium in London last month.

In addition, underwriters must try to exclude people likely to acquire AIDS by asking more detailed lifestyle questions on application forms, he said.

### Broker buyback?

The management of Lloyd's of London broker Lowndes Lambert Group Ltd. is discussing the possibility of buying the company from its new owner, TSB Group P.L.C.

Lowndes Lambert's former parent, Hill Samuel Group P.L.C., was acquired by British financial conglomerate TSB last month for 770 million pounds (\$1.4 billion), following an unsuccessful takeover bid by Union Bank of Switzerland.

Now, talks are under way between the managements of Lowndes Lambert, Hill Samuel and TSB to sell the Lloyd's brokerage operations to its existing management, confirmed Peter Ray, Lowndes Lambert's secretary.

Lowndes Lambert's personal lines brokerage company, Hill House Hammond, would remain part of the TSB group, said Mr. Ray.

Lowndes Lambert produced a pre-tax profit of 4.5 million pounds (\$7 million) for the year ending March 31, 1987, with brokerage revenues of 35 million pounds (\$54.3 million), said Mr. Ray. The company has about 900 employees.

### Manager suspended

An in-house investment manager for five Lloyd's of London syndicates is under suspension pending an internal audit of the syndicates' funds.

Underwriting agents Barder & Marsh have advised members of syndicates 62, 601, 633, 635 and 636 of "a capital loss" in the syndicates' funds.

"This depreciation has arisen in the U.S. dollar funds of our five managed syndicates as a result of transactions by our in-house fund manager mainly during the second quarter of this year. Approximately 75% of the U.S. dollar funds have been handled by our own fund manager," says the letter.

In particular, mortgage-backed securities were affected by interest rate fluctuations. "Therefore, the trustees decided to sell and realize a loss rather than hope things would improve before the year-end," according to the letter.

The greatest loss is to members of syndicate 635, who face a loss of \$1,289 on each \$10,000 in premiums underwritten, according to Barder & Marsh.

However, "whilst this matter will clearly have an adverse effect on the final check to the names, our preliminary estimates at this stage indicate that all our managed syndicates will still show favorable results for the 1985 account," the letter adds.

### Building lauded

The new Lloyd's of London building, designed by Richard Rogers, has won the Financial Times award for industrial and commercial buildings.

The Lloyd's building was presented the 1987 Architecture at Work Award because "Lloyd's was by far the most important" of the 81 British buildings entered in the competition, according to the judging panel.

"The jury feels that the Lloyd's building has achieved an architectural excitement rare in the City of London. The architects have made revolutionary use of the language of technology and the award recognizes that London has gained a tour de force of design and construction," said a statement. ■

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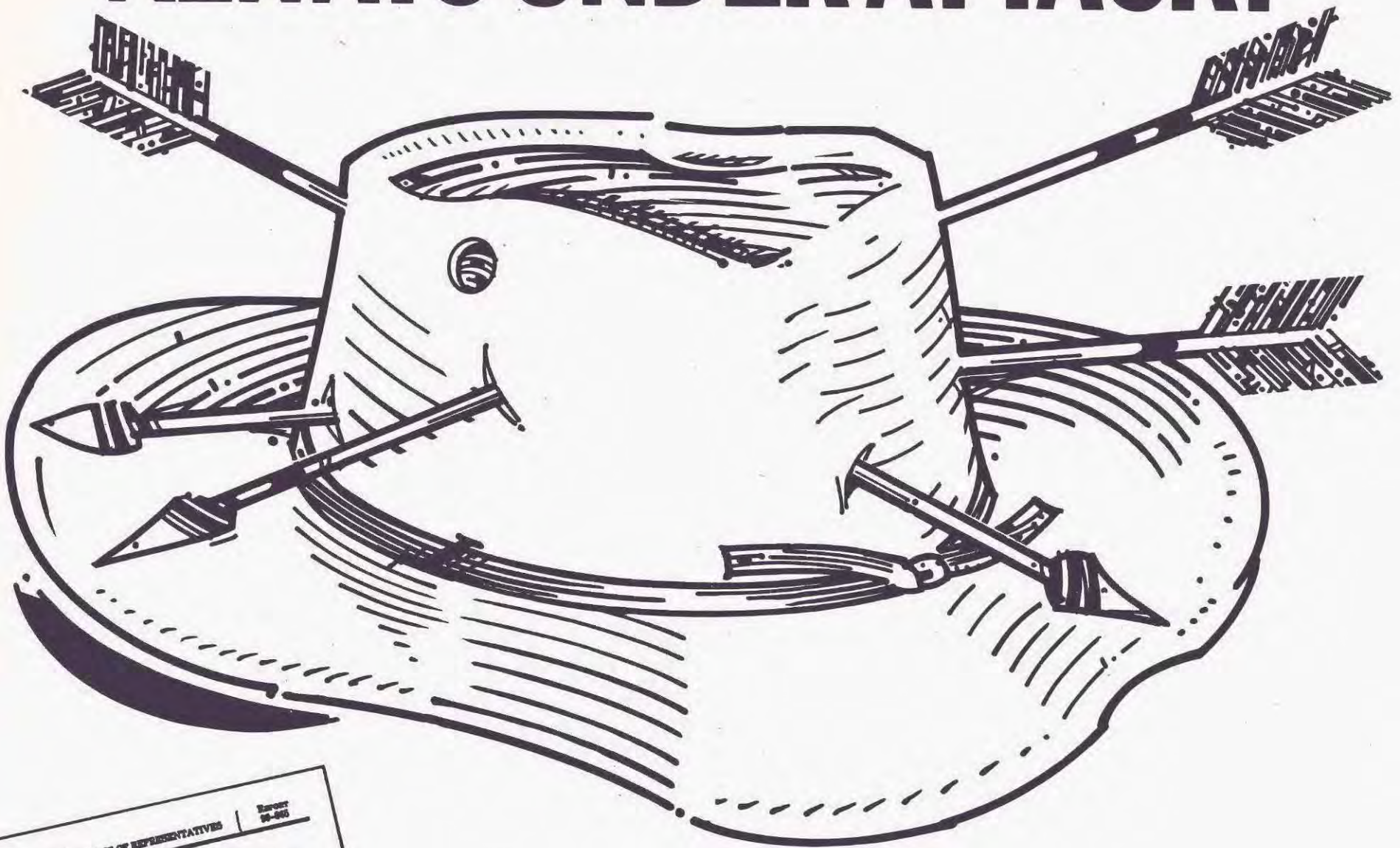
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| Cash—Cashing Account                             | \$ 10,013     | \$                | \$                  | \$ 10,013           |
| Cash—Money Market Account                        | 470,438       |                   |                     | 470,438             |
| Certificate of Deposit                           | 400,000       |                   |                     | 400,000             |
| Notes Receivable                                 | 499,500       |                   |                     | 499,500             |
| Computer Equipment                               | 103,095       |                   |                     | 103,095             |
| Accrued Interest                                 |               | \$15,485          |                     | 15,485              |
| Receivable                                       | 1,350,280     |                   |                     | 1,350,280           |
| Agents' Balances                                 | \$2,833,326   | \$15,485          |                     | \$2,848,811         |
| <b>Totals</b>                                    |               |                   |                     |                     |
| LIABILITIES, SURPLUS AND OTHER FUNDS             |               |                   |                     |                     |
| Direct Loss Reserves                             |               |                   | \$ 282,216          |                     |
| Federal Taxes Payable                            |               |                   | 68,000              |                     |
| Reinsurance Payable                              |               |                   | 551,638             |                     |
| Unearned Premium                                 |               |                   | 844,969             |                     |
| <b>Total Liabilities</b>                         |               |                   | \$1,746,823         |                     |
| Capital Paid-Up                                  |               |                   | \$ 400,000          |                     |
| Gross Paid In and Contributed Surplus            |               |                   | 591,375             |                     |
| Unassigned Surplus                               |               |                   | 110,613             |                     |
| <b>Total Liabilities Surplus and Other Funds</b> |               |                   | \$2,848,811         |                     |

THE FIGURES REPRESENTED ON THIS DOCUMENT ARE THE ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS AS DETERMINED IN THE OFFICIAL AUDIT CONDUCTED BY THE MISSOURI DIVISION OF INSURANCE AS OF 9/30/87.

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# ASK A BENEFITS ACTUARY

## Pension contributions may not be hiked by crash

**Q**

**How will the stock market crash affect pension contributions and net periodic pension cost?**

**A**

This question comes from the panicked financial officer of a company that sponsors a defined benefit pension plan.

The pension fund was heavily invested in the stock market, which nose-dived on Oct. 19 and has experienced heavy losses on a market basis from Oct. 19 to today. The financial officer is concerned that these market losses will dramatically increase the plan's minimum cash funding requirement and the company's annual charge to earnings for pensions under Financial Accounting Standard 87, the net periodic pension cost.

The market losses will not necessarily increase the cash funding requirement and the net periodic pension cost relative to the prior year for several reasons.

First, the net periodic pension costs and cash funding requirements are determined for each year based on a "snapshot" of the financial condition of the pension plan on one day during the year; namely, the valuation or measurement date. When the value of the plan assets on the valuation date prior to Oct. 19 are compared with the value of assets on the valuation date following Oct. 19, it may well be that there has been little or no loss in the asset values (due to the offsetting run-up in

stock prices prior to the crash). If so, the cash funding requirements and net periodic pension cost would not increase dramatically due to the market crash.

Second, many actuaries use an asset valuation method other than a market valuation for the purpose of determining either the minimum cash funding requirement or the net periodic pension cost.

These asset valuation methods typically aim at smoothing out year-to-year fluctuations in asset values and avoiding wide swings in cash funding and net periodic pension costs. If a plan uses one of these asset-smoothing methods for its funding or expense determinations, it may well be that the

**A plan's funded status or prior contributions in excess of the minimum requirement may offset the impact of the market crash on the minimum funding requirement.**

contribution and expense will not be greatly affected by the market crash.

For plans not using one of these smoothing methods for expense or contribution determinations, it may be possible for the sponsor to adopt a smoothing method for the first valuation subsequent to Oct. 19, and thereby minimize the impact of the market crash on contributions and expense.

For funding purposes, a change in the asset valuation method typically requires approval by the Internal Revenue Service; however, under certain circumstances the IRS grants automatic approval to these method changes. For the expense determination, the change on an asset valuation may have to be reviewed by the plan sponsor's auditor and be disclosed in the company's financial

statements as a change in accounting method.

Finally, a plan's funded status or prior contributions in excess of the minimum requirement may offset the impact of the market crash on the minimum funding requirement. After the crash, the plan may still be fully funded and have a zero contribution requirement. Or, it may be that prior years' contributions have exceeded the minimum requirements in those years to the extent that no contribution is required for the year following the crash.

In summary, the market crash is by no means a cause for panic. The impact of the market crash should be carefully reviewed by an actuary to assess the change in expense or funding requirements.

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

*Ask A Casualty Actuary, Ask A Benefit Actuary, Ask A Benefit Manager and Ask A Risk Manager answer written questions from readers on risk and benefits management issues and actuarial problems.*

*This month's column, on actuarial issues in the benefits field, is written by William J. Miner, an actuary with The Wyatt Co. in Chicago. Richard E. Sherman, a principal with Coopers & Lybrand in San Francisco, answers actuarial questions in the casualty field. Ralph F. Perry Jr., vp and director of risk management at Amfac Inc. in San Francisco, answers risk management questions. And, Joseph W. Duva, director of employee benefits at Allied-Signal Inc. in Morristown, N.J., answers benefits management questions.*



Mr. Miner

*Mr. Miner's and Mr. Sherman's columns appear alternately on the first Monday of each month. Mr. Duva's and Mr. Perry's columns appear alternately on the second Monday of each month. Mr. Miner's next column will appear in February.*

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

# Four factors determine loss severity

By The Insurance Institute of America

## A.R.M. exercises

*The following question and answer are drawn from the curriculum for the Associate in Risk Management designation awarded by the Insurance Institute of America. They represent the type of question asked—and the possible answers—in one of the three examinations for the A.R.M. designation.*

*This month's material, drawn from a May 1987 national examination, considers the factors affecting the severity of a family's net income losses as they relate to various perils.*

**Q:** The factors that determine the severity of a family's net income losses can be much the same, regardless of what peril—death, disability, unemployment or retirement—causes these losses. However, these factors vary in importance depending on the peril.

- Identify and describe the significance of four factors that determine the severity of the net income losses a family with young children is likely to suffer if its primary breadwinner is disabled for a substantial period.

- With respect to the severity of this

family's net income losses, explain in detail how the significance of the factors identified in your answer to the first question are likely to change and also the importance of any additional factors if, instead of being disabled, the primary breadwinner dies or becomes unemployed.

**A:** • Four of the factors that determine the severity of a family's net income loss based on the disability of the family's breadwinner include:

- ✓ The duration of the disability.
- ✓ The degree of disability.
- ✓ The breadwinner's income.
- ✓ Extra expenses arising from the disability.

An additional factor that needs to be considered is whether another family member can either return to work or increase the amount of work they do outside the home.

Clearly, the longer the duration of the breadwinner's disability, the higher the net income loss will be. Similarly, if there is a high degree of disability, the net income loss will be more severe than if the disability is relatively slight, thus not severely impairing the breadwinner's earning

power.

A family's expenses necessarily reflect the breadwinner's income. The higher the breadwinner's income is, the more severe the family's net income loss will be in terms of a dollar amount.

Obviously, a low-income family could suffer a catastrophic loss that is lower than—that is, less severe than—a family with a very high income.

Finally, the extra expenses necessitated by the disability affect the severity of a net income loss. The higher these expenses are, the more severe the loss will be.

- The four factors mentioned above would be affected if the family's breadwinner dies or is unemployed rather than disabled.

In the case of the death of the breadwinner, the duration would be permanent and, thus, in this respect the loss would be of the greatest severity. The degree or extent of the disability would be total and, thus, again with respect to this factor, the loss would be most severe. The amount of the breadwinner's income that supported other family members

would remain unchanged. It is likely that the extra expenses would be reduced in comparison with the disability of the breadwinner. However, death causes some additional factors that could be classed as extra expenses—burial costs and the costs of "cleaning up" the estate, including taxes.

If the breadwinner is unemployed, it is impossible to predict the duration of the unemployment or to determine whether it would be of a longer or shorter duration than in the case of a disability. The extent or degree would be the same as in the case of the total disability or death of the breadwinner. The amount of income needed to support the family would be unchanged. Unemployment should cause no extra expenses. In the case of unemployment, it is likely that some government or private funds would be available to help offset the family's net income loss.

*The sample questions and answers used in this column are taken from the Associate in Risk Management designation curriculum of the IIA. For more information on the content of the A.R.M. program, write Dr. G.L. Head, Vp, Insurance Institute of America, P.O. Box 314, Malvern, Pa. 19355.*

# Pensions gain favor in Australia

By Jerome Karter

**D**OWN UNDER, in Australia, executives are saying goodbye to some benefits and "g'day" to pensions, while employers are viewing superannuation or pension plans as the last bastion of tax savings.

"How come?" you ask.

To begin, employee benefits traditionally constituted 30% of a senior executive's compensation package in Australia. Typical perks included an automobile; reduced interest rate loans; allowances for travel, business entertainment and home entertainment; subsidized home telephone use; private medical insurance; and club memberships.

In late 1985, Australia legislated tax changes that took away employers' tax deduction for legitimate business expenses. At the same time, employee expense allowances became fully taxable, even though the recipient may have incurred out-of-pocket business entertainment costs.

But these changes were soon worsened by the introduction of the Fringe Benefits Tax on July 1, 1986. Broadly stated, the FBT imposes an employer-paid tax (in addition to 1.25% medicare levy) of 49 cents per dollar on the value of non-salary employee benefits such as telephone, automobile and medical benefits. These expenses are deductible for income tax purposes even though the FBT is not a deductible expense.

Moreover, the FBT is payable on aftertax revenue irrespective of whether the corporation shows a bottom-line profit or loss.

Without doubt, the effects of the FBT will hit hardest at the executive level. For example, let's assume that a typical Australian executive receives \$70,000 Australian (\$48,300) in salary and \$30,000 Australian (\$20,700) in benefits. Under the old plan, the executive's benefits were tax-free.

But, if the benefits were replaced today with \$30,000 Australian additional salary, the employee's higher income tax bracket would reduce the amount of disposable income by more than \$14,700 Australian to \$15,300 Australian (\$10,143 to \$10,557).

In contrast, an employer that continues to pay the \$30,000 benefits level would owe \$14,700 in fringe

benefits taxes, an amount that does not qualify as an income tax deduction.

The FBT is expected to cause many companies to consider non-contributory pension plans as a tax-efficient way to compensate employees. The reason is simple: The employer's contribution to an approved pension plan qualifies as an income tax deduction and is specifically excluded from the effects of the Fringe Benefit Tax law.

Also, employee sentiment in favor of non-contributory plans has been rising because the new legislation eliminates the employee's income tax deduction for pension plan contributions. In general, many employees favor the concept of a salary sacrifice; that is, the employee's option to draw less salary against an increased employer contribution on their behalf to an approved pension plan.

Similar in some respects to U.S. 401(k) plans, the Australian remuneration scheme works in the following way:

Two executives, Bill and Richard, both age 45, are employed by a company that spends \$60,000 Australian (\$41,400) for each.

Bill takes the full amount as salary. Richard asks the employer to direct \$10,000 Australian (\$6,900) annually into the company's pension plan. In terms of take-home pay, Bill fares better than Richard by some \$4,975 Australian (\$3,433) annually after withholding tax.

Bill invests the \$4,975 Australian for each of the next 10 years for a total investment of \$49,750 Australian (\$34,328).

Richard's net disposable income reduction over the same 10-year period is \$49,750 Australian, but his capital investment is \$100,000 Australian (\$69,000)—10 times \$10,000 Australian—because he does not pay withholding tax on the amount transferred to his pension plan.

Through investments, both men achieve a gross annual return of 15%, which is not unusual in Australia, compounded in each of the 10 years.

Bill's investment income is subject to an annual tax of 49 cents per dollar, plus a 1.25% medicare levy. Richard's

investment is credited as gross income so no tax is payable during the investment period.

After 10 years, at age 55, Bill collects his already-taxed funds.

Richard withdraws his benefit at age 55 and is required to pay the eligible termination tax at a rate of 15 cents per dollar, plus a 1.25% medicare levy on the first \$55,000 Australian (\$37,950), with the balance subject to a 30 cents per dollar tax plus the 1.25% medicare levy.

At early retirement age, Richard has \$93,277 Australian (\$64,361) more than Bill.

Further, from a corporate point of view, the cost of directing the \$10,000 Australian salary reduction into an approved pension fund is less than the cost of paying the full salary to the employee. In fact, the company has saved the cost of the pension component in salary-related costs, such as payroll tax, workers compensation and annual leave loading expenses.

Still, many U.S. multinationals in Australia apparently have not yet opted to fund other employee benefits into a pension plan. For those that haven't, consider the following:

- Investment income under an approved pension fund does not incur income or capital gains taxes.

- Employee contributions to a corporate-approved plan no longer qualify as an income tax deduction, a strong plus for non-contributory plans.

- Benefits paid from an approved pension fund are taxed as termination payments at preferential rates. Thus, a recipient aged 55 or older pays 16.25 cents per dollar on the first \$55,000 Australian and 31.25 cents per dollar on the balance.

Moreover, an approved pension fund can provide equal tax savings for death benefits, as well as permanent and temporary disability benefits. When simple term insurance is purchased through an approved pension plan, the cost to the individual executive can be cut in half. Here's how:

Richard is a smoker but Bill is not. Both earn \$60,000 Australian annually.

Bill's annual premiums for a \$250,000 Australian (\$172,500) insurance policy payable in death or permanent disability is \$882 Australian (\$609). Richard's annual premium for the same coverage is higher—\$1,445 Australian (\$997)—because he is a smoker.

If either were to buy this insurance on his own, the premium would be paid from aftertax income.

In contrast, however, when the premium is paid through a salary-reduction pension plan, the cost is subtracted from pretax income, thereby reducing the impact of the cost by one-half. Under this approach, Richard's annual premium reduces to \$719 Australian (\$496), while Bill's reduces to \$439 Australian (\$303).

Qualitative factors such as these have become important bargaining tools for Australian employers that want to retain top-caliber personnel through adequate superannuation and remuneration levels. This issue is particularly important because the demand for senior-level executives in Australia exceeds the supply at a time when management skills are not specific to one industry.

Clearly, Australian employers need to address the fact that the aftertax remuneration differentials for increasing responsibilities in the workplace are lower than those found in competing world economies.

In addition, the union movement in Australia has been actively attempting to introduce superannuation or pension plans for all employees. Thus, it is clear that superannuation must form a significant part of an employer's tax-effective strategy to provide adequate compensation while avoiding the full effects of the Fringe Benefits Tax law.

So, if your Australian subsidiary has not yet reviewed its current superannuation or remuneration schemes, why not find out if it is time for them to say goodbye to benefits

Jerome Karter is senior vp and manager of the New York International Department of Johnson & Higgins. His column appears the first Monday of every month.



## International issues

## Legal briefs

# Health insurer ordered to pay after accident

A Kentucky appellate court ruled that a group health insurer could not refuse to duplicate medical expenses incurred by a policyholder who had already recovered the maximum basic reparation benefits from her no-fault insurer under a "coordination of benefits" provision in the group health policy.

Helen Baxter was injured in a one-car automobile accident in March 1984 and incurred medical expenses and work loss, each exceeding \$10,000. Ms. Baxter was covered under a no-fault insurance policy issued by the American Fire & Casualty Co. That policy provided for "basic reparations benefits" covering net economic loss, which included her work loss and medical expenses up to \$10,000. She also was covered under a group health policy issued by Blue Cross & Blue Shield of Kentucky. American paid out

\$10,000 for Ms. Baxter's work loss and medical expenses. BC/BS refused to duplicate the medical expenses of about \$9,200. Ms. Baxter sued and won in trial court.

On appeal, BC/BS maintained that the "coordination of benefits" provision in its policy rendered the no-fault insurer the primary obligor and, thus, it did not have to duplicate medical payments. The court said that if economic loss (exclusive of medical benefits) exceeded the maximum basic reparation of benefits to which a claimant is entitled, coordination is impermissible. The court said that here, Ms. Baxter's economic loss

in wages alone exceeded the \$10,000 maximum to which she was entitled. Thus, the court said that to allow BC/BS to coordinate its responsibility for medical bills with the payments she received from the no-fault carrier, would depreciate her recovery under the no-fault act. The trial court decision was affirmed. *Blue Cross & Blue Shield of Kentucky vs. Baxter*, Court of Appeals of Kentucky, April 11, 1986, rehearing denied June 6, 1986, review denied by Supreme Court Aug. 26, 1986 (BI/01/May—\$10).

These abstracts were prepared by Cases Unlimited Inc. Copies of these decisions are available by sending a \$10 check payable to Cases Unlimited to Business Insurance, 740 N. Rush St., Chicago, Ill. 60611-2590. List the number for each opinion.

# Continental Corp. to sell reinsurance unit

New York-based Continental Corp. will sell its Buffalo Reinsurance Co. subsidiary in Woodland Hills, Calif., to a new company, in which Continental will have a substantial minority interest.

Steven H. Newman, who joined Buffalo Re in February as chairman and chief executive officer, also will be an investor in the new company as will several other members of Buffalo Re's management and several unaffiliated investors (BI, Feb. 16).

For the nine months ended Sept. 30, Buffalo Re wrote \$140.4 million in net property/casualty premiums. The company reported a combined ratio of 122% for the nine-month period.

The sale is subject to the arrangement of satisfactory financing and regulatory approval.

## M&M aviation unit

New York-based Marsh & McLennan Inc. has launched a new company, Marsh & McLennan Aviation, that will consolidate the company's aviation staff and resources.

Based in New York, M&M Aviation will handle all of the direct aviation business formerly handled by M&M's aviation division.

The company provides brokerage services for airlines, aircraft and component manufacturers, space-related activities and general aviation.

L. Patton Kline, vice chairman of Marsh & McLennan Inc., will be chairman of the new company, and Richard F. Carroll, a managing director of M&M since 1983, will be president of M&M Aviation.

Aviation reinsurance still will be handled by M&M subsidiary Guy Carpenter & Co. Inc.

"This is another step in Marsh & McLennan's strategy of focusing its services to clients and increasing our specialization in key areas in the insurance brokerage business," said Mr. Kline. "As the lead insurance broker in the aviation business, we expect this new organization to enhance our capabilities considerably."

Mr. Carroll said, "This consolidation will result in a more efficient utilization of our aviation and space-related resources."

Marsh & McLennan Aviation is located at Marsh & McLennan Inc. headquarters at 1221 Ave. of the Americas, New York, N.Y. 10020; 212-997-2000.

## Provident withdraws

Provident Mutual Life Insurance Co. of Philadelphia is withdrawing from the large group life and health business due to "unexpected loss levels," according to Chairman and Chief Executive Officer John A. Miller.

However, the insurer will continue to write life and health coverage for groups with fewer than 100 lives.

The company's field group sales offices will close Dec. 31, and the approximately 100 home office positions relating to group life will be phased out over the next 12 months, a company spokesman said.

Provident's large group life business contributed \$80.2 million to its 1986 consolidated gross premium volume of \$478.1 million, according to a company spokesman.

## Crisis management

Crisis Management Corp. has been formed in Redondo Beach, Calif., to help risk managers better handle crisis situations through advanced strategic planning.

A team of consultants works with risk managers to help miti-

## Markets

gate losses through risk identification, measurement, control, strategy formation, program implementation and monitoring.

"Ultimately the targeted consulting goal is client financial survival," said President John H. Wiggins.

"Crisis management is an integral part of risk management," said Richard H. Soper, executive

vp and chief operating officer of Crisis Management.

"All too frequently a creative risk management program is void of the elusive crisis management segment," Mr. Soper continued. "It is typical that an organization may devote from 1% to 7% of its pre-tax gross revenue to risk funding and loss control activity and yet not have an effective crisis man-

agement program in place."

Crisis Management offers risk managers a variety of consulting services including: hazard identification and risk assessment, program evaluation; development of crisis management plans, development of management policy, strategic planning and expert witness testimony.

Consulting services are offered by a team of engineering, crisis management, risk management and insurance specialists.

Crisis Management also main-

tains an advisory committee that will meet regularly with consultants to keep them up-to-date on developments in their fields.

"They will enhance the creativity of our services," explained Mr. Soper.

Members of the advisory committee are: Alfred E. Hofflander, professor of finance and insurance at the University of California in Los Angeles; Joseph A. Incaudo, vp and chief financial officer at Ashland Technology Corp. in Los

*Continued on next page*

# Here's What To Look For In A Typical Embezzler.



Short or tall. Old or young. Male or female. Try to draw a portrait of the typical embezzler and you'll probably draw a blank. Because it could be anyone.

And experienced business people know that the only thing harder than spotting an embezzler is repairing the damage he's done.

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## Markets

*Continued from previous page*  
Angeles; Hareesh C. Shah, chairman of the department of civil engineering at Stanford University in Stanford, Calif.; Harry J. Solberg, senior associate at Strategic Decisions Group, a Menlo Park, Calif., management consulting firm; Blaine F. Nye, president of the Stanford Consulting Group Inc., also in Menlo Park; Donald E. Vinson, president and CEO of Litigation Sciences Corp., a legal defense consultant in Rolling Hills Estates, Calif.; and R. James Young, president and CEO of Maxson-Young

Associates Inc. in San Francisco.  
For more information contact Mr. Soper or Mr. Wiggins at 1650 South Pacific Coast Highway, Suite 206, Redondo Beach, Calif. 90277; 213-316-2257.

### Argonaut expands

Los Angeles-based Argonaut Group Inc. has formed a new subsidiary, AGI Ltd. Risks, which will provide workers comp coverage to smaller commercial accounts. Kenneth R. Solomon has been

appointed president of the new company. Mr. Solomon previously was manager of the Dallas division of Argonaut Insurance Co.  
"AGI expects to work with a carefully selected group of service-oriented producers, each of whom has a large book of consistently profitable smaller workers compensation risks," he said.  
For more information, contact Mr. Solomon at Argonaut's headquarters at 1800 Ave. of the Stars, Suite 1175, Los Angeles, Calif. 90067; 213-553-0561.

### LOC facility

A new letter of credit facility backed by two of Japan's largest banks has been formed in New York.

Overseas & Limited, headed by Executive Director Duane E. Allen, president of Applied Risk Services Inc. in Laguna Hills, Calif., is offering new standby LOCs primarily to captive insurers that are reinsuring U.S. ceding companies.

Mr. Allen was BI's Risk Manager of the Year in 1981, when he was risk manager for Hanna Mining Co. in Cleveland.

The two banks backing these LOCs are Mitsubishi Bank Ltd. of Tokyo and Sanwa Bank Ltd. in Osaka. The Federal Reserve confirming bank is The Bank of California, N.A.

Mr. Allen traveled to London with Steven E. Sims, vp of The Kornreich Organization, who is in charge of marketing the facility, to talk to captive insurance companies' investment managers because "most captives do their investment management in London," Mr. Allen said.

With competitive pricing and the untapped strength of Japanese banks, Overseas & Limited is looking to offer individual LOCs for \$5 million or more, said Mr. Allen.

Letters of credit are widely used to secure reinsurance obligations to ceding companies and to let ceding companies take credit for reinsurance purchased from unauthorized reinsurers.

For more information, contact Overseas & Limited, 645 Fifth Ave., New York, N.Y. 10022; 212-688-4890.

### Mergers/acquisitions

**Fred S. James & Co. Inc.** of New York has acquired **Adolphsen & Co.**, a Boise, Idaho, agency that specializes in employee benefits and individual executive planning. Fred P. Adolphsen, owner of the brokerage, is joining as vp in the benefits department of James' Boise office.

**Rosenkranz & Co.**, a New York investment partnership, has purchased **Reliance Standard Life Insurance Co.**, a Philadelphia-based life insurer, from **Dresser Industries** for \$220 million.

**Marsh & McLennan Cos. Inc.** will acquire **Temple, Barker & Sloane Inc.**, a Lexington, Mass.-based management consultant with revenues of about \$45 million.

### New offices

**Winterthur Insurance Co., U.S. Branch**, has opened its second U.S. office at 303 W. Madison St., Suite 1950, Chicago, Ill. 60606; 312-704-6120.

**Glanvill Special Risk Insurance Brokers Inc.** has opened a new office at 3550 Wilshire Blvd., Los Angeles, Calif. 90010; 213-252-0844. Edward L. Koneiczny, vp, will head the new office.

**Lockton Insurance Agency** has opened a new office at the Townsite Office Park, Building IV, 120 S.E. Sixth St., Suite 105, Topeka, Kan. 66603; 913-233-0303.

**Standard Insurance Co.** has opened a new group insurance office at Hartford Plaza, 150 S. Wacker Drive, Suite 420, Chicago, Ill. 60606; 312-606-9106. ■

## The insurance company that started business on a handshake and a promise, is one of the most trusted names in commercial insurance today.

In 1920, a small group of contractors decided to take responsibility for insuring their projects into their own hands. Because of the mutual trust and respect among them, all it took was a handshake to guarantee the job.

Commercial insurance is considerably more complicated today. But at Industrial Indemnity, thanks to a strong relationship through the years with a select group of independent agents and brokers, some things have remained the same.

Like the spirit of innovation and leadership that motivated company founders to find new and more cost-effective means of managing their own insurance. Their "net cost approach" for risk management was developed more than 50 years ago. A continuing team effort with agents and brokers allows this same approach to control costs for thousands of policyholders today.

### Today's Innovations.

That same spirit of innovation is evident today as Industrial is recognized not only as the leading insurer of workers compensation in the West, but as one



of the largest property and casualty commercial companies as well.

Industrial continues to earn its well-deserved reputation for leadership with specialized services such as its exclusive Medical Cost Containment program,

which helps control workers compensation claims and lower net costs. Special Risk Control services apply up-to-the-minute technology in the prevention of injuries and property/liability losses. And cost-effective Rehabilitation plans help people recover to their fullest potential.

All of Industrial's distinctive programs and services are continually evaluated based on their effectiveness in controlling costs and delivering customer satisfaction.

### Tomorrow's Innovations.

Industrial Indemnity has one continuing goal—to be "the best" in commercial insurance. 2700 dedicated professionals are committed to making this goal a reality.

Finding new ways to manage risks at lower costs is still the commitment Industrial makes to its agents, brokers and policyholders. Industrial has learned the way to earn and keep the trust and respect of independent agents and brokers is through consistent, outstanding performance. Today, at Industrial Indemnity, you can still count on our handshake to guarantee the job.

# Industrial Indemnity

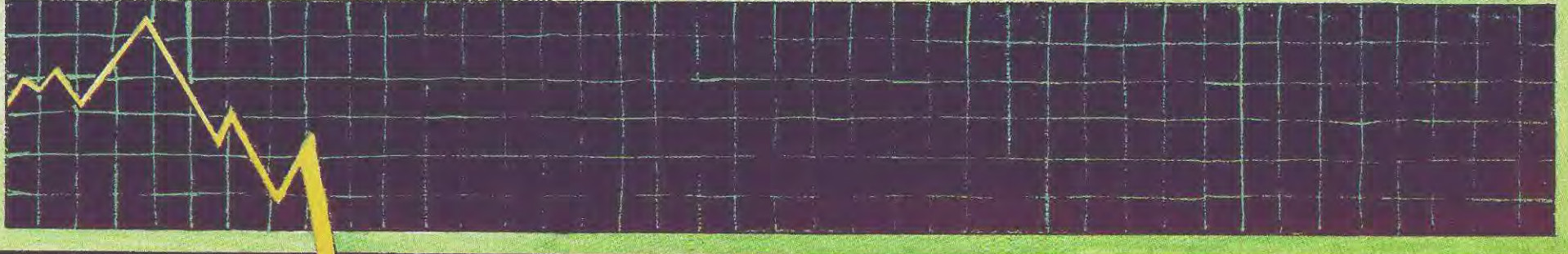
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# Agent/Broker Topics

A monthly editorial section sent exclusively to agents and brokers

## DOW JONES INDUSTRIAL AVERAGE



# Market apprehension underlies PIA meeting

By LAURA MAZZUCA

Although the industry issues were familiar and the speeches traditionally upbeat, apprehension about the softening property/casualty insurance market and the October stock market crash simmered under the surface at the 56th annual convention of the National Assn. of Professional Insurance Agents.

Agency automation, tort reform, the proposed elimination of the McCarran-Ferguson Act, the impact of AIDS, and the encroachment of banking in insurance continued to be the primary topics at the general sessions. But concern about Wall Street's performance permeated conversations and the workshops at the three-day convention, held Oct. 25-28 at the Hyatt Regency in Chicago. The convention was attended by about 1,500 delegates and their guests.

Most of the main speakers stressed that the stock market's performance would have little or no effect on the insurance industry, and that there would be an eventual recovery on Wall Street.

"Pending considerably more evidence and hoping perhaps that the global stock markets might gain their equilibrium, I'm still clinging to the view that the outcome of what we're seeing now is going to be a restrained but continued expansion," said Robert Bleiberg, publisher of Barron's, who addressed agents at the convention's opening luncheon.

"Until two weeks ago I would have said the expansion was picking up speed," he added. "Clearly it's been dealt a blow, but I'm not sure it's been knocked out of the ring."

But others indicated that the Oct. 19 stock market crash and the resulting sluggish stock market will usher in a rapidly hardening insurance market, and the decrease in the availability of coverage could cause consumers to press for federal intervention in the industry.

"The ramifications are that it could be devastating," said Edward J. Muhl, president of the National Assn. of Insurance Commissioners, in a panel discussion. "I would urge tremendous caution as we go into the 21st century."

The current softening insurance marketplace has shifted attention to the consumer, and the PIA is emphasizing "a commitment to win back the hearts and minds of the American consumer," said outgoing PIA President Nick A. Verreos in his "State of the Association" address.

To this end, the PIA appointed long-time consumer advocate Esther Peterson as its consumer adviser, a newly created position in which she will serve as a liaison between the insurance industry and the public.

In addition, the PIA board of directors adopted reso-

lutions dealing with consumer-oriented issues like car rental contracts and the recognition of property insurance binders as legal evidence of insurance at real estate closings.

The PIA's "consumer is king" attitude culminated in the introduction of changes in the association's chief objectives. The PIA now states that its goals are serving the needs of the public by promoting professional competence, high ideals and the dissemination of information.

"Service and knowledge are the main strengths that agents bring to the marketplace," said incoming PIA President Willis J. Hargrave in his address at the opening luncheon. "We are the intermediaries, and our clients will judge our ability to provide adequate coverage at fair prices before they will judge the companies."

The convention also offered a series of workshops on a variety of topics such as tax reform, sales strategies, generating producer performance, D&O liability and managing the family agency.

The accompanying trade show featured a preponderance of computer-related products and drew 85 exhibitors.



## PIA forms consumer liaison post

By LAURA MAZZUCA

CHICAGO—Longtime consumer advocate Esther Peterson will fill the newly created position of national consumer adviser for the National Assn. of Professional Insurance Agents, a first for an insurance trade association.

In her new position, Ms. Peterson will serve a dual purpose: She will represent the consumer viewpoint to the PIA as well as disseminate insurance information to consumers. Ms. Peterson also will recommend specific action programs to the PIA and the insurance industry as a whole, said outgoing PIA President Nick A. Verreos.

"The appointment of Ms. Peterson is just the latest step in the longstanding PIA commitment to consumer equity," said Mr. Verreos, announcing the appointment at a press conference during the PIA's 56th annual convention held Oct. 25-28 in Chicago.

Ms. Peterson is a lifelong consumer advocate who served as assistant secretary of labor in the Kennedy administration and as special assistant for consumer affairs for Presidents Johnson and Carter. She currently serves as the United Nations' representative of the International Organization of Consumer Unions.

"This is a natural alliance, since PIA members regard themselves as purchasing agents for the consumer," said incoming PIA President Willis J. Hargrave. "We know that our reputation and our livelihood depend on how well we fulfill this responsibility."

The creation of the consumer adviser position was spurred by the erosion of public confidence in the insurance industry, explained Mr. Verreos. Rising costs, decreasing availability of some lines of coverage and the rapidly fluctuating underwriting cycles have confused the consumer, he said.

"The recent insurance crisis proved the need for consumers to have an effective voice in the decisions that affect their lives," said Ms. Peterson. "If we can have a genuine dialogue with the critics of the industry and with the industry, I think we can reach compromises and solutions that will keep us from being as polarized as we are."

Although the details of the program's implementation have yet to be announced, Ms. Peterson said that she and the PIA had agreed on the basic elements of the operation. These main points were:

- Cooperation is preferable to confrontation.
- Stability, access to insurance, reasonable prices and fair treatment of consumers are essential in the marketplace.
- Consumers should have access to information that will allow them to make informed purchasing decisions.

Ms. Peterson also stressed that part of her mandate is to work closely with agents to effect a "trickle-up theory" in which they convey consumers' needs to insurer chief executive officers.

While setting up the basics of the program, Ms. Peterson said she met with J. Robert Hunter, president of the National Insurance Consumer Organization, who "expressed an interest in this; he has not closed the door; he believes we can find some common denominators." ■



Ms. Peterson

# Agents cannot base business on D&O coverage: Panel

By LAURA MAZZUCA

CHICAGO—Although the market for directors and officers liability insurance is improving and D&O can be a healthy addition to an agency's line of products, the coverage is too highly specialized to comprise a large part of a general agency's business, say a panel of D&O experts.

"There is no mystique about D&O coverage. The mystique exists only because it's not a coverage you handle on a day-by-day, hour-by-hour basis," said T.C. "Skip" Anderson, president of the National Assn. of Professional Surplus Lines Offices in Roswell, Ga.

The panel discussion was part of the 56th annual convention of the National Assn. of Professional Insurance Agents, held Oct. 25-28 in Chicago.

In many ways, today's market is a good one in which to broker D&O business, said Scott R. Wallace, assistant vp of administration and marketing at Great American Insurance Co. in Cincinnati.

D&O capacity has increased and the market has stabilized this year because of new players in the D&O arena that have been lured by higher rates, he explained. In addition, existing D&O insurers are also working to increase capacity, he said.

And, tort reform measures in many states are making D&O a more favorable field to enter, said Stephen J. Sills, vp of underwriting at Executive Risk Management Associates in Hartford, Conn. Many states have passed laws allowing companies to limit the liability of their directors, he said, adding that more are expected to do so (BI, April 13).

But premium rates and policy terms common during the soft market of early 1980s will not reappear because of the severity and frequency of D&O claims, Mr. Wallace said. He pointed out that before 1980, few—if any—D&O claims or settlements exceeded \$10 million. Today, however, many court awards in D&O cases range up to hundreds of millions of dollars, he added.

This means that D&O insurers may be easing terms and conditions for classes of businesses with a low loss ratio, but coverage will be just as difficult and costly to obtain for others, he said.

Not every agency client is a good candidate for D&O coverage, said Mr. Anderson. Financial institutions, new companies, companies going through their first public offering, franchisers, companies with "erratic earnings records," high-tech companies and research and development companies generally are regarded as unacceptable risks, he said.

Mr. Wallace said Great American will not write D&O coverage for health care facilities, educational facilities, accounting and law firms, partnerships, unions, savings and loans, thrifts, credit unions, cooperative banks and federal, state or county agencies.

The strongest candidates for D&O insurance are general manufacturing and service-related corporations, Mr. Wallace said.

Before contacting an insurer regarding D&O, an agent must work closely with the client to determine its needs, Mr. Anderson said.

The agent must also examine why his client wants D&O coverage, especially if the client's company is closely held, said Mr. Sills of Executive Risk Management Associates.



Mr. Anderson



Mr. Wallace

After deciding whether or not the client is a good D&O risk, Mr. Anderson suggests that the agent obtain all of an insurer's underwriting and submission guidelines before submitting an application.

Underwriters will often request such information as: the client company's bylaws, annual and quarterly financial statements and notices to stockholders, said Mr. Wallace. In fact, if the underwriter doesn't request comprehensive information on a potential policyholder, the agent or broker should be suspicious of the insurer's legitimacy, he said.

As a "bare minimum," agents should make sure that the application is filled out completely, Mr. Wallace said. Even negative information should be reported by the agent and client, because if it's "hidden on the 43rd page of the submission, we tend to become very skeptical about the rest of the account and you probably will not get as good attention as you should get had you brought that up in the beginning and discussed it with the underwriter," he added.

"The more information you give the underwriters, the more likely they are to understand the business," agreed Mr. Sills. He suggested including three to five years of annual reports and proxy material when submitting information on a publicly held company.

If a company is privately held, however, the nuances of the business may be more difficult to explain. Mr. Sills suggested that if necessary, the agent and a representative of the client should visit the underwriter in person.

Depending on the type of business, underwriters are particularly interested in the company's income from continuing operations, long-term history and rate of growth, and long-term debt to equity.

When screening prospective clients, underwriters look for stability, good management, and a strong balance sheet, said Mr. Sills. At his company, D&O candidates are subjected to a peer group review and ranking, in which the potential client is compared with similar businesses in the same region.

"We believe if you take a \$250 million financial institution in Iowa and compare it to one of its peers in Iowa or elsewhere in the farm belt, you should be able to determine who is better. Our theory is that you write those who generally outperform their peers, those people are less likely to have D&O losses," he said.

Care must be taken by the agent in seeking out an insurer as well, said Mr. Sills. Stability of market, a good reputation, responsiveness, good policy forms and an ability to handle claims are all important criteria in choosing insurers. "The last thing your client needs in a major securities law litigation is to have an adversarial relationship with its D&O carrier," he added.

Finally, Mr. Sills cautioned agents that if they are unsure of how to handle D&O submissions, they should not hesitate to contact a wholesale broker to work with them on the account. It may help the agents avoid an errors and omissions claim by a disgruntled client.

Wholesale brokers usually have developed good working relationships with their markets. Therefore, the client might get better results from a pricing as well as coverage standpoint if the agent goes through a wholesaler for directors and officers coverage, Mr. Sills explained.

"D&O is sometimes a coverage that (clients) think they want but don't really understand," said Mr. Anderson. "So if you don't understand it, take an expert with you to discuss it with your client. Don't go half-prepared." ■



## New PIA president calls on insurers to boost agents' automation efforts

By LAURA MAZZUCA

The insurance industry is 15 years behind in the area of automation, and it is up to the major insurance companies to lead the way in closing the gap, says the incoming president of the National Assn. of Professional Insurance Agents.

This lack of expertise is causing agents to lose market share to their automated competition, which hurts the company, the agents, and the consumer, said Willis J. Hargrave Jr. in his inaugural address at the association's 56th annual convention, held Oct. 25-28 in Chicago.

Mr. Hargrave, who has served on the PIA's board of directors since 1984, is president of HARCO Insurance Services in Houston.

"The automation networks are in place; the standards are ready. It's time for a lead company in our industry to step forward and provide the leadership necessary to make things happen, thus returning our distribution system back to the prominence which made many of our companies what they are today," he said.

"The PIA has a role and a responsibility to see



Mr. Hargrave

**'The PIA has a role and a responsibility to see that automation happens now and not tomorrow,' says Willis J. Hargrave, PIA president.**

that automation happens now and not tomorrow."

Mr. Hargrave said the burden of competition frequently lies with the agent.

"Without the company and the agents working together, maximizing their ability to perform, one or the other must bear the load," he said. "I suggest it is we the producers who bear the load. The public only looks to us for performance. To compete and add value to a relationship, we must absorb the expense and the effort to stay in business. I would suggest this shortsighted company position can no longer be accepted."

Mr. Hargrave also emphasized the importance of the PIA's outreach program, through which the PIA communicates the purposes and goals of insurers and producers to consumers and which grew under the leadership of outgoing PIA Pres-

ident Nick A. Verreos.

"PIA will continue its commitment to building strong bridges of understanding with the public, government and industry," Mr. Hargrave said. "Our outreach program with consumers will help the American public gain a far better awareness of the industry and the valued role that agents play."

Other major issues on Mr. Hargrave's agenda include association membership growth and an emphasis on education for PIA members.

"The importance of membership growth cannot be overstated," he said, emphasizing that recruitment must take place on local, state and national levels.

On the role of education for the professional agent, Mr. Hargrave said: "The major difference in a competitive situation is knowledge. It's that intangible ingredient that often makes the choice clear."

He stressed the importance of PIA members not only meeting state education standards, but also exceeding them.

Carry-over issues from 1987 that will continue to be relevant in the coming year include tort reform, the proposed repeal of the McCarran-Ferguson Act, closer state regulation of insurer insolvency and the encroachment of banking in the insurance industry, he said. ■

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# PROPERTY VALUATION

## Shortcuts can cost clients more than they bargained for

By Richard D. Lillard

WHO SUFFERS MOST when business assets are inaccurately valued for property insurance purposes? Certainly, your client suffers. He either overpays for his insurance or exposes himself to unnecessary risk. But in the event of a claim, the broker also may lose—both his client, and his reputation—as the client now forgets he decried an independent appraisal as “unjustifiable expense.”

Property insurance limits for businesses are sometimes hastily calculated on the basis of a few ratios, without much thought as to what is being insured. While such estimates may closely approximate the extent of your client's insurable exposure, they fall short—almost universally—in terms of documentation. Such estimates have the undesirable additional side effect of misleading your client into believing he has fully complied with his responsibilities for valuation under a property insurance contract. Such “shortcuts” are perhaps responsible for the fact that many businesses that experience a major fire never reopen their doors.

It is your responsibility as an agent to communicate clearly with your client about the need for well-documented and supportable values. For his business, it is literally a matter of survival. And since personal experience of the individual entrepreneur probably rules out the likelihood of destruction by fire, thorough preparation becomes a low priority for him.

You've probably heard this one before: “Buying insurance is prudent, but taking it too seriously smacks of the wrong kind of attitude for a forward-looking entrepreneur like me.”

There is an obvious appropriate response: “OK, Mr. Entrepreneur, let's do it your way. Let's look forward. I urge you to read your insurance contract imagining that you smell smoke!”

With this perspective, the notion of “insuring one's insurance” takes on a new urgency.

The three obligations that your client assumes under the terms of his insurance contract are closely interrelated by their reliance on accurate information of specific kinds. He is required: to determine the insurable value of his property; to purchase insurance coverage in the proper dollar amount throughout the life of the policy; and to assure that “requirements in case loss occurs” provisions of the contract can be met in the event of loss.

A typical “requirements in case of loss occurs” clause reads thusly: “(The policyholder) shall furnish a complete inventory of the destroyed, damaged and undamaged property, showing in detail the quantities, cost, actual cash value and amount of loss claims. . . and, if required, verified

plans and specifications of any buildings, fixtures or machinery destroyed or damaged. . . .”

The burden on the client to meet such difficult requirements is easy to brush aside, especially with the false assurance that comes from having an “estimate” in his possession. But an insurance policy is a contract, which protects dollar value rather than the property itself. The insurance premium does not buy a certain amount of guaranteed protection. It is the consideration of which an insurance company binds itself to pay for a loss providing that all the provisions of the contract are fulfilled.

Clearly, a valuation of some kind must be performed and documentation assembled. In this process, there are four shortcuts commonly employed. Each has its own defects:

- Book value is based on original cost, rather than current value. Book value classifies property in accounting terms, rather than by insurance classifications, and thereby excludes expensed and depreciated property that might still be in use and insurable. Such accounting values may

such surveys are typically limited in detail due to the cost of furnishing a “free” service. And, as we have already discussed, an “estimate” often leads the policyholder to be less concerned with his obligation to maintain proper documentation and adequate insurance to value.

- Contractors' or accountants' estimates. Like the insurance company itself, the average contractor or accountant has neither the staff nor the facilities to provide a complete valuation service. Both work with cost, not value. And in submitting bids for new construction, no two competitive construction firms are likely to bid the same figure.

The need for a professional appraisal has been amply proven over the years. And the need can be presented even more persuasively as a method for empowering your client in the insurance marketplace to obtain accurate insurance quotes and to bring him into an equivalent negotiating position with “the adjuster” at the time of a claim.

The entrepreneur-client might be less interested in what can go wrong

**It is your responsibility as an agent to communicate the need for well-documented values. And since the individual entrepreneur's personal experience probably rules out the likelihood of destruction by fire, thorough preparation becomes a low priority for him.**

have little bearing on insurable value.

- Trended costs are a measure of value that attempts to bring the base cost of assets up to date by taking into account trends in the marketplace. A difficulty is that base costs reflect a mixture of property—some insurable, some not—and a misleading base produces a misleading trended answer. In addition, most trends are too general to apply to a specific insurable asset, to the extent that the source and construction of most trends is not available to be used as legal evidence. Trends frequently do not reflect changes in efficiency or methods of construction or manufacture. And, ultimately, the client ends up paying too much, as trended costs tend to “pyramid” over a period of time, resulting in excessive premiums.

- “Free insurance company estimates.” Such reports are a convenient neutralizer of fears and an effective sales tool, but they typically carry a warning that should be critical to your client, and to you, if you want to keep such a client—and his friends—after a loss:

“Note: This summary is for estimating amount of insurance to be carried. Values for uninsurable portions are not included. . . . The figures are not binding on assured or company in case of loss.”

Keep in mind that property insurance rates are not based upon the costs of maintaining an insurance company appraisal department, and

as in how that “book of numbers” will generate dollars for him and his business. There are three persuasive arguments in this respect:

- ✓ Argument 1 says that “if you have accurate, well-documented values, I can give you the best possible quote for exactly the right amount of insurance. Short of that, you will likely either be short on coverage, or overpay for insurance on which you lack the documentation to collect.”

- ✓ Argument 2 suggests that “the best way to think of value and insurance contracts is to picture yourself in a negotiation with an insurance company adjuster. If you have documentation for everything, the insurance company is responsible for the entire amount. If you lack documentation, who then is in a position of strength? Not you.”

Remember, there is no feeling more abhorrent to an entrepreneur than being in a position of weakness in a negotiation.

- ✓ Finally, Argument 3: “One way to think of insurance coverage is that you are contracting with the insurance company to buy your business at some point in the future. Would it be wise for you to make an arbitrary guess as to the value of the business you are contracting to sell? Would it be to your advantage to have the future buyer of the business—the adjuster—tell you what you will have to accept? This is your position if you lack properly documented values. Buying insurance

without an appraisal, Mr. Entrepreneur, is like signing a contract with blank pages in it.”

An appraisal “insures your insurance” by providing that:

- The required valuation and record preparation is performed in a thorough, accurate and dependable manner.

- Assets and respective values are properly classified between “buildings” and “contents” in accordance with the insurance policies covering the property.

- Property values are reported by respective risk areas for the most economical premium rating.

- “Current authoritative reproduction cost new,” or “replacement” cost new, pricing data is applied to the inventory.

- Shop-built, specially designed, one-of-a-kind or unavailable items are properly valued for insurance purposes.

- Item-by-item, supportable insurance-type depreciation is applied to the property inventory.

- The appraisal is performed and executed in such a manner that it can be kept current with minimum cost and effort.

- A good appraisal firm is typically available to aid in the preparation of supportable evidence for a “proof of loss” at any time in the future.

A critical component in this list of appraisal features is that an appraisal is performed “in such a manner that it can be kept current with minimum cost and effort.” This is essential, as a typical insurance policy has a clause that reads:

“(The insurance company). . . does insure the insured. . . to the extent of the actual cash value of the property at the time of loss, but not exceeding the amount which it would cost to repair or replace the property with material of like kind and quality within a reasonable time after such loss. . . .”

“At the time of loss” is a loaded stipulation that your client can defuse in advance, with annual updating, facilitated by the form of the initial appraisal. A good appraisal is annually adjusted to take into account:

- Fluctuations—in values due to changes in labor, material and commodity prices.

- Depreciation—changes resulting from wear and the passage of time or improvement because of replacement and rehabilitation; additions—of new construction and equipment.

- Transfers—of assets between

*Continued on next page*

Richard D. Lillard is the western division sales manager for Marshall & Stevens Inc., a Los Angeles-based international appraisal, valuation and financial consulting firm.



# Agents oppose depreciation rule change

By LAURA MAZZUCA

Agent and broker associations are mobilizing to oppose federal legislation that would prohibit agencies and other service businesses from depreciating their customer lists as part of an acquisition.

The controversy centers around Section 6504 of the proposed Budget Reconciliation Act under review in the Senate, which would amend the Tax Reform Act of 1986, said Patricia A. Borowski, vp of government and industry affairs for the National Assn. of Professional Insurance Agents.

If the bill becomes law, it would eliminate the amortization or depreciation of intangible property, such as expirations and customer lists, when an agency is acquired.

It also would permit the taxation of all investment and dividend income of tax-exempt associations at the corporate rate, which would hurt professional associations (BI, Nov. 9).

The PIA is preparing direct mail explaining the issue and asking members to protest the measure.

And, the Independent Insurance Agents of America is taking a "two-pronged approach" to the problem by both direct lobbying and a grassroots campaign urging members to con-

tact their senators and congressmen, said Robert A. Rusbuldt, director of federal affairs for the IIAA's government affairs division.

The bill would affect all businesses dealing with customer lists, but would particularly hit personal service organizations, said Ms. Borowski.

Tax and accounting experts are estimating that if the proposal is passed, it could reduce the value of an agency between 10% and 30%, said Ms. Borowski.

Mr. Rusbuldt of the IIAA said the proposal "violates fundamental tax principles" by allowing manufacturing businesses to continue depreciating material.

Rather than targeting big businesses for increased taxes, the bill would greatly reduce the value of a small agency upon the retirement of the agency principal, said Ms. Borowski. And, many small agency principals rely almost totally on the profits from the agency sale for their retirement income.

"These people don't have golden parachutes," she said.

"We realize there has to be a bite on the (federal budget) bullet, but 30% for a small agency is a pretty big bite," said Ms. Borowski.

The House already approved the proposal, H.R. 3545, on Oct. 29.

The Senate Finance Committee has approved a similar measure, but the bill now will be restructured to improve its chances for passage in the full Senate.

House Ways and Means and Senate Finance committee members will draw on provisions from both reconciliation bills and both chambers are expected to vote on the revised measure by the end of December.

Ms. Borowski pointed out that members of Congress might not have fully understood the nature of the agency's functions when they drafted the proposal.

The main difference in the client lists of agencies and those of other service industries is that the list belongs to the agent even if an insurer cancels a contract. In fact, legal precedent has established that insurers are not entitled to seize client lists from an agency if the insurer cancels their contracts, said Ms. Borowski.

In addition, "customers are better served if they can maintain a relationship with their agent," she added, especially in the event of a long-tail claim. "This may come up in other industries, but it's the norm in our industry," she said. ■

## Appraisals

Continued from previous page  
buildings, risk areas or plant locations.

Now, how does your client choose an appraisal firm? It is an important decision, much like choosing a doctor, an attorney or an insurance agent, and deserves more than a glance at the Yellow Pages.

Your client can check with his colleagues who use appraisers. He will find in the process of seeking such help that some professionals offer such services for their clients on the side, as a courtesy. Have your client keep in mind two things:

First, an appraisal derives a good deal of its value from being an independent opinion, which incorporates both the expertise and judgment of an uninterested party.

**The practice of appraising is an art, requiring judgment that is built up by practice.**

To the extent that your client retains his own legal or accounting or banking sources to prepare the appraisal, there may be an apparent conflict of interest that would increase the scrutiny to which any such appraisal would be subject during the course of a claims settlement.

And, second, the practice of appraising is an art, requiring judgment that is built up by practice. Those who perform appraisals day in and day out are the people most likely to produce the kind of documentation that would be useful in the ways we have described.

Finally, your client can ask for references. Make sure that he chooses an appraisal source that has evaluated his type of business or organization in the past, and has done so successfully.

Talking to the broker or the underwriter who accepted the previous, related, appraisal should provide some degree of assurance.

Disaster strikes without warning. It does not respect person, place, time or thing.

When your client endorses the insurance contract, he indicates that he is responsible for telling you what he has, and for accurately stating the values of his property. It is literally a life or death decision for his business, and it is entirely the responsibility of the client. Your future relationship depends upon his making intelligent choices. Will you allow him to be irresponsible?

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# Banks, insurers share traits: Attorney

By LINDA J. COLLINS

CHICAGO—Bankers have nothing against the insurance industry, they just want to be a part of it, asserts the senior federal legislative counsel for the American Bankers Assn. in Washington.

And because both banks and insurers offer financial services, they should be allowed to compete in the same arena, says ABA counsel Philip S. Corwin.

"The remaining legal and regulatory barriers which prevent banks—and you—from freely choosing a role in the financial services industry are artifacts of a simpler, by-gone era," Mr. Corwin told agents attending the annual convention of the Independent Insurance Agents of Illinois Oct. 25-27 in Chicago.

Mr. Corwin based his comments on "six basic premises." They are:

- Banks and insurers have more similarities than differences.

"Banks and insurance companies are both leveraged financial institutions which assume and manage a wide variety of risks and which invest their funds by making loans and purchasing securities," Mr. Corwin commented.

And "from a production viewpoint, both banking and insurance involve four basic functions—origination, investment, processing and liability management," Mr. Corwin said.

"The only substantial differences between the industries are that banks fund themselves with deposits and insurers fund themselves with premiums and the events which require a payout on liabilities are of varied predictability," he added.

- There have already been too many affiliations and joint ventures between deposit-taking institutions and insurers/producers and too much cross-marketing of credit and

insurance to stop now.

"The supposed Great Wall between banking and insurance is really more of a rusty chain-link fence with lots of holes cut in it," he quipped.

Mr. Corwin pointed out that savings and loan institutions are permitted to own insurance agencies, insurance companies can own federally insured savings institutions and that for decades a number of states even have permitted banks to own insurance agencies.

And while legislation that was passed by Congress last summer closed the non-bank bank loophole, a grandfather clause permitted more than 160 banks to continue operating.

Most of those banks are owned by diversified financial companies such as ITT Life, Travelers Insurance Cos., American Express, Sears, Roebuck & Co. and Prudential Bache, Mr. Corwin explained.

The non-bank bank loophole permitted a financial institution to sell insurance if it accepted deposits or made loans, but did not perform both functions.

- State legislative actions "will pave the way for congressional ratification of bank affiliations with the insurance industry," Mr. Corwin said.

"I can't understand why such a pro-state's rights industry has spent the last decade doing everything within its power

to try to obtain a federal pre-emption from Congress that would prevent the states from authorizing any new insurance powers for most of the state-chartered banks in this country. You really can't have it both ways," Mr. Corwin stressed.

And, currently, five states permit state banks to underwrite insurance beyond credit life and 14 states allow insurance brokerage activities beyond credit life sales, Mr. Corwin said.

- Congress will continue to focus its attention on the insurance industry for many more years.

Insurers will likely lose their antitrust exemption under the McCarran-Ferguson Act and probably will become subject to some type of national consumer protection and disclosure standards.

The insurance industry made a grave tactical error when it blamed liability insurance availability and affordability problems on the court system by "inviting Congress to get actively involved by pushing strongly for tort reform," Mr. Corwin observed.

This pushed Congress to "rediscover" the insurance industry and question "whether it wasn't inadequate regulation, not excess competition, which permitted the suicidal cash-flow underwriting that precipitated the liability crisis," he added.

Furthermore, Congress began to question whether an industry "whose premium income constitutes 9% of the gross national product should continue to be exempt from the antitrust law," Mr. Corwin stressed.

- While the debate over bank entry into insurance has been an interindustry debate for several years, it has become and will remain a consumer issue.

Because of the liability insurance crisis in the mid-1980s, "members of Congress were besieged by mayors, civic groups and business people complaining very loudly that something was terribly wrong with the insurance system," Mr. Corwin explained.

And, over the past several years, consumer groups have focused their attention on lobbying for reforms in the banking industry, he added.

Having accomplished most of their goals in that arena, they have begun to turn their attention to another segment of the financial services industry—insurance, Mr. Corwin

continued.

- When banks are allowed to enter the insurance industry, rather than harming the independent agency system, they will help strengthen and preserve it.

A study conducted earlier this year by the Consumer Federation of America indicated that competition between financial institu-

tions lowers costs to consumers and that no clear evidence exists to support the contention that "bank diversification into other financial products and services would result in greater

concentration in the financial system," Mr. Corwin said.

The study did not support insurance industry arguments that a significant threat exists for client coercion by banks—where clients would be led to believe that loans or other banking services were contingent on their buying insurance through the bank, according to Mr. Corwin.

In light of these arguments, "Isn't it time that the independent agent community re-evaluated whether its strident opposition to bank entry into insurance isn't a position that is against its long-term interests?" Mr. Corwin asked the audience.

Many banks entering the insurance industry would do so by purchasing or forming joint ventures with independent insurance agencies, which would substantially boost the franchise value of agencies, he pointed out.

"A financial services revolution is coming down the road, Mr. Corwin said, concluding his talk.

"Are you as independent agents going to be at the steering wheel to control those changes or are you going to be left standing by the side of the road?" he said.

"(Banks) want a partnership with you and other players in the insurance industry," Mr. Corwin.

**'From a production viewpoint, both banking and insurance involve four basic functions—origination, investment, processing and liability management,' Mr. Corwin says.**

**'Bank diversification into other financial products and services would result in greater concentration in the financial system,' Mr. Corwin says.**

## Illinois agent faces fraud charges

By LAURA MAZZUCA

SPRINGFIELD, Ill.—A downstate Illinois insurance agent is facing civil charges of consumer fraud and marketing of unauthorized insurance plans to Christian ministers and their employees.

Richard A. Zupan, owner and president of the Greater Insurance Service and Southern Illinois Garot-Christman agencies in Salem, Ill., has been named in two civil suits charging that he sold more than 3,000 health and general liability policies that were not underwritten or reinsured by any insurance company.

The suits were filed on Nov. 4 in Sangamon County Circuit Court by the Illinois Insurance Department and the Illinois Attorney General's Office.

Also named as a defendant in the Insurance Department's lawsuit is the Christian Insurance Assn., an unauthorized insurance company based in South Carolina that department officials believe to have been affiliated with Mr. Zupan.

Other agents, employees and affiliates of Mr. Zupan are named individually.

The policies generated about \$5 million in premiums, said Timothy M. Cena, staff attorney for the Illinois Department of Insurance.

Preliminary Insurance Department investigations revealed that Mr. Zupan allegedly owed policyholders \$3.5 million in outstanding claims, but had combined total assets of less than \$20,000, he added.

The first lawsuit, filed by Illinois Attorney General Neil F. Hartigan on behalf of the state's Insurance Department, alleges that Mr. Zupan advertised and sold through his agencies—only one of which was registered with the state—new and renewal policies since October 1985 to ministers, pastors, church staff, employees and Christian schoolteachers.

The attorney general's suit seeks a permanent ban on the sale of the policies, nullification of all contracts, restitution to policyholders and a \$50,000 civil penalty against Mr. Zupan and his company.

The second suit, filed by Mr. Hartigan, alleges that Mr. Zupan's sale of the policies violated provisions of the Illinois Consumer Fraud and Deceptive Business Practices Act.

The department's suit seeks temporary and permanent restraining orders against Mr. Zupan as well as an order of conservation that would allow the department to seize the assets and property owned by the company, according to Mr. Cena.

After successfully reporting to the court that the companies are insolvent, the Illinois Insurance Department can then seek an order of liquidation of the company, Mr. Cena added.

Mr. Zupan sold both group and individual health insurance policies under the name Penta Plan and Christian Assn. of Religious Employees (CARE), Mr. Cena said. He also sold general liability insurance policies under the plan name Penta Share.

Most of the policies sold by Mr. Zupan were for custom-

**Preliminary Insurance Department investigations allege Richard Zupan allegedly owed policyholders \$3.5 million in claims, but had combined assets of less than \$20,000.**

ers based in the so-called "Bible Belt" states of Alabama, Tennessee and Georgia, "although we've had (complaints) from as far away as Alaska," added Mr. Cena.

Promotional materials on the health plan said that Christian ministers and their associates qualified for lower premium rates because they are "healthy people who do not smoke, drink or otherwise abuse their bodies," according to informational material gathered by the attorney general's office.

The Penta Plan offered to provide 100% coverage, with no cap, for hospital, doctor, dental and chiropractic care and prescription drugs after an annual \$80 deductible was satisfied for each type of coverage, said Mr. Cena. Monthly premiums for the health coverage ranged from \$164 to \$184.

Mr. Zupan collected about \$5 million in premiums from policyholders, and paid about \$2.5 million in claims since

1986, said Mr. Cena.

Although Mr. Zupan holds a producer license in Illinois, his policies were not written by a licensed insurance company, which means that policyholders cannot recover from either the Illinois Insurance Guaranty Fund, which covers property/casualty insurers, or the Life and Health Insurance Guaranty Fund, Mr. Cena said.

The Illinois Insurance Department is empowered to distribute the company's assets to policyholders to cover claims, but there are not sufficient assets to do so at this time, Mr. Cena said.

However, there is evidence from Mr. Zupan's financial and business records that additional funds exist outside of Illinois, said Julie Cardosi, an attorney with the attorney general's office.

The U.S. attorney's office is now investigating the matter, she added.

Allegations of fraud surfaced in March when a policyholder complained to the department that his claim was not paid, said Mr. Cena.

A subsequent investigation of Mr. Zupan's business by the department alleged that there were insufficient assets to back the insurance plans and no underwriters for the policies.

The department issued a cease and desist order against Mr. Zupan on Aug. 26, but he continued to conduct business until his business records and premises were seized by the department on Nov. 4, according to Ms. Cardosi of the attorney general's office.

In a related matter, the Illinois attorney general's office filed an eight-count criminal charge of forgery against Mr. Zupan on Nov. 8, said Assistant Attorney General Gary Duncan.

The criminal suit, filed in Washington County Circuit Court, alleges that Mr. Zupan intended to defraud a Tennessee couple by forging their signatures from existing life insurance documents with other insurers on new policies to be sold for commission to ITT Life Insurance Co. of Minneapolis. The insurer was not implicated in the matter, added Mr. Duncan.

Mr. Zupan was arrested on Nov. 8 and posted \$50,000 bond. He was scheduled for arraignment earlier this month. If convicted on all counts, Mr. Zupan faces a maximum of five years' imprisonment.



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# ***Business Insurance***

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Info

• "Insurance Agents' and Brokers' Liability for Insurer Insolvencies" is a 66-page monograph by Ronald C. Horn, a professor of insurance studies at Baylor University in Waco, Texas. In the wake of widespread insurer insolvencies and in light of the limits of state guaranty funds, Dr. Horn examines the errors and omissions claims against insurance agents, brokers and consultants. Copies of the monograph are \$24, including postage and handling. Pennsylvania residents add 6% sales tax. The monograph is available from the Society of Chartered Property & Casualty Underwriters-Harry J. Loman Foundation, Kahler Hall, 720 Providence Road, CB#9, Malvern, Pa. 19355-0709; 215-251-2728.

credit insurance coverage is now available. The brochure outlines the coverage available and how it works. Copies are available from American Credit Indemnity Co., 300 St. Paul Place, Baltimore, Md. 21202-2183; 800-624-4969.

• "How to Organize an Arson Task Force in Your Community" is a pamphlet aimed at organizing a community to protect property from destruction. The Insurance Committee on Arson Control has updated its tips for private citizens and business owners on how to form coalitions to fight the crime. The ICAC is an insurance industry-supported group combating arson. Free copies of the pamphlet are available by writing The Insurance Committee on Arson Control, 1501 Woodfield Road Suite 400 West, Schaumburg, Ill

• A free brochure on business

60173-4980 312-490-8690.

• The Workers Compensation Research Institute has released a 58-page paperback, "Medical Cost Containment in Workers' Compensation: Innovative Approaches," edited by Richard B. Victor. The Cambridge, Mass.-based institute is offering copies at \$15 each. Massachusetts residents add 8% sales tax. Request publication WC-87-1 from the Workers Compensation Research Institute, 245 First St., Cambridge, Mass. 02141.

• "Communicating Employee Benefit Plans," a compilation of presentations made at an International Foundation of Employee Benefit Plans institute, is now available. Copies of the book (ISBN 0-89154-325-2) are \$10 for foundation members and \$18 for non-members. Payments should be sent to the Publications Department, International Foundation,

P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6700.

• The Insurance Information Institute has published five short study leaflets on major issues facing the property/casualty industry. The titles are as follows: "2 Minutes on Insurance"; "State vs. Federal Regulation of Insurance"; "Competition or Collusion"; "Auto Parts"; "Tort Reform and Insurance Prices"; and "Insurance Accounting." Single copies of the leaflets are free by phoning the III at 800-221-4954.

• The W.E. Upjohn Institute for Employment Research offers two books on the topic of income replacement policy. "The Tragedy of Black Lung—Federal Compensation for Occupational Disease" examines the history of the Coal Mine Health and Safety Act and the policy implications of the program. The book, Item D7 0-88099-045-7, is available in paperback for

\$13.95. "Permanent Disability Benefits in Workers' Compensation" is a study of the criteria and procedures used to compensate permanent disabilities in 10 states and includes an analysis of the strengths and weaknesses and recommendation for possible reforms. The book, Item 0-88099-050-3, is available in paperback for \$15.95. Requests should be sent to the W.E. Upjohn Institute, 300 S. Westnedge Ave., Kalamazoo, Mich. 49007; 616-343-5541.

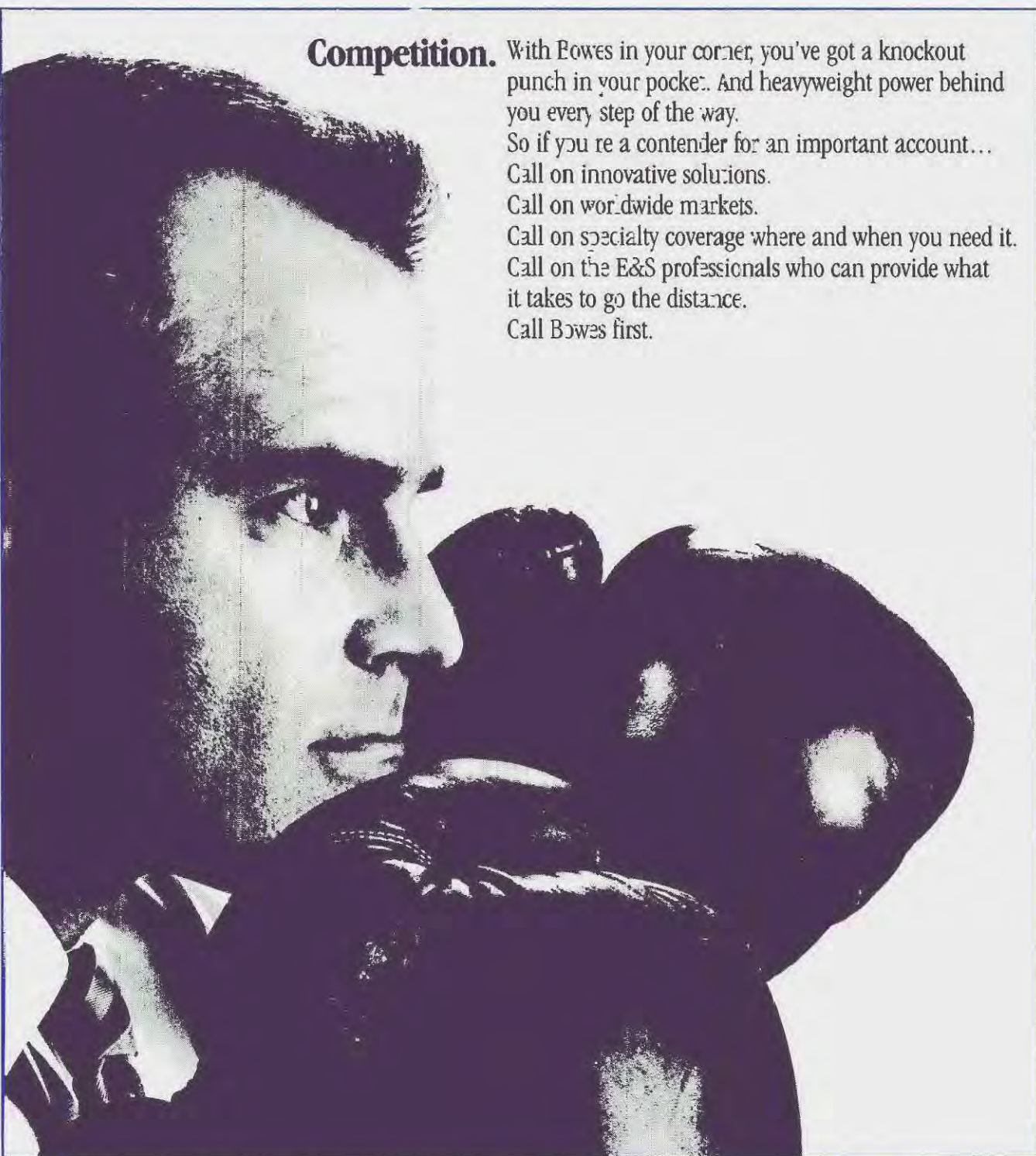
• Reprints of articles on civil justice reform from the Journal of American Insurance are available in a free compilation from the Alliance of American Insurers. Article topics include medical malpractice, comparative negligence, joint and several liability, the collateral source rule, contingent fees, arbitration, discovery abuse, prejudgment interest and punitive damages. For single copies, contact the Alliance of American Insurers, Public Affairs Department, 1501 Woodfield Road, Schaumburg, Ill. 60173-4980; 312-490-8500.

• Guides to day-care insurance in California and Oregon are available from Western Insurance Information Service, a non-profit consumer education and communications organization affiliated with the Insurance Information Institute. "The guides are designed to help people who provide day-care services, in their homes or on separate commercial premises, understand and find insurance," said James Snyder, executive director of WIIS. Copies of the guides are free. In California, contact WIIS, 150 Post St., Suite 640, San Francisco, Calif. 94108; 415-392-3185. In Oregon, contact WIIS, 11855 S.W. Ridgecrest Drive, Suite 107, Beaverton, Ore. 97005; 503-643-6355.

• The National Assn. of Independent Insurers has published "Financial Services Integration: The Promise and The Reality," which examines the history of the separation of the banking and insurance industries and outlines the NAI's activities in legislative hearings on barriers between the two industries. The 36-page booklet also includes a state-by-state legislative and regulatory analysis. Free copies of the booklet are available from Cindy Churan, NAI, 2600 River Road, Des Plaines, Ill. 60018; 312-297-7800.

• Two publications from the American Institute for Property & Liability Underwriters and the Insurance Institute of America, "CPCU/IIA Catalog" and "Key Information for Prospective Students," are available to help students and company education directors select courses for 1987-1988. The key information booklet includes a "Self-Inventory for Prospective CPCU/IIA Students" designed to help students assess their strengths in relation to CPCU/IIA study. Students who complete the inventory are eligible to receive a free counseling recommendation on a particular starting course. Both publications are available free by writing or calling: Field Services Department, The Institutes, 720 Providence Road, Malvern, Pa. 19355-0770; 215-644-2100.

• Have a new report, booklet or educational brochure you'd like to send to buyers of insurance? Business Insurance will describe material costing less than \$25 as an editorial service in the Info column. Simply send us a copy of the item to be offered and a short description of it, along with the cost and a mailing address. Address all contributions to Info, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611-2590.



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### Risk retention roundup

## Taxi operators plan risk retention group

PITTSBURGH—Taxi owners and operators are expected to be able to purchase liability insurance from a risk retention group soon.

Pittsburgh-based Insurance Managers administers the group, which is called Transerv Risk Retention Group Inc. In addition, Insurance Managers provides risk management services for plan participants.

The Vermont-chartered group also plans to offer coverage to owners and operators of paratransit vehicles used, for example, to transport the elderly. The group will write liability coverage with a combined single limit of up to \$250,000 on a claims-made basis for its members. Members must buy \$1,000 in Transerv stock per vehicle to participate in the program. The group has raised about 40% of the \$2.5 million in capital required before it can begin issuing policies.

Stan Friedburg, president of Insurance Managers, says although rates will vary from state to state, the coverage offered by the program should be about 20% to 40% less expensive than coverage available from commercial insurers.

The company initially filed plans to operate in Maryland, New York, Ohio, Pennsylvania and West Virginia. James McKenna, an attorney representing Insurance Managers, says the group expects to file soon in several other states, including California and Oregon.

Mr. Friedburg says the group is seeking brokers to market the program on a nationwide basis.

—By Mark A. Hofmann

### Consultant coverage

NAPERVILLE, Ill.—A new purchasing group has been formed to offer errors and omissions insurance for management consultants.

Pennsylvania-domiciled Homestead Insurance Co. is writing the coverage for Consultants Liability Assurance Society Inc., an Illinois-incorporated purchasing group created under the Risk Retention Act of 1986. The nationwide program is being administered by Rigdon & Associates, a Naperville insurance agency.

Rigdon President Douglas Rigdon says the E&O coverage is being written on a claims-made basis.

Primary coverage is available with limits of \$100,000 to \$1 million, with excess coverage limits of up to \$5 million. Mr. Rigdon says rates depend on the number of professional consultants employed by a firm, the firm's revenue base and the use of subcontractors.

Mr. Rigdon stresses that the E&O coverage applies only to the policyholder's consulting activities. The policy specifically rules out coverage for "claims arising out of any act, error or omission in any professional function other than that specifically included in the insurance provided by the policy if the practice of such profession requires a license from a governmental body having jurisdiction."

In addition, the insurance does not cover consultants when they act as: accountants, bookkeepers, actuaries, appraisers, architects, design professionals, data processing systems programmers, engineers, fiscal planners, geologists and geophysics, insurance agents and brokers, investment counselors, lawyers, meteorologists, health care practitioners, psychologists, real estate agents and brokers, surveyors, tax preparers and veterinarians.

The coverage also does not apply to claims arising from incidents related to pollution or environmental impairment.

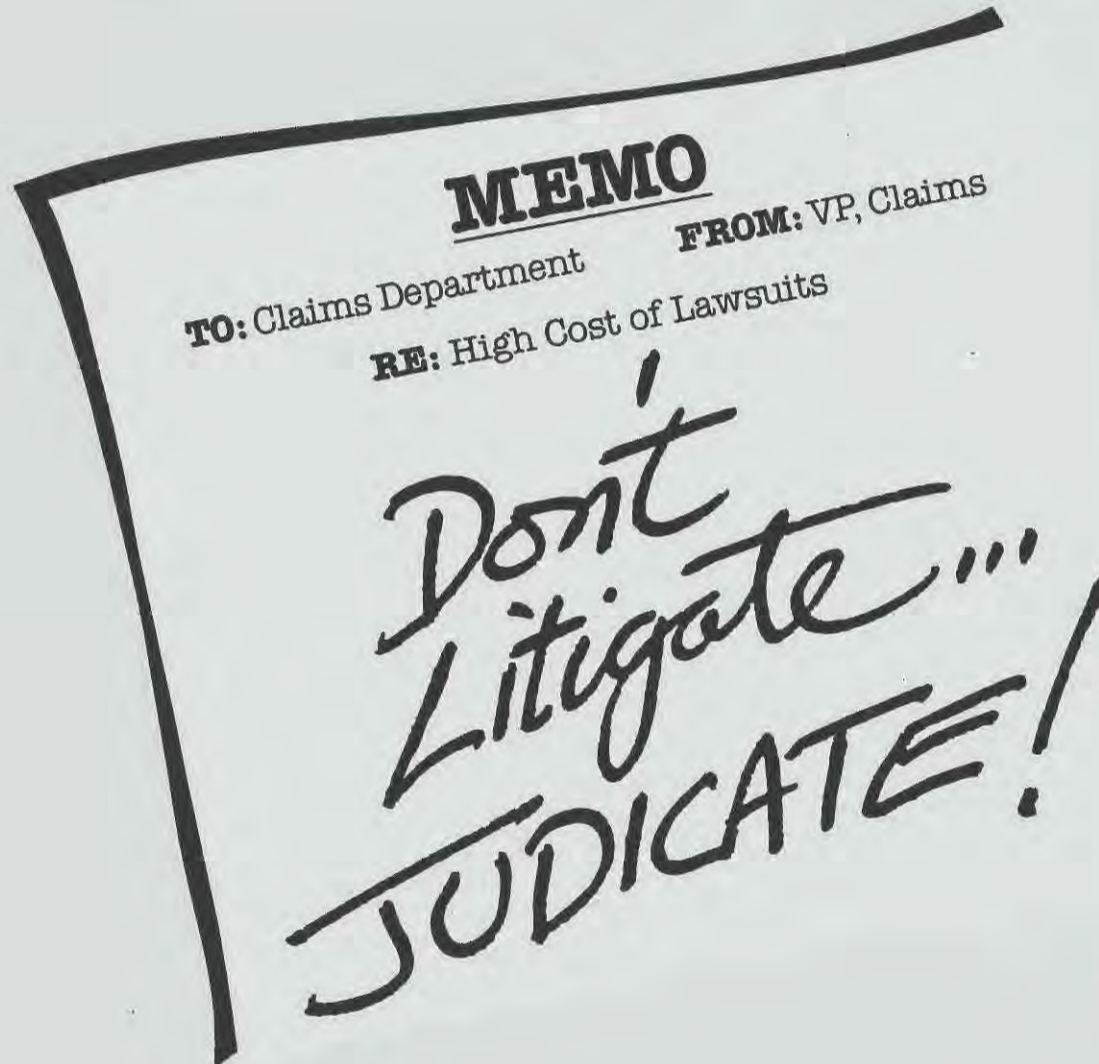
Mr. Rigdon says his firm worked with several professional associations in creating the purchasing group, including the New York-based Institute of Management Consultants, the Assn. of Executive Search Consultants of Stamford, Conn., the Portland, Ore.-based Organizational Development Network and the Arlington, Va.-headquartered American Assn. of Healthcare Consultants.

—By Mark A. Hofmann

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# More U.S. risks ceded to London market: ROA

By CAROLYN ALDRED

LONDON—U.S. risks represented the largest growth in London's non-marine reinsurance market last year, according to statistics published by the Reinsurance Offices Assn. last month.

The statistics, based on results from 50 U.K. reinsurers, show that U.S. non-marine reinsurance placed in the London market grew 38% last year.

While gross non-marine reinsurance premium income from the United States rose to 635 million pounds (\$939.8 million at year-end 1986 exchange rates) in 1986 from 461 million pounds (\$668.5 million at year-end 1985 rates) in 1985, non-marine reinsurance premiums from the United Kingdom rose only 4% to 393 million pounds (\$581.6 million) from 378 million pounds (\$548.1 million).

Non-marine premiums from Europe increased 10.7% to 280 million pounds (\$414.4 million) in 1986 from 250 million pounds (\$362.5 million) in 1985.

Overall, London reinsurance companies increased gross worldwide premium volume 13.7% to 2.16 billion pounds (\$3.2 billion) in 1986 from 1.9 billion pounds (\$2.76 billion) in 1985.

Meanwhile, London market reinsurance company earnings for 1986 are worse than expected because many companies had to strengthen reserves for past years, according to the ROA, which represents about 100 reinsurance companies authorized to write U.K. business.

The ROA statistics, compiled by Professor R.L. Carter of Nottingham University, represent "a very large part of the market and it is known that all the major companies" are represented, said a letter sent by the ROA to members.

Although the ROA provides no interpretation of the results, it does point out that the "1986 financial year gross results could be significantly affected by companies having to strengthen their reserves for past years, thus making results for the 1986 financial year worse than might have been expected."

Gross proportional treaty premiums increased by less than 5% to 738 million pounds (\$1.09 billion) in 1986 from 704 million pounds (\$1.02 billion) in 1985. The 1986 figure includes 502 million pounds (\$743 million) of property business and 222 million pounds (\$321.9 million) of casualty business. The remainder of the premium was not broken down into specific categories, according to the ROA.

Non-proportional treaty property premiums, however, increased 32% to 378 million pounds (\$559.4 million) in 1986 from 286 million pounds (\$414.7 million) in 1985, while non-proportional treaty casualty premiums increased 27% to 330 million pounds (\$488.4 million) in 1986 from 260 million pounds (\$377 million) in 1985.

The largest percentage growth in premium income was in aviation business, where proportional and non-proportional gross reinsurance premium volume rose 33% to 103 million pounds (\$152.4 million) in 1986 from 77 million pounds (\$111.7 million) in 1985.

Non-marine facultative premiums increased 13.5% to 312 million pounds (\$461.8 million) from 275 million pounds (\$398.8 million). But proportional and non-proportional marine business remained almost static at 302 million pounds (\$447 million) in 1986 compared with 300 million pounds (\$435 million) in 1985.

A breakdown of claims compared with premium volume since 1982 shows the London market suffered a particularly bad under-

**The Reinsurance Offices Assn. statistics, compiled by Professor R.L. Carter of Nottingham University, represent 'a very large part of the market and it is known that all the major companies' are represented, said the ROA.**

writing year in 1983 for non-proportional treaty property business.

The ratio of claims incurred to premiums for the market's total

business in this sector stands at 227.2% for 1983, compared with 115.4% for 1982. In particular, for U.S.-based non-proportional

treaty property risks, the ratio for 1983—233.8%—exceeds the ratio for 1982—68.6%—by more than three times.

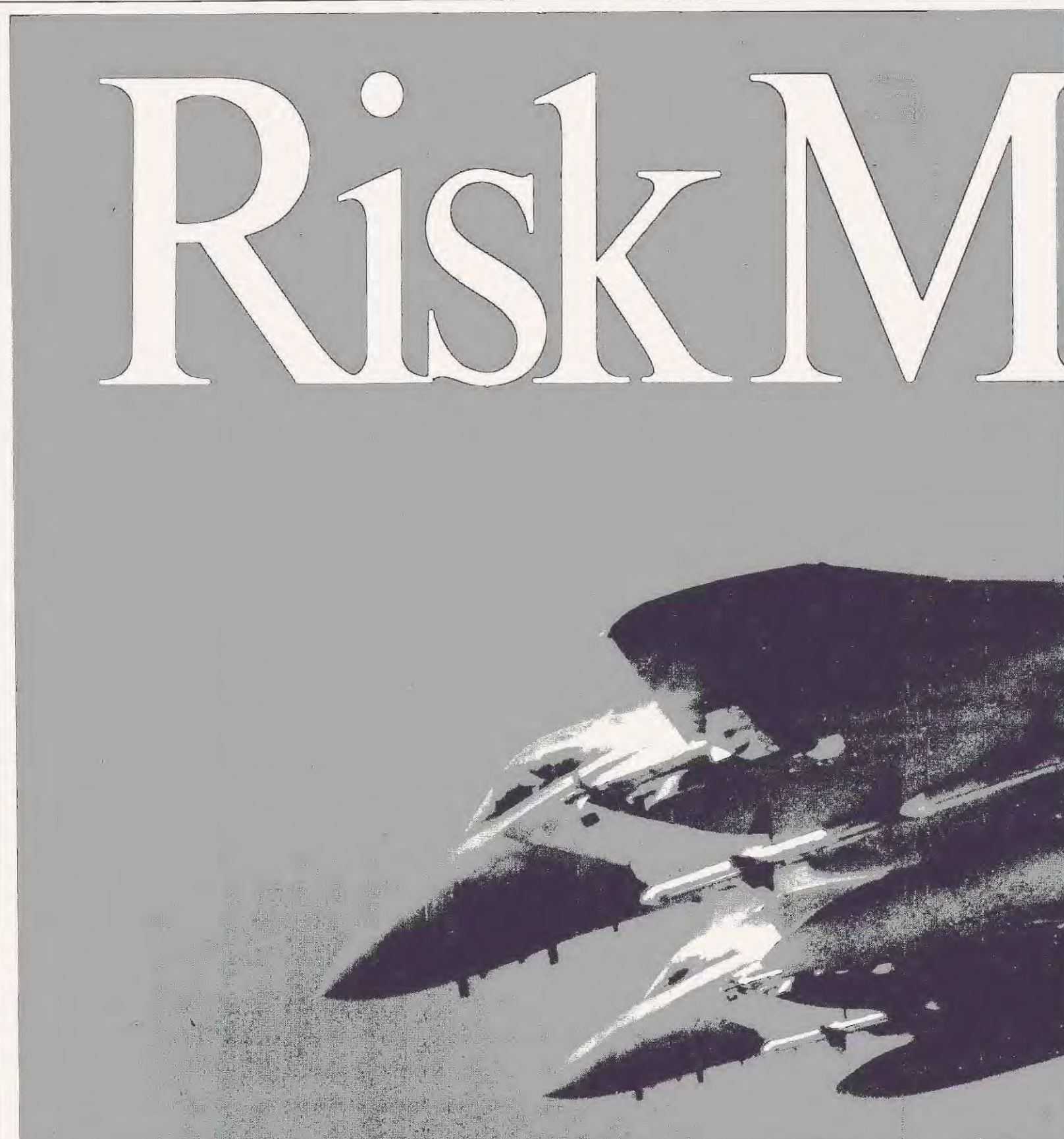
The loss ratio for U.S. proportional property treaty business written in the United Kingdom in 1983 also is worse than in 1982, with a ratio of 158.4% compared with 115.9%.

Loss ratios for worldwide non-proportional treaty casualty business written in the London market stand at 161.5% for 1982 and 141.2% for 1983. The worldwide

proportional treaty casualty loss ratio for 1982 and 1983 were both 97.9%.

For non-marine facultative business the loss ratios for 1982 and 1983 are 123.7% and 116.8% respectively. The loss ratios for proportional and non-proportional marine business stand at 101% for 1982 and 112.4% for 1983.

Aviation underwriting results show better results for 1983 with a loss ratio of 77.7%. The aviation loss ratio for 1982 stands at 111.1%. ■



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# Reinsurer input is desirable: Underwriter

By CAROLYN ALDRED

LONDON—Reinsurers should have closer contact with policyholders and improve their relationships with direct insurers, particularly in the United Kingdom, according to a British underwriter.

"Reinsurers could improve their image in the marketplace by participating to a greater extent in the area of communication with the public, in particular the business community," said Nigel Lister, underwriting manager for Perth-

based General Accident Fire & Life Assurance Corp. P.L.C.

"It is rare for the reinsurer concerned to be involved in any discussion with a policyholder, but he would probably have a sound contribution to make from the widely based knowledge of writing risks from many areas of the direct market," he added.

Mr. Lister's comments were published last month in the Reinsurance Offices Assn.'s report on the British reinsurance market. The report is based on a forum held by

**The market 'seems hell bent on talking itself into another period of disaster,' Mr. Lister says.**

the ROA in September.

In addition, direct insurers' relationships with their reinsurers is waning, particularly in Great Brit-

ain, he noted.

"There is certainly an element of feeling amongst U.K. offices that there is selection against them by the reinsurance market in not being offered equivalent facilities to those available elsewhere and perhaps particularly to direct underwriters in some other European countries," he said.

For example, "there appeared to be unreasonable pressure by reinsurers of U.K. company treaties to force the introduction of claims-made (forms) on a blanket basis,

whereas reinsurance capacity was freely available for occurrence wordings offered by other European insurers," Mr. Lister added.

There is a need for much closer links and more detailed discussion between the direct and reinsurance market, he continued.

Meanwhile, the debate between claims-made and occurrence policy forms "appears to drift without any clear resolution," he said.

The move to impose claims-made liability coverage in the U.S. market "has slowed to a virtual standstill and in some areas is being reversed. Similarly in the U.K., insurers that have sought to convert their account wholly onto a claims-made basis have reversed their thinking and are tending to fall in line with those applying the cover on a more selective basis."

Mr. Lister said that 1987 has seen a slight return to more flexible underwriting of liability risks, with insurers offering more capacity except for high-hazard risks.

However, "major accounts with U.S. exposures are still finding difficulty in purchasing cover at the level of \$100 million or more, which was available three years ago," according to Mr. Lister.

But "with the market having fought hard to try and recover to a reasonable level of profitability, it is disappointing to hear the recent talk of a softening market developing. The worst of it is such talk has stemmed from insurers, reinsurers and brokers, but not from policyholders. Although policyholders may have something to gain in the short term, none of the rest of the market has and yet it seems hell bent on talking itself into another period of disaster," he said.

While property accounts are "back to a reasonable level of rating, there is still some way to go to get casualty accounts back to a wholly acceptable area of maintained profit," he added.



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# NAC Re reports 50% boost in net income

NAC Re Corp. of Greenwich, Conn., reported net income of \$7.7 million for the nine months ended Sept. 30, up 50% from the \$5.1 million for the comparable period in 1986.

Included in the 1986 nine-month results is a pretax charge of \$1.5 million resulting from a commutation of certain retrocessional agreements with Universal Reinsurance Corp.

Operating income for the first nine months of 1987 was \$7.1 million, up 140% from \$2.9 million for the first nine months of last year.

NAC Re's net premiums written for the nine-month period were \$115.7 million, a 75.9% jump from the \$65.8 million reported for the period in 1986.

In the third quarter, net income totaled \$2.7 million, an increase of

## Financial briefs

252% from \$758,000 for the third quarter last year.

Operating income in the third quarter was \$3 million, an increase of 400% compared with \$593,000 in the same quarter last year.

Net premiums written for the 1987 third quarter were \$37 million, up 27% from \$29 million for the third quarter last year.

NAC Re's combined ratio for the nine months ended Sept. 30 was 107.7%, an improvement from 112.7% in the comparable period of 1986.

For the third quarter, the combined ratio was 107.9%, compared with 114.8% in the third quarter of 1986.

## TPA of America

Los Angeles-based third-party administrator TPA of America Inc. reported a net loss for the first nine months of 1987 of \$4.4 million, compared with a net loss of \$242,000 in the first nine months of 1986.

Revenues for the first nine months increased 167% to \$50.8 million from \$19 million in the year-earlier period.

For the third quarter, the company reported a net loss of \$1.9 million, compared with a net loss of \$176,000 in the third quarter of 1986. Third-quarter revenues rose 155.7% to \$21.7 million from \$8.5

million in 1986.

"Our benefit administration operations comprise approximately half our total revenues thus far in 1987," said Chairman Tom E. Greene III.

The company's net loss is related to a previously announced charge relating to increased loss reserves for health insurance business written by the company's First Transcontinental Life Insurance Corp. subsidiary.

## Pan Atlantic Re Inc.

White Plains, N.Y.-based Pan Atlantic Re Inc. reported that net income for the first nine months of 1987 edged up 2.2% to \$3.6 million.

Operating income before realized and extraordinary gains for the

first nine months rose 183.5% to \$4.5 million from \$1.6 million.

Net premiums written in the first nine months rose 96.9% to \$45.7 million from \$23.2 million.

For the third quarter, Pan Atlantic Re reported net income rose 74% to \$1.1 million from \$660,973 in the third quarter of 1986.

Third-quarter operating income before realized and extraordinary gains rose 231.9% to \$2 million from \$591,090.

Pan Atlantic Re said that reinsurance market conditions during the second and third quarter had not been favorable and that it had been difficult to achieve the company's domestic premium production without compromising underwriting standards.

In addition the company's third-quarter and nine-month earnings were reduced by \$500,000 due to insurances at the New York Insurance Exchange that precipitated a drawdown by the exchange's Security Fund of subsidiary NYIE syndicate Pan Atlantic Investors Ltd.'s deposit.

## Utica National

New Hartford, N.Y.-based Utica National Insurance Group, parent of Utica Mutual Insurance Co., reported an operating profit of \$20.9 million in the first nine months of 1987, up 71.3% from \$12.2 million in the first nine months of 1986.

The company posted a \$26.7 million underwriting loss in the first nine months of 1987, compared with a \$62.7 million underwriting loss in the first nine months of 1986.

Utica National reported \$350 million in direct premiums for the first nine months of 1987, roughly the same as was reported in the first nine months of 1986.

Utica National's combined ratio for the first nine months was 107.2%, an improvement from 119.7% in the first nine months of 1986.

## Nobel Insurance Ltd.

Hamilton, Bermuda-based Nobel Insurance Ltd. reported that net income for the first nine months of 1987 rose 18.8% to \$5.5 million from \$4.7 million in the first nine months of 1986.

Operating income for the first nine months rose 17.9% to \$4.6 million from \$3.9 million in the year-earlier period.

Net premiums written in the first nine months of 1987 totaled \$43.6 million up 68.4% from \$25.9 million in same period of 1986.

For the third quarter, net income dropped 36.8% to \$1.1 million from \$1.8 million in the third quarter of 1986.

Third-quarter operating income dropped 35% to \$1.1 million from \$1.6 million in the year-earlier quarter.

Nobel reported a combined ratio of 90% for the first nine months of 1987, an improvement from a combined ratio of 93% in the first nine months of 1986.

In the third quarters of 1987 and 1986, the combined ratio remained unchanged at 92%.

## SCOR U.S. Corp.

SCOR U.S. Corp. more than doubled its net income for the first nine months of 1987.

The New York-based reinsurance holding company reported \$13 million in net income for the first nine months of 1987, a 106% increase from \$6.3 million in the first nine months of 1986.

At the same time, operating income for the first nine months of 1987 grew a record 391% to \$12

Continued on next page



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Continued from previous page  
million from \$2.4 million for the first nine months of 1986.

Net written premiums for the nine-month period totaled \$76.7 million, up 102% from \$38 million for the corresponding period in 1986.

SCOR U.S. President Pierre D. Croizat attributed the improved 1987 results to the pricing and quality of the business underwritten since 1985, as well as the excellent loss development the company has experienced on underwriting periods prior to 1985.

SCOR U.S.'s third-quarter net income totaled \$5.5 million, a 170% increase from \$2 million in third-quarter 1986.

Operating income for the 1987 third quarter amounted to \$5.2 million, an increase of 196% from 1986's third-quarter operating income of \$1.8 million.

Net premiums written in the third quarter totaled \$25 million, up 116% from \$11.6 million in the third quarter of 1986.

SCOR U.S.'s statutory combined ratio for the 1987 third quarter and nine-month period were 82.8% and 90.7%, respectively, compared with 93.1% for the 1986 third quarter and 103.3% for the first nine months of 1986.

### Belvedere Corp.

New York-based Belvedere Corp. announced net income rose 67.8% in the first nine months of 1987 to \$2.4 million from \$1.4 million in the corresponding period of 1986.

Operating income for the nine-month period totaled \$1.8 million in 1987 compared with a \$157,000 operating loss in 1986.

Belvedere's nine-month revenues rose 68.5% to \$26.5 million in 1987 from \$15.7 million in 1986.

Third-quarter net income leaped 138.3% to \$1.3 million in 1987 from \$532,000 in 1986. Operating income rose 313.6% to \$1.4 million in the third quarter of 1987, from \$338,000 in the third quarter of 1986. Third-quarter revenues jumped 81.6% to \$12 million in 1987 from \$6.6 million in 1986.

Belvedere's third-quarter revenues include about \$4.5 million in earned premiums from reinsurance assumed by Belvedere America Reinsurance Co. under an agreement announced last month under which Belvedere America assumed all the in-force business of AEGON Reinsurance Co. of America as of July 1.

### American Bankers

American Bankers Insurance Group Inc. announced nine-month and third-quarter losses primarily because of the settlement of a lawsuit over financial guarantees written by a subsidiary.

Miami-based American Bankers paid \$43 million to Home Savings Assn., a Midland, Texas, savings and loan, to settle litigation over credit bonds on mobile home mortgages (BI, Oct. 5).

Including the settlement, American Bankers' credit bond losses produced non-recurring losses of \$54.5 million in the third quarter and \$64.2 million during the first nine months of the year.

Including the credit bond losses, American Bankers reported a net loss of \$38.3 million in the first nine months of 1987, compared with net income of \$19.9 million in the first nine months of 1986. Operating income, however, rose 4.8% to \$24.4 million in the first nine months of this year from \$23.3 million in the corresponding period of 1986.

In the third quarter, American Bankers reported a net loss of \$48.2 million, which compares with net income of \$6.8 million in the third quarter of last year. Operating income fell 3.9% to \$6.2 million in the third quarter of 1987 from \$10.2 million in last year's

third quarter.

### UNUM Corp.

Net income for Portland, Maine-based UNUM Corp. fell 15.5% in the first nine months of this year to \$76.6 million from \$90.6 million in the corresponding period of 1986.

Pretax operating income, likewise, slipped 30.2% in the first nine months to \$57.1 million in 1987 from \$81.9 million in 1986. Pretax operating income in UNUM's employee benefits business fell 44.9% to \$40.3 million in the first nine months from \$73.1 million in the corresponding period of 1986.

UNUM's nine-month premium volume slipped slightly to \$1.13

billion in 1987 from \$1.18 billion in 1986, though employee benefits premiums increased 5.9% to \$662 million from \$625.3 million last year.

In the third quarter, net income held almost even at \$30 million in 1987, compared with \$30.1 million in last year's third quarter.

Pretax operating income, however, slid 26.8% to \$18 million from \$24.6 million in the third quarter of 1986. Pretax operating income from UNUM's employee benefits business dipped 8.4% to \$20.8 million in this year's third quarter from \$22.7 million in the third quarter of 1986.

Third-quarter premium volume rose 1.2% to \$364.9 million from

\$360.4 million in 1986. However, employee benefits premiums fell 5.7% to \$213.2 million in this year's third quarter from \$218.9 million in the third quarter of 1986.

UNUM's third-quarter earnings include a one-time \$7 million after-tax charge related to a cost-containment program, including the elimination of jobs, that will save an estimated \$25 million annually. However, the effect of this charge on operating earnings was offset by a \$6.8 million non-recurring tax credit recorded by UNUM in the third quarter.

### Guaranty National

Guaranty National Corp. of Eng-

lewood, Colo., has increased its quarterly cash dividend on its common stock to 6.25 cents per share, payable Jan. 15 to shareholders of record Dec. 29. This is a 25% increase over the 5-cent dividend paid on Oct. 15.

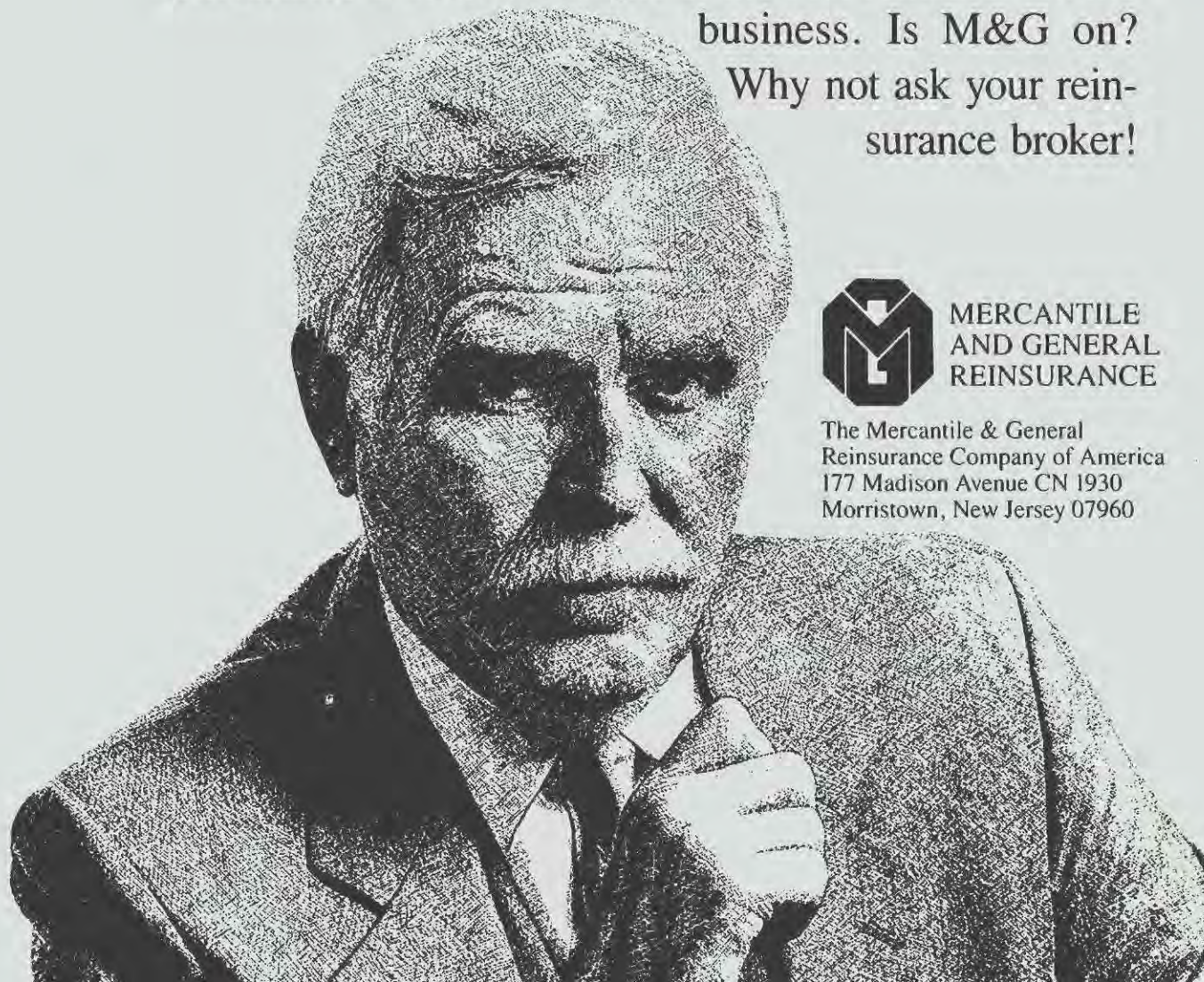
### Lincoln National

Fort Wayne, Ind.-based Lincoln National Corp. increased the quarterly cash dividend on its common shares 9.25% to 59 cents per share from 54 cents per share. Lincoln National has increased its dividend for five consecutive years.

The dividend on the common stock is payable Feb. 1 to shareholders of record Jan. 8.

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# Outpatient surgery top cost control: Survey

By KAREN HUELSMAN

Outpatient surgery and pre-admission certification were rated by corporate benefit managers as the most effective health care cost control measures, according to a recent survey.

In addition, the benefit managers responding to the survey by Erisco, a New York-based benefit software vendor, reported that health care costs increased 7.8% per employee in 1986, or only half as much as in 1985. The median health care cost per employee reported by the benefit managers responding to the survey was about \$1,850.

In addition, health care costs comprised about 8% of these employers' total labor costs in 1986, down from 10% in 1985.

Membership in health maintenance

organizations and preferred provider organizations, along with a drop in the number of hospital admissions and shorter hospital stays, were among the most common changes during 1986 in benefit programs reported by the self-administered corporations, according to the survey.

"Health care costs are leveling off because cost containment measures such as hospital pre-admission certification are beginning to have an impact," said Thomas J. Garvey, president of Erisco.

The benefit managers responding to the survey were among the users of Erisco's ClaimFacts, an integrated health-claims management system. Their companies represent 4.5 million insured employees in 1986 who generated 16 million medical claims.

The benefit managers ranked outpatient surgery as the most effective cost control feature in their plans, assigning it a value of 4.0 on a 5-point scale, with 1.0 being "not effective" and 5.0 being "very effective."

The next most effective cost-containment feature cited by the benefit managers was home health care, which received a score of 3.3.

Other cost control features and the effectiveness ratings assigned to them by benefit managers include:

- Changes in retiree health care plans, 3.2.
- Pre-admission testing, 3.0.
- Use of skilled nursing facilities, 3.0.
- Hospices, 3.0.
- Wellness programs, 3.0.
- Mandatory second surgical

opinions, 2.9.

- Voluntary second surgical opinions, 2.5.

The benefit managers reported that voluntary pre-admission certification programs were the most effective utilization control, with a score of 4.5. Interestingly enough, the respondents said that voluntary programs were more effective than mandatory pre-admission certification programs, which received a score of 4.2.

Other utilization controls and their scores include:

- Managed care programs, 4.0.
- Concurrent stay review, 3.8.
- Discharge planning, 3.8.
- Retrospective utilization review, 3.3.
- Comparative health care data review, 3.1.

The survey also quizzed benefit

managers about significant changes in their health care programs in 1986. According to the survey:

- 53% reported an increase in HMO/PPO membership among employees in 1986.
- 47% reported a decrease in hospital utilization in 1986.
- 41% reported a decrease in length of stay.
- 41% added an HMO or PPO option.
- 29% increased copayments or deductibles.
- 24% reported they added a pre-admission or admission certification program to their health care plan.
- 6% established a flexible benefits program.

Outpatient surgery was the most popular cost control adopted by employers, with 100% of the companies surveyed saying they had included this feature in the plans.

The survey also found that:

- 95% of the employers covered home health care.
- 80% covered hospice care.
- 75% had a pre-admission testing program.
- 70% provided coverage for care in a skilled nursing facility.
- 65% required mandatory second surgical opinions.
- 35% encouraged voluntary second surgical opinions.
- 30% had implemented a wellness program.
- 20% had changed their retiree health care plan.

In addition, 15% of the corporate respondents currently offer a flexible benefits plan and 20% plan to offer a flexible benefits plan in the near future.

Health maintenance organizations were offered by 70% of the employers surveyed, while preferred provider organizations were offered by 30%. In turn, 14% of the employers offering HMOs reported cost savings because of the program, while 67% of the employers offering PPO options reported cost savings.

Besides surveying employers, ERISCO also questioned group health insurers and health plan administrators.

Like employers, insurers ranked outpatient surgery as the most effective health care cost control measure, with a score of 4.0 on the 1-to-5 scale.

Other measures and their ratings include:

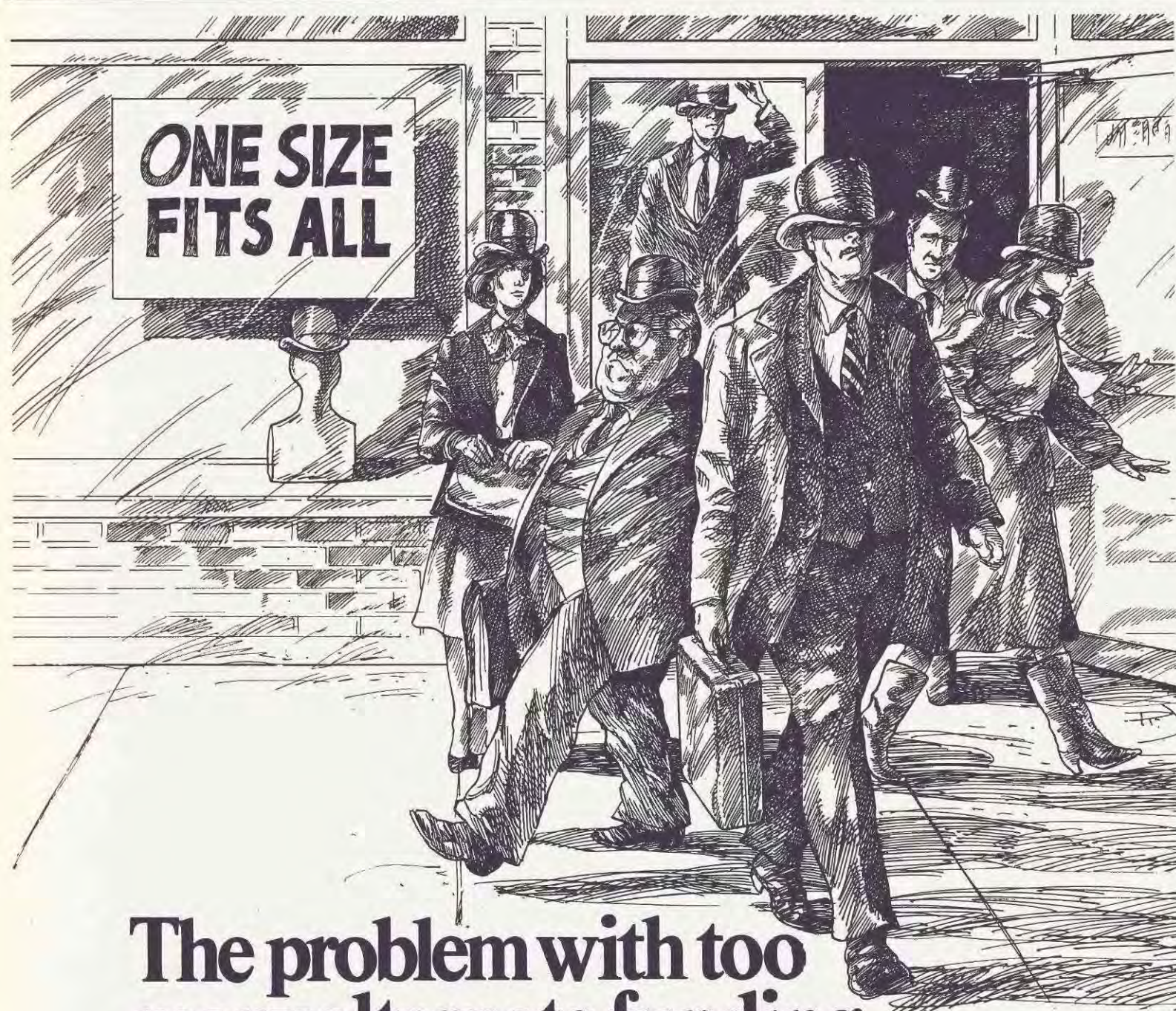
- Pre-admission testing, 3.4.
- Hospice care, 3.4.
- Home health care, 3.2.
- Wellness programs, 3.2.
- Changes in retiree health care plans, 3.2.
- Mandatory second surgical opinions, 3.1.
- Use of skilled nursing facilities, 2.8.
- Voluntary second surgical opinions, 2.1.

The administrators also rated outpatient surgery as the most effective health care cost control measure, but with a score of only 3.7.

Other cost control steps and the scores include:

- Changes in retiree health care plans, 3.5.
- Mandatory second surgical opinions, 3.4.
- Wellness programs, 3.4.
- Pre-admission testing, 3.0.
- Home health care, 3.0.
- Hospices, 2.9.
- Use of skilled nursing facilities, 2.5.
- Voluntary second surgical opinions, 2.3.

For a free copy of Erisco's 1987 Annual ClaimFacts Survey, contact Patricia Hildebrandt, 1700 Broadway, New York, N.Y. 10019; 212-765-8500.



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### Comings & goings: buyers

## M&M benefits director wins promotion to vp

**R. Byard Hires**, 43, has been re-elected a vp of Marsh & McLennan Cos. Inc. in New York. Mr. Hires, who also serves as director-employee benefits for M&M, oversees worldwide benefits for the world's largest insurance brokerage's more than 22,000 employees worldwide. He reports to Edward Cole, vp-personnel. Mr. Hires, who rejoined M&M's corporate personnel group in September as director-employee benefits, most recently served as director of human resources for Paine Webber Inc. in New York. Prior to that he was a vp of M&M from 1979 to 1984. Mr. Hires received a bachelor of arts degree from Bowdoin College in Brunswick, Maine, and a master of business administration degree from the Wharton Graduate School of Business in Philadelphia.

**John R. Rath** has been appointed director of insurance and risk management for the Archdiocese of Los Angeles. In this newly created position he oversees property/casualty insurance, employee benefits, claims, risk retention and loss control programs for the archdiocese, the largest Roman Catholic archdiocese in the United States. He reports to Jose Debasas, director-secretariat for finance and personnel services. Previously, Mr. Rath served 20 years with Hartford Insurance Group, most recently as senior litigation supervisor in Covino, Calif. He received a bachelor of arts degree in business administration from St. Norbert College in De Pere, Wis. Mr. Rath holds the Associate in Claims, Associate in Risk Management and Chartered Property & Casualty Underwriter designations. In addition, he is working toward the Chartered Life Underwriter designation. Mr. Rath is a member of the Los Angeles chapters of the Risk & Insurance Management Society and the Society of CPCU. He also serves as an instructor for the Insurance Educational Assn. of Southern California.

**Eugene Semon**, 41, has been named director of risk management at Triangle Publications Inc. in Radnor, Pa. In this newly created position he is responsible for property/casualty insurance and corporate programs in employee safety, property protection and environmental risk control. He reports to Russ Tredinnick, controller. Prior to joining Triangle, which publishes TV Guide, Daily Racing Form, Seventeen and other magazines and newspapers, Mr. Semon was an independent consultant. He holds a bachelor of science degree in chemical engineering from Manhattan College in Bronx, N.Y. In addition, he is a member of the American Society of Safety Engineers and is a Registered Professional Engineer.

**Florian J. Szmurlo**, 38, has been named assistant treasurer, risk management at The Ceco Corp. in Oak Brook, Ill. In this position he oversees Ceco's property/casualty insurance, as well as claims management. Ceco is involved in concrete construction services and manufactures construction products and hardware. Mr. Szmurlo replaces **Philip G. Spotts**, who left the company, and reports to George L. Faulstich Jr., senior vp and chief financial officer. Mr. Szmurlo, who joined Ceco in 1972, most recently served as manager, risk management. He received a bachelor of business ad-

ministration degree from Loyola University in Chicago. In addition, he holds the Associate in Risk Management designation and is working toward the Chartered Property & Casualty Underwriter designation.

*We'd like to report on staff changes in your company's risk management, safety or employee benefits department. Just drop a note to Paul Winston, assistant copy editor, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611-2590, or call 312-649-5442. Please send a photograph, too.*

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a lower co-insurance percentage. Both plans also include hospital and outpatient surgery "pre-certification" provisions, prescription drug card coverage, and a minimum of \$10,000 group life and AD&D insurance per employee.

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## ERAS suits

*Continued from page 1*

who is acting as coordinating counsel for the U.S. insurers. He is with the Southfield, Mich., law firm of Denenberg, Tuffley, Bocan, Jamieson, Black, Hopkins & Ewald.

Among the facility's fronting insurers were Hartford Steam Boiler Inspection & Insurance Co. of Hartford, Conn., and International Insurance Co., a Chicago-based subsidiary of Crum & Forster Inc.

The pool stopped writing on Jan. 1, 1984, because it could not find adequate reinsurance (*BI*, July 9, 1984). Most other insurers stopped writing EIL coverage over the next year, and only a few markets now write the coverage (*BI*, June 1).

Reported losses on the primary layer of the ERAS program already exceed \$70 million. The facility also wrote two excess layers beginning in 1980, but SCOR would not reveal incurred losses or estimated losses on the excess layers.

But, the facility's total premium income was less than \$40 million, \$16 million of which was generated in 1983 at the peak of the soft market, said Malcolm Aickin, the facility's former manager.

"The cleanup costs of the U.S. couldn't have been predicted in 1981-82," said Mr. Aickin, referring to the growing cost of cleaning up pollution in the United States. "Clearly, the (facility) is going to have a disastrous loss record, which is going to make people unhappy," added Mr. Aickin.

A former chemist, Mr. Aickin now works for London-based loss adjuster Toplis & Harding (UK) Ltd., which is owned by Lloyd's.

"Nobody knows what the total losses will be. This is very long-tail business, which will probably still be running off in the year 2010," said James McLaren, secretary for London-based St. Katherine Insurance Co. P.L.C., one of the retrocessionaires that is suing SCOR and Clarkson Puckle.

"All litigation will be vigorously defended," said a spokesman for Bain Clarkson Ltd., the new name of merged Lloyd's brokers Bain Dawes P.L.C. and Clarkson Puckle.

SCOR would not comment on specific charges by the plaintiffs. However it did say in a prepared statement: "In the light of worsening claims experience in the EIL program once fronted by SCOR, a small number of our retrocessionaires have recently expressed dissatisfaction at the disclosure made to them when they agreed to participate. We have yet to receive any detailed allegations, but it appears that to preserve their legal position, the retrocessionaires have started legal proceedings in the commercial court in London.

"The pool was managed by Clarkson/ERAS, who also bore the responsibility of underwriting and claims handling," the SCOR statement said.

In April 1987, "some problems related to the development of claims led SCOR to negotiate with Clarkson the transfer of the claims handling management (to SCOR), with the agreement of the main retrocessionaires," the statement said.

Claims management was transferred to SCOR for two main reasons according to observers: SCOR was dissatisfied with Clarkson Puckle, and management of the pool was hampering the merger negotiations between Bain Dawes and Clarkson Puckle.

The merger occurred April 4, the same month management of the pool's runoff was moved to SCOR.

The SCOR spokesman denied the decision to take over management of the runoff was related to the merger.

"SCOR's goal was to ensure that the most efficient system of coordination of the claims handling and

defense would be set up," he said in the statement.

The initial capacity offered by the facility was \$5 million per risk/\$10 million aggregate for a primary EIL insurance policy. In 1980, Clarkson established two excess layers to boost the facility's capacity to \$20 million, according to SCOR. These layers were:

- \$5 million excess of \$5 million, led in the London company market by SCOR, which took 15% to 20% of each risk. Robin A.G. Jackson, underwriter for Lloyd's syndicate 799, managed by Merrett Underwriting Agency Management Ltd., led the Lloyd's syndicates that participated on this layer.

- \$10 million excess of \$10 million, led by Bavarian Reinsurance Co. of Munich, West Germany, which took 25% to 30%, and Mr. Jackson in the Lloyd's market.

From 1977 through 1982, the pool's U.S. fronting insurers ceded 100% of their EIL risks in the primary layer to SCOR. SCOR re-

tained an average of 20% of each risk and retroceded 80%.

However, in 1983, Hartford Steam Boiler and International Insurance Co. each retained 7.5% of each risk, with the remaining 85% ceded to SCOR. SCOR then retained 15% of the risk, retroceding the remainder.

The primary layer already had paid losses of \$18.79 million by the end of June 1987, and outstanding losses, including insurers' expenses, totaled \$52.4 million, the SCOR statement said.

However, SCOR refused to comment on the total estimated losses.

In a lawsuit filed Nov. 6 in London's High Court, a group of SCOR's retrocessionaires—led by Cyril Warrilow, a former Lloyd's non-marine underwriter for syndicate 553—is suing SCOR, Clarkson Puckle Ltd. and 19 associated companies of Clarkson Puckle for unspecified damages.

Mr. Warrilow resigned from syndicate 553, managed by C.J.W.

(Underwriting Agencies) Ltd., in May following huge underwriting losses on North American liability business. The syndicate's business is now being run off (see story, page 30).

Other retrocessionaires that filed the suit include Lloyd's syndicates 231, managed jointly by Bolton Ingham (Agency) Ltd. and Janson Green Ltd.; syndicate 665, managed by R.D. Robertson Underwriting Agency Ltd.; non-marine syndicate 605, managed by Lambert Brothers (Underwriting Agencies) Ltd.; and syndicate 518, managed by Salter & Duthwaite (Underwriting Agencies) Ltd.

Syndicate 518 ceased underwriting on Jan. 1, 1986, and is being run off, said a Lloyd's spokeswoman.

The other plaintiffs are St. Katherine and CNA Reinsurance of London Ltd.

The retrocessionaires seek a declaration from SCOR that certain EIL reinsurance contracts written

between Dec. 31, 1980 and Jan. 1, 1983, have "been validly voided" or are "voidable by reason of material non-disclosure and/or misrepresentation" by SCOR.

The plaintiffs also seek unspecified damages for breach of SCOR's duty of good faith if they are held bound to the retrocessions.

In addition, the plaintiffs claim unspecified damages against Clarkson Puckle and associated companies for negligence, breach of fiduciary duty, breach of contract, misrepresentation and/or non-disclosure resulting from Clarkson's involvement with the EIL "insurance and reinsurance transactions."

Clive Boxer of Fishburn Boxer & Co., the lawyer acting for the plaintiffs, refused to comment, and Mr. Warrilow could not be reached for comment.

Mr. McLaren of St. Katherine confirmed the insurer "has taken protective action" but would not

*Continued on next page*

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Continued from previous page comment on the litigation.

Three other suits also were filed this summer by underwriters that participated on excess layers of the facility and by SCOR retrocessionaires against Clarkson Puckle subsidiaries and others.

On Aug. 6, Zurich Reinsurance Co. and subsidiary Alpina Reinsurance Co. together filed two suits against Bain Clarkson Ltd., Clarkson Puckle Ltd., 20 Clarkson affiliates, Howden Agencies Ltd. of New York and Alexander Howden Insurance Services Ltd. of New York.

Both suits seek unspecified damages, charging mismanagement. However, one suit lists six specific policies written by the facility.

Both Zurich and Alpina acted as SCOR's retrocessionaires and as underwriters on the excess layers of the facility from 1977 to 1984.

On the same day Zurich and Alpina filed their suit, Bavarian Re—under its German name Bayerische Ruckversicherung Aktiengesells-

chaft—sued the defendants. Bavarian Re led the second excess layer from 1980 to 1984.

Broker Alexander Howden of New York, a unit of Alexander & Alexander Services Inc., is named because it had "an underwriting agreement" with Clarkson Puckle, said a SCOR spokesman, who refused to be more specific. The former Alexander Howden Insurance Services in Atlanta was the U.S. manager for the program. An A&A spokesman refused to comment.

In each of the suits the underwriters are claiming damages for breach of contract, breach of duty and/or negligence in connection with the defendants' "management and/or administration of an environmental impairment liability reinsurance scheme covering United States business, in which the plaintiffs participated. . . ."

The underwriters in the three suits also are claiming unspecified damages for the defendants'

breach of duty and negligence in procuring, assessing, rating, determining the acceptance and/or terms of acceptance of EIL risks and/or writing the EIL coverage emanating from the United States.

During court hearings, the reinsurers intend to refer to particular policies the pool wrote for U.S. risks, according to the lawsuits.

These policies covered EIL risks of SmithKline Beckman Corp., Newmont Mining Corp., Rossmans Landfill Inc., Stauffer Chemical Co., Waste Management Inc. and Rohn & Haas Co., according to Zurich, Alpina and Bavarian Re.

All the policyholders contacted refused to comment. Rossmans Landfill could not be reached.

In a separate lawsuit filed in 1985 and amended on Sept. 13, 1987, Bavarian Re seeks \$2.9 million from Clarkson Puckle Overseas Ltd. and ERAS for a reinsurance claim it paid involving an EIL policy written for Dallas-based RSR Corp. and its associated

companies. The companies conduct business in the U.S. in lead recycling and associated activities.

Clarkson Puckle or ERAS "acted as the managers of a pool of reinsurers and operated a scheme for the provision of" EIL insurance, the suit says. Participants of the pool gave binding authorities to Clarkson to "take insurance underwriting decisions on their behalf and to commit them to reinsurance (amounting in total to 100%) of EIL risks placed with primary insurers," court papers say.

From about Sept. 19, 1980, Bavarian Re agreed to insure up to 25% of the second excess layer, which was increased to 30% at the beginning of 1981, the papers say.

On Sept. 4, 1981, Clarkson Puckle agreed to issue EIL insurance to RSR with per-claim limits of \$30 million and \$60 million aggregate, according to the suit.

Bavarian Re charges in the lawsuit that Clarkson Puckle:

- "Failed to pay any or suffi-

cient attention to the contents" of a report prepared by Environmental Risk Assessment Service (USA), and the "real risk revealed therein of claims against RSR."

• "Failed to pay any or sufficient attention to the nature of RSR's business; the inherent likelihood of substantial lead pollution claims arising; the particular history of RSR in relation to lead pollution as revealed" by the survey.

• Included an exclusion that "was wholly ineffective to give insurers or reinsurers any protection at all under a claims-made policy"

• Failed to ensure that the insurance was not retroactive, or, at the least, did not cover claims pending but not yet made or arising from known circumstances at the inception of the insurance.

• Failed to pay any or proper regard to the fact that EIL reinsurance represented "a potentially catastrophic exposure."

According to the lawsuit, since the policy was written, a "large number of claims have been made and legal actions have been commenced against RSR in respect of which RSR is entitled to be indemnified," and Bavarian Re has "incurred or (is) likely to incur (its) full reinsurance liability under the second excess layer."

Attorneys with Barlow, Lyde & Gilbert, acting for Bavarian Re, Zurich and Alpina Re, refused to comment on the case.

Spokesmen for Bavarian Re and Zurich would not comment.

Oliver Kinsey, an attorney with Simmons & Simmons who is representing Bain Clarkson, also refused to comment.

In another lawsuit, filed Aug. 14, Mr. Jackson—the Lloyd's underwriter who participated in the facility's excess layers and as a SCOR retrocessionaire—seeks unspecified damages on behalf of himself, members of 20 Lloyd's syndicates and seven reinsurance companies against Clarkson Puckle Ltd., 17 Clarkson affiliates, Howden Agencies Ltd. of New Jersey, Alexander Howden Insurance Services of New York, and the London Agency Inc. of Atlanta, Georgia. The London Agency is a Crum & Forster Corp. unit.

In the lawsuit, which Mr. Kinsey, the Bain Clarkson attorney, says has not been served, the plaintiffs are claiming damages for breach of contract, breach of fiduciary duty and negligence and a seek a declaration of the defendants' liability.

Other plaintiffs in the lawsuit include The Dominion Insurance Co. Ltd. of London; Hannover Reinsurance Co. of Hannover, West Germany; Forsakrings A.B. Skandia of Stockholm, Sweden; Skandia International Insurance Corp. of Stockholm; Insurance Co. of North America (UK) Ltd. of London; Royal Belge Societe Anonyme D'Assurance of Brussels, Belgium; and the People's Insurance Company of China of Peking.

Meanwhile, the U.S. insurers that fronted the facility and are paying policyholders' claims are recovering reinsurance written through the facility, said Mr. Denenberg, counsel for the U.S. insurers. "Any claim paid by the lead company is paid by SCOR. I don't know of any litigation between SCOR and IIC," for example, he said.

Although there is "considerable litigation" between policyholders and the U.S. insurers, the insurers' refusal to pay claims in those cases is not in any way related to the reinsurance disputes, he said.

Policyholders' "claims are being disputed not because of retrocessionaires' unwillingness to pay. All claims are being paid as if they are rightfully due," he said.

Mr. Denenberg refused to comment specifically on the litigation in the United States, but predicted that it will "take place for many years as many claims will not occur for years."



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**Aviation rates***Continued from page 3*

The liability loss from the disaster is expected to be substantial, as the passengers included 47 Japanese and several western Europeans, sources say. Traditionally, Japanese and European passenger compensation has been substantially more than for all other nationalities except Americans.

Meanwhile, last week, reports suggested that the disappearance of the KAL jetliner may have been caused by sabotage.

The only two passengers to leave the plane during a stopover in Bahrain were carrying false Japanese passports and swallowed poison capsules during interrogation by Bahrain security forces. One of the passengers, a 69-year-old man, died two hours after taking the poison, while his 27-year-old female companion was hospitalized.

The KAL jetliner with 115 people on board disappeared en route

from Baghdad to Seoul, South Korea, on Nov. 29. Reports say the wreckage lies in a jungle close to the Thai-Burmese border.

Reports say the plane, which was purchased from Boeing Co. in 1971, has had mechanical problems for the past 10 years, including two crash landings, one of which occurred in September.

The majority of KAL's hull and liability reinsurance is written in the London market, confirmed a spokesman from Willis Faber. Lloyd's broker Stewart Wrightson Aviation Ltd., now part of Willis Faber, placed the reinsurance on behalf of Korean insurance company Oriental Fire & Marine Insurance Co. Ltd., he confirmed.

However, the spokesman would not comment on the policy details.

London aviation underwriters, however, say that the hull all-risks and liability reinsurance is led in London by Orion Insurance Co. P.L.C., while the hull war risk coverage is led by Mr. Coleman, the Lloyd's aviation underwriter.

If authorities conclude that the crash was caused by sabotage, hull war risk underwriters would pay for the \$4.8 million aircraft.

KAL has agreed to pay compensation of 80,000 pounds (\$144,960 at current exchange rates) for each passenger, reports say.

As a result of the last two losses, 1987 may become one of the worst years of this decade for Western aviation, according to statistics from Aviation Information Services Ltd. in London.

Altogether, 553 passengers have been killed this year on Western airline flights, making it the fourth-worst year for aviation deaths this decade. A total of 1,500 passengers were killed in 1985; 1,000 in 1983; and 744 in 1980. Last year, 410 passengers were killed in aviation accidents.

In addition, 1987 already is the third-worst year for the insured cost of total hull losses and serious partial hull losses since 1980, the statistics show.

So far this year, 18 jets have suffered total or partial losses costing insurers \$340 million, which is double the \$170 million in losses paid by hull insurers last year and nearing the record \$500 million in 1985 and \$400 million in 1983.

However, brokers and underwriters to which *Business Insurance* spoke agreed that the two disasters will not stall plummeting aviation rates.

"The crashes will have no effect on rates, even though the South African plane is a major loss. The Korean jet was an old plane that was due to be phased out anyway," said Lloyd's aviation underwriter Rodney Morse.

Aviation hull and liability rates have been dropping since April 1, when airlines began to receive 20% to 30% reductions (*BI*, April 20). Since then, airlines have received hull rate reductions of up to 60%.

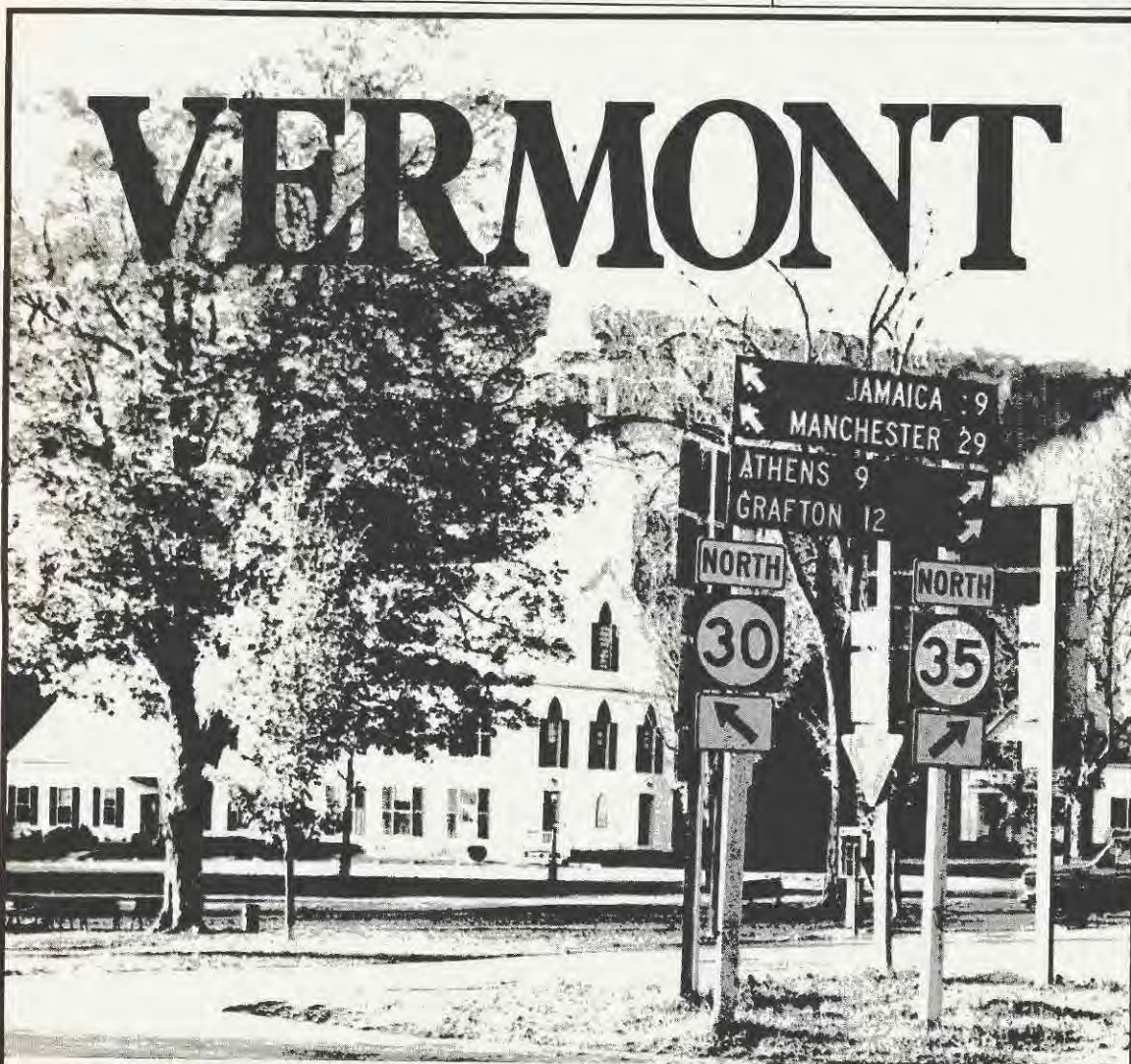
"From what underwriters have told us, I don't think (the crashes) will have any effect on rates. Underwriters have agreed to give similar reductions to airlines renewing in the next few months," noted one London broker.

"I don't think two losses of this nature will have any effect in drying up capacity by themselves," agreed Mr. Coleman.

Losses have been average so far this year, he said. "We would need two or three major losses to see any change in direction in rates."

London broker Russell Pickup, director of Bowring Aviation Ltd., agreed.

"At the moment, the airline market is still profitable overall, and 1987 is still a good year as far as losses are concerned," he said. ■

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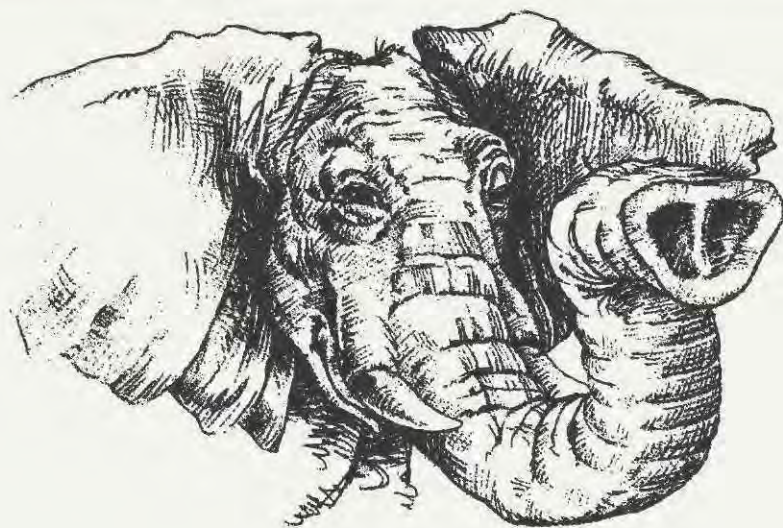
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# Maryland companies launch new flex plan

Four Maryland companies have joined together to offer Spectraflex, a pre-packaged flexible benefit plan administered by Blue Cross/Blue Shield of Maryland.

Beginning in the first quarter of 1988, Spectraflex will be available to Maryland employers with as few as 50 employees.

Under the program, BC/BS underwrites medical and dental benefits; Baltimore Life Insurance Co. underwrites life insurance benefits; Fidelity & Guaranty Life Insurance Co., a subsidiary of USF&G Corp., underwrites accidental death and dismemberment benefit; and T. Rowe Price Associates Inc. administers a 401(k) salary reduction plan.

In addition, Spectraflex offers flexible spending accounts for health and dependent care services. With an FSA, an employee can deduct up to \$5,000 before taxes to pay for dependent child-care or up to \$5,000 to pay for medical expenses not normally covered by the benefit plan.

With Spectraflex, an employer gives each employee benefit credits. These credits may be used to purchase a variety of benefits offered by the four participating companies.

Should an employee desire additional benefits beyond what can be purchased with his benefit credits, he may use pretax payroll deductions to buy more coverage. Excess credits may be traded for taxable income.

Medical options under the plan include five BC/BS of Maryland health care programs including the Columbia-FreeState Health System, a health maintenance organization.

Employees also can choose between various levels of term or universal life insurance coverage provided by Baltimore Life.

Fidelity & Guaranty Life will offer various levels of AD&D coverage as well as various levels of long- and short-term disability coverage.

"Spectraflex combines the resources of four highly regarded companies in response to the changing needs of Maryland's workforce," said Carl J. Sardegna, president of BC/BS of Maryland.

BC/BS of Maryland will administer all Spectraflex accounts, and assign an account service coordinator to assist with administration and communication.

For more information contact Ken Arruda, P.O. Box A, Timonium, Md. 21093; 301-561-7547.

## COBRA software

"Mongoose," a menu-driven computer software system that enables employers to comply with the health care continuation provisions of the Consolidated Omnibus Budget Reconciliation Act, is being introduced by Langendorf Leasing of Northfield, Ill.

The software provides businesses with pre-prepared correspondence and payment statements covering all COBRA compliance requirements.

Monthly invoices and benefit termination statements are produced automatically.

The Mongoose program runs on IBM PC and PC-compatible personal computers with 512K of random access memory and either two floppy disk drives or one floppy and one hard disk drive.

A personalized Mongoose control and command disk costs \$249.95, plus \$5 shipping and handling. Additional personalized disks and manuals are available for \$25.

For more information contact, A.I.M.M.M. Inc., P.O. Box 8148, Northfield, Ill. 60093.; 312-441-6951.

## Products & services

### Arbitrators cover

Professional liability insurance covering defense costs and judgments is now available to arbitrators and mediators through Complete Equity Markets Inc., a Chicago-area specialty insurance broker.

"With more and more people being sued everyday, no professional can really feel safe without some insurance protection to fall back on," according to the company's announcement of the new product. "Arbitrators and mediators are no exception."

"Previous claims involving arbitrators have sought to vacate their

awards. However, if they unintentionally miss a session or hearing, break a code of confidentiality, are accused of misconduct or fail to disclose a possible conflict of interest, couldn't arbitrators... be fair game for a lawsuit?"

The coverage, written on a claims-made basis by Lloyd's of London underwriters, is available nationwide, according to a company spokeswoman. Standard limits are \$100,000 per claim/\$300,000 aggregate, with a minimum per-claim deductible of \$500. Optional higher limits of \$250,000/\$500,000 are available. Premiums range from \$200 to \$450 per year.

For more information, contact

Gracine Huffnagle at Complete Equity Markets Inc., 1098 S. Milwaukee Ave., Wheeling, Ill. 60090; 312-541-0900 in Illinois; 800-323-6234 elsewhere.

### Computer security

The Computer Security Institute has published its revised 1987 edition of the "Computer Security Handbook."

The 500-page looseleaf volume on electronic data processing security contains sections on:

- Computer security in perspective, including information on computer crime, users' responsibility and data protection.

- Communications and network security, including information on security of "open" systems, a primer on encryption and commu-

nications security equipment.

- Protecting the data center, including EDP fire protection, the effects of electrical power variation and static electricity.

- Software management.

- Auditing, including EDP audit guidelines and the role of the internal auditor.

- Managing EDP security, including selling security to management, risk analysis products, security reviews and computer security awareness techniques.

- Disaster recovery planning, including how to decide on a backup site, disaster recovery plan checklists and data processing insurance.

The handbook costs \$87 for Computer Security Institute members and \$95 for non-members.

*Continued on next page*



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## Products & services

Continued from page 53

The CSI also publishes "Computer Security Journal," a periodical published twice a year that serves as a forum for new ideas and useful information about current security products and practices.

The journal is designed for data processing security officers, corporate managers, data processing department personnel and risk managers concerned about the security of information in the organization.

An annual subscription to the journal is \$60 for CSI members and \$65 for non-members.

In addition, both the handbook and the journal are available for \$140 for CSI members and \$150 for non-members.

For more information contact Computer Security Institute, 360 Church St., Northborough, Mass. 01532; 617-393-2600.

### Protective clothing

ITS Corp. has released a new training video titled "We've Got You Covered: Chemical Protective Clothing."

The 16-minute presentation is designed to provide hourly employees with an understanding of the importance of wearing and maintaining protective clothing.

The program begins with an explanation of how the skin protects the body from foreign or hazardous materials. It then gives instructions on how to use, remove, maintain, decontaminate and store chemical protective clothing.

The video also discusses the potential for heat stress while wearing protective clothing and how to avoid this trauma, as well as what to do if overheating does occur.

The package includes a comprehensive leader's guide with review topics and a reproducible quiz. The video costs \$460.

For more information contact Angela Loundes, Industrial Training Systems Corp., 20 W. Stow Road, Marlton, N.J. 08053; 609-983-7300 or 800-727-2487.

### Wholesaler coverage

A new underwriting program from Atlantic Mutual Cos. in New York provides property, liability, business income and crime coverages to U.S. wholesalers.

The insurance program provides coverage to businesses primarily involved in selling merchandise to retailers; or to other wholesalers, including industrial, commercial, institutional, farm or professional business users.

Businesses that are eligible for the coverage range from distributors of meats and other foods to marketers of industrial machinery and equipment to importers and exporters of a variety of goods.

"This policy is unique in that it includes as standard provisions many coverages, including property off-premises and property in transit protection, that wholesalers find crucial but previously had to purchase separately," explained John Gubernat, vp of Atlantic Mutual's commercial lines division.

The wholesalers policy provides limits of up to \$25,000 for property off-premises, which includes a wholesaler's property that is stored away from a scheduled business premises.

Coverage for property in transit, including goods transported to and from storage facilities or property en route to or from a place of purchase or sale, is subject to \$10,000 limits.

The program is available at a minimum premium of \$5,000 with a \$250 or higher per-occurrence deductible for the property coverage. No deductibles are applied on the liability portion of the program.

In addition, policyholders are eligible to receive a dividend from the insurer based on the experience of the industry group to which they belong.

For more information, contact a market center manager for the Atlantic Mutual Cos.

### Benefit communication

The Institute for Management, a division of Panel Publishers Inc., has released the 1987 edition of "Communicating Employee Benefits."

The spiral-bound publication includes 10 communications ideas and strategies intended to help readers ensure that top management has the information it needs to make benefit decisions and to ensure that employees are properly informed about their benefits.

The discussion of each strategy offers in-depth analysis of a particular communication issue or problem and provides step-by-step guidance to maintain and improve effective communication.

The 10 issues and strategies are:

- Compensation: What do employers really need to communicate?

- The 10 worst and 10 best investments for organizational communication.

- Using summary plan descriptions for more efficient employee communication.

- The unique nature of flexible benefit plan communication.

- Reduction of medical benefits for retired employees.

- Behavior change as a key to cost containment.

- A computer-based interactive communication system.

- Strategic planning for employee benefits.

- Changing pay philosophy: Pay for performance or performance

planning?

- Personnel manuals as involuntary contracts.

The manual costs \$45. If not satisfied, the book can be returned within 30 days for a full refund.

For more information, contact Institute for Management, 14 Plaza Road, Greenvale, N.Y. 11548.

### Asbestos coverage

Morefar Marketing Inc. has increased the available aggregate limits of its asbestos abatement insurance program to \$5 million from \$1 million.

In addition, rates are now based on each contractor's annual gross receipts for asbestos removal, according to a spokesman for the Bala Cynwyd, Pa.-based subsidiary of American International Group Inc.

Also, a simplified "Specific Project Application" is now in use to make the application process easier for projects valued at less

than \$100,000, the Morefar spokesman explained.

The program, which is available to contractors with at least \$700,000 in annual asbestos removal receipts, is underwritten by National Union Fire Insurance Co. of Pittsburgh, Pa., an AIG unit. Premiums vary, based on the amount of gross receipts, and a \$1,000 property damage deductible is required.

The coverage is written on a claims-made basis, and an extended reporting form is automatically included in the premium for one year unless the policy is canceled for non-payment.

The coverage is available in all states except Florida, Texas and Virginia.

For further information on the improved asbestos abatement program, contact John Foerster, vp-communications, Morefar Marketing Inc., 100 Presidential Blvd., Bala Cynwyd, Pa. 19004-1247; 215-667-7528.

### CertiFacts—The Comprehensive Utilization Review System

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CertiFacts from Erisco can maximize the cost-containment potential of preadmission certification and utilization review. This fully automated, online system draws upon Erisco's 15 years of experience developing advanced computer systems software for employee benefits. CertiFacts integrates with ClaimFacts, the health claims management system from Erisco, to provide the vital link for claims adjudication, utilization reporting and cost analyses.

Here's a typical situation—an employee's wife is expecting a baby. You'll see the benefits of CertiFacts before, during and after hospitalization.

## before

Thanks to CertiFacts' online, single-screen processing, everything moves smoothly, starting with the employee's first call to his preadmission review service. The system verifies employee eligibility by checking plan provisions in the ClaimFacts database. CertiFacts records the physician's plan for the anticipated normal delivery. Should the physician indicate an alternate treatment plan, it would be

reviewed online using objective criteria developed for CertiFacts by board-certified specialists.

At every point CertiFacts promotes personal communication among the reviewer, the employee and the physician's office. This includes agreement on the level of care, the treatment plan, when admission should occur and length of stay.

## during

When a medical problem results in a Caesarean section, instead of the planned delivery, CertiFacts takes the changes in stride. The physician contacts the review service to extend the wife's length of stay, and to revise the treatment plan.

CertiFacts automatically keeps an online diary that tracks the case from its onset. It flags and confirms significant dates for the reviewer, including admis-



# HMO enrollment jumps 20.7%: Interstudy

By JERRY GEISEL

EXCELSIOR, Minn.—Enrollment in health maintenance organizations is increasing by more than 20% annually, according to a research group.

Between June 1986 and June 1987, HMO enrollment increased to 28.6 million from 23.7 million, a 20.7% increase.

And, during the first six months of 1987, HMO enrollment increased 10.9% from 25.8 million at year-end 1986, a 10.9% rise.

During the first six months, the number of HMOs climbed to 662, up from 626, an increase of 5.8%, according to InterStudy, a research organization in Excelsior, Minn.

The rate of increase in the number of HMOs may be easing because of high costs and a change in market strategy, InterStudy theorizes.

"It is possible that the high costs associated with starting new plans have resulted in the industry moving away from HMO

start-ups and toward the purchase or affiliation with existing plans in areas where expansion is desired," InterStudy said.

According to InterStudy, membership is concentrated in large HMOs. For example, while just 62 of the 662 HMOs have more than 100,000 members, those jumbo plans have 15.2 million members, or 53.1% of total HMO enrollment.

By contrast, while the 325 HMOs with fewer than 15,000 members comprise almost half of all HMOs, those small HMOs have an enrollment of 1.8 million, or just 6.3% of total HMO enrollment.

California continues to have the highest HMO enrollment, 7.1 million, and the most HMOs, 49. Other states with more than 1 million people enrolled in HMOs include: New York, 2 million people enrolled in 31 HMOs; Illinois, 1.5 million in 34 plans; Michigan, 1.4 million in 24 plans; Ohio, 1.2 million in 41 plans; Massachusetts, 1.1 million in 19 plans; Wisconsin, 1.1 million in 29

plans; Florida, 1.1 million in 46 plans; and Texas, 1 million in 34 plans.

Other survey results include:

• Enrollment in for-profit HMOs is increasing at a much faster rate than enrollment in not-for-profit plans. During the first six months of this year, enrollment in for-profit HMOs climbed 20.4%, compared with a 4.1% increase in not-for-profit enrollment.

However, more people—15.6 million—belong to not-for-profit HMOs than for-profit HMOs, which have 12.9 million members.

• Enrollment in non-federally qualified HMOs increased 14.7% during the first six months of the year, compared with a 10.3% increase for non-federally qualified HMOs.

However, enrollment still is concentrated in federally qualified HMOs. According to InterStudy, 22.8 million people, or 79.7% of all HMO members, were members of federally qualified HMOs, compared with the 5.8 million people enrolled in non-federally qualified HMOs.

• Almost half of HMO members are covered by plans that are at least 10 years old.

However, younger plans, perhaps because of their smaller base, grew faster than older plans during the first six months of the year.

For example, enrollment in plans that were between 1 and 2 years old climbed 24.9% to 4.1 million, while enrollment in plans that were between 3 and 5 years old rose 24% to 4.5 million.

On the other hand, enrollment in HMOs between 6 and 9 years old increased 11% to 5.5 million, while enrollment in HMOs more than 10 years old rose 8% to 14.1 million.

The growth in HMOs is reported in the fall issue of "The InterStudy Edge," published quarterly by InterStudy's Center for Managed Care Research. Annual subscription cost is \$140, and individual issues are available for \$40. Contact InterStudy, 5715 Christmas Lake Road, P.O. Box 458, Excelsior, Minn. 55331-0458; 612-474-1176.

## & after

sion, continued stay review and discharge. It monitors the treatment plan and the appropriateness of any revisions. And, by alerting the physician and reviewer to agreed-upon dates and treatments, it contributes to cost management.

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**For more information.**

To learn more about CertiFacts or other Erisco benefits software, call or write the Sales Department at Erisco, 1700 Broadway, N.Y., NY 10019, (212) 765-8500.

  
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## Datebook

**DEC. 9-11. Effective Management and Direction of Malpractice Insurers and Trusts** seminar in Atlanta, sponsored by Tillinghast, a division of Towers, Perrin, Forster & Crosby; \$725. Pat Kelley, Tillinghast, 404-365-1696.

**DEC. 9-11. Managed Care Change and Diversification: HMOs, PPOs and Beyond** conference in Chicago, sponsored by the National Health Lawyers Assn.; \$400 for NHLA members; \$450 for non-members. Program Division, the National Health Lawyers Assn., 522 21st St. N.W., Suite 120, Washington, D.C. 20006; 202-833-1100.

**DEC. 9-11. Techniques of Risk Management** course in Chicago, sponsored by the Risk & Insurance Management Society Inc.; \$540 for RIMS members; \$640 for non-members. Fran Jordan, Risk & Insurance Management Society Inc., 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

**DEC. 10. Reinsurance Workshop** in Philadelphia, sponsored by the Insurance Society of Philadelphia; \$100 for society members; \$125 for non-members. The Insurance Society, 737 Public Ledger Building, Philadelphia, Pa. 19106.

**DEC. 10. Section 89: New Legislation, New Requirements** seminar in Chicago, sponsored by Charles D. Spencer & Associates Inc.; \$200. Charles D. Spencer & Associates Inc., 222 W. Adams St., Chicago, Ill. 60606; 312-236-2615.

**DEC. 10. Assessing Vendors (HMOs, PPOs, Utilization Review Firms, etc.)** workshop in Chicago, sponsored by the Health Research Institute; \$250. Health Research Institute, 1600 S. Main Plaza, Suite 170, Walnut Creek, Calif. 94596; 415-676-2320.

**DEC. 10. Cost Containment Through Communications and Education** workshop in Chicago, sponsored by the Health Research Institute; \$250. Health Research Institute, 1600 S. Main Plaza, Suite 170, Walnut Creek, Calif. 94596; 415-676-2320.

**DEC. 10. Employee Benefit Plans in Mergers and Acquisitions** satellite seminar sponsored by the American Bar Assn., to be broadcast in: Alabama, Arizona, California, Colorado, Connecticut, Delaware, District of Columbia, Florida, Georgia, Hawaii, Illinois, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Mississippi, Missouri, Nevada, New Mexico, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, Texas, Virginia, Washington and Wisconsin; \$135; \$85 for government employees; \$65 for law students. American Bar Assn. Division for Professional Education, Department 21 ALN, 750 N. Lake Shore Drive, Chicago, Ill. 60611; 312-988-6200.

**DEC. 10. Building Defenses Against Errors and Omissions Claims for the Professional Insurance Producer, Professional Risk Consultant and Staff** workshop in Baltimore, sponsored by the Society of Chartered Property & Casualty Underwriters; \$125 for Society of

CPCU members; \$155 for non-members. Also Dec. 15 in Cincinnati. Bonnie Kinsley, Society of Chartered Property & Casualty Underwriters, Kahler Hall, 720 Providence Road, CB#9, Malvern, Pa. 19355; 215-251-2735.

**DEC. 10-11. Recovering Uncollectible Reinsurance** conference in Los Angeles, sponsored by Executive Enterprises Inc.; \$875; \$775 for additional registrants from same organization. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-223-0787; 800-831-8333 within New York.

**DEC. 14. Pollution Update: Insurance Liability and Regulations** workshop in Boston, sponsored by the Society of Chartered Property & Casualty Underwriters; \$130 for Society of CPCU members; \$160 for non-members. Also Feb. 18 in New York City. Mari Jennings, Society of Chartered Property & Casualty Underwriters, Kahler Hall, 720 Providence Road, CB#9, Malvern, Pa. 19355; 215-251-2735.

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

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

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

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

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

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

**JAN. 25-26. Hawaii-The U.S. Offshore Alternative** conference, sponsored by the state of Hawaii, organized by Tillinghast, a division of

Towers, Perrin, Forster & Crosby; \$50 for Jan. 25 captives briefing; \$300 for conference. Conference Director, Tillinghast, 722 Post Road, Darien, Conn. 06820; 714-553-1277.

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

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

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

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

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

**FEB. 1-3. 16th Annual Professional Development Course** in College Station, Texas, cosponsored by Region III of the American Society of Safety Engineers and the Texas sections of the American Industrial Hygiene Assn.; \$100. Ken Coughran, 512-853-0171.

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

**FEB. 11-12. Back Injury Prevention** course in Los Angeles, sponsored by the Institute of Safety and Systems Management, University of Southern California; \$280. Institute of Safety and Systems Management, University of Southern California, 3500 S. Figueroa St., Suite 202, Los Angeles, Calif. 90007; 213-743-6523.

**FEB. 18. Pollution Update-Insurance, Liability & Regulations** workshop in New York City, sponsored by the Society of Chartered Property & Casualty Underwriter; \$145 for Society of CPCU members; \$165 for non-members. Mari Jennings, Professional Services Coordinator, Society of CPCU, Kahler Hall, 720 Providence Road, CB#9, Malvern, Pa. 19355; 215-251-2741.

The Datebook is compiled from notices sent to Business Insurance. Notices should be sent at least eight weeks in advance to Datebook, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611-2590. Please include the price, if any, of the meeting and information on registration for interested readers. Business Insurance reserves the right to select meetings of most interest to its readers and cannot guarantee that notices will be printed.

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Continued from previous page  
conference decision to exclude  
Section 10102 of H.R. 3545 from an

bill, we believe there was some  
confusion as to the \$500 "Cash Cap  
Option Under Cafeteria Plans"

how helpful this plan is to those  
employees, as it allows them a ben-  
efit that supports their individual

plans could contribute toward un-  
covered benefit expenses. This cap  
plan would impose taxes on em-

makes a small company an attrac-  
tive place to work, which reduces  
employee turnover. These plans

## Flex plan cap reaction

Continued from page 1

employers and consultants have written to members and staffers on Capitol Hill protesting the \$500 limit.

Already those letters are beginning to have an impact, Mr. Feltman says.

"The visibility of the issue and flexible benefit plans has been raised. You don't have to explain what a flexible benefit plan is," he says.

And, at least one member of the House Ways and Means Committee—Rep. Bill Archer, R-Texas, is publicly declaring his opposition to the \$500 flexible benefit plan limit.

"The (House budget reconciliation) bill does make substantial and, I believe, negative changes affecting cafeteria plans. In my opinion, there is no justification for this type of restriction on a valuable means of making employee benefits more cost effective and responsive to individuals' needs," said Rep. Archer, who is likely to be a member of the conference committee deciding the provision's fate.

In their letters to Capitol Hill, employers and others say that the \$500 cap on salary reduction is inadequate for employees to fund—in a tax-effective way—medical expenses and child care.

The cap "is too low for companies to put in these plans or for employees to effectively utilize them. This would be especially true in the areas of child and dependent care, which are two of the larger social problems facing the employees of today," Roy E. Leet, director of benefits at Ameritech Inc. in Chicago said in his letter.

"The limit effectively eliminates salary reduction for dependent care expenses," said J. Douglas Wert, director of employee benefits, and Kay A. Yanachek, manager of benefit planning and analysis, at Kraft Inc. in Skokie, Ill.

"Removing dependent care expenses from a cafeteria plan removes one of the few meaningful and cost-effective ways that the government can support day care," Kraft's Mr. Wert and Ms. Yanachek added.

"The proposed limitation of \$500 in available benefits is insufficient even to cover family medical insurance premiums that most families pay personally. Deductibles and coinsurance requirements for the average family easily bring the total health expenses to \$2,000 or more per year. A \$500 limitation will virtually eliminate the viability of many employer plans," said M. Bruce Malone, a consultant with Hunt, DuPree, Rhine & Associates Inc. in Greenville, S.C.

"The United States falls behind other industrialized nations in providing support for dependent day care," said Herbert E. Walker, vp-compensation and benefits at Baxter Healthcare Corp. in Deerfield, Ill. "Baxter's dependent day care reimbursement account allows employees to reimburse themselves for these expenses in a tax-effective manner."

"Cafeteria plans currently enable an employee to pay for a portion of necessary dependent care expenses

on a tax-favored basis using both employer provided flexible credits and salary reduction dollars. The imposition of a cap will severely reduce the future growth of this benefit at the very time a national consensus is forming that both government and business need to do more—not less—to assist working parents with necessary child care expenses," said a letter from New York-based Buck Consultants Inc. cosigned by John Haslinger, director of flexible benefit consulting services and Frederick Rumack, director of taxes and legal services.

Some employers set to start flexible benefit programs said the cap might force them to reconsider.

"To date, we have already invested considerable time and money toward the systems and communications required for start-up. But with the potential of a \$500 cap per employee, we are now faced with evaluating whether further expenditures on our part are justified in light of the greatly reduced benefit contemplated for employees," said Carolyn Hayes in the benefits planning department of Owens-Illinois Inc. in Toledo, Ohio.

Some employers and consultants said flexible benefit plans give employees strong financial incentives to choose the benefit options that meet their needs.

For example, in many plans, employees are given "flex dollars" or "flex credits" to buy different benefit options, which are assigned a monetary value. To the extent that the employee does not use all the flex dollars or credits, the balance can be collected in cash.

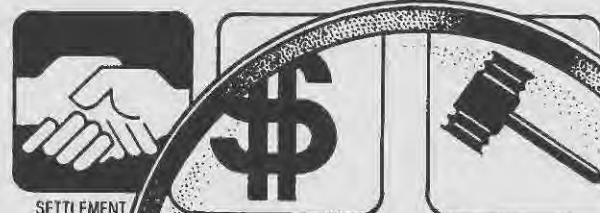
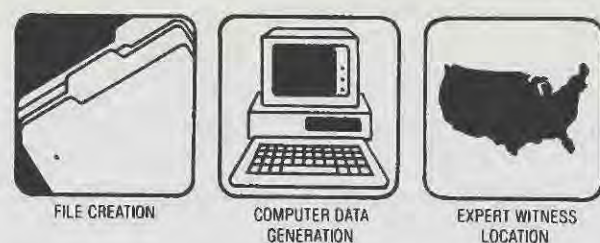
"Volvo last year introduced a carefully designed flexible benefits plan for the purpose of giving our employees the option to select only the benefits that they need in their current situation and not, as in the past, whatever the standard plan offered. The plan also encourages employees to become cost-conscious consumers of benefits, and we have found the tendency is to opt for lower option medical plans than what was previously offered under our standard plan," Bjorn Ahlstrom, president and chief executive officer of Volvo North America Corp. in Rockleigh, N.J., said in a letter.

"As a result of the introduction of flexible benefits, we no longer have to force employees to take redundant and/or unwanted benefits. They now have the option to take the amount that they do not need to purchase benefits with and add it to their paychecks as taxable cash," Mr. Ahlstrom's letter added.

"Beyond their vast benefits to employees and particular value to women, cafeteria plans help contain costs by eliminating benefit redundancies and providing incentives for employees to take excessive coverages," said Rian M. Yaffe, president of Yaffe & Co. Inc. in Baltimore.

"Frito-Lay has carefully designed our cafeteria plan to encourage medical cost containment. The success of our plan depends on providing an adequate cash incentive to employees who elect low-option medical insurance," said Michael H. Jordan, president and CEO

Continued on next page



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Any claimant who fails to file his claim with the Commissioners on an official Proof of Claim Form by December 31, 1987 will be forever barred from participating in any distribution of Transit assets. Claim forms may be obtained by writing:

The Commissioners of Claims  
Transit Casualty Company in Liquidation  
P.O. Box 815  
Jefferson City, Missouri 65102

## Howden edict

*Continued from page 2*  
the brokerage's C.T. Bowring & Co. Ltd. subsidiary, he said.

Briarcliff Manor, N.Y.-based Frank B. Hall & Co. Inc. has an informal policy of placing its London business through its subsidiary, Leslie & Godwin P.L.C., according to Peter T. Pruitt, president and chief operating officer. "It's been an understanding for five years," he said, estimating that 85% of Hall's London business is with Leslie & Godwin.

"It's not an absolute rule. . . We still do business with some specialty brokers outside of that, but if there is an exception, the broker has to explain why to the regional manager," Mr. Pruitt added.

However, New York-based Fred S. James does not have a formal or informal policy instructing brokers to place business only with its parent Sedgwick Group P.L.C. in London, said James Senior Vp and Director Geoffrey W. Kennedy.

He explained: "We are very adamant that our brokers use the facility where our client is best served. We have a very good relationship with Sedgwick but we also work with other London brokers and we have no mandate of any sort."

"We represent our North American clients, not our London broker," Mr. Kennedy added. "There are specialty facilities that non-Sedgwick brokers can offer that we might not be able" to access through Sedgwick, he added. He said that James was not prepared to release percentages on how much of its business is placed through Sedgwick in London, but "a significant amount is placed both within and outside of the group."

George W. Brown, chief operat-

ing officer of Jardine Emmett & Chandler Inc., which is an affiliate of Jardine Insurance Brokers (U.K.), said: "We have no absolute rule on where our business is placed in the London market, provided, of course, it is through a qualified correspondent, which may include our own affiliate."

Among the reasons cited by Mr. White for A&A's decision to funnel all business through Howden are:

- The current turmoil in the London brokerage community. Over the past months, many brokerage executives have jumped from one company to another, taking their accounts with them.

This movement has made A&A executives "uncomfortable with having our business tied to an individual instead of the organization," Mr. White said.

"We have seen whole teams move—some are now with their third brokerage in less than 12 months. . . The only way to handle that situation is to place our business within our own organization" in London, he explained.

The most notable example of this turmoil among London brokers has been the recent mass exodus of producers following the acquisition of Lloyd's brokerage Stewart Wrightson Holdings P.L.C. by Willis Faber P.L.C. (BI, Nov. 23; Nov. 9). Many clients are expected to follow the producers away from the merged companies.

"I would suspect that over time, as we see more consolidation of brokerages worldwide, other brokerages are going to develop the same discomfort over the movement in London and will come to the same conclusion," Mr. White said.

- The substantial increase in the expertise and size of Alexander Howden's staff since 1984. Howden now has about 750 employees com-

pared with 70 in 1984.

From the time A&A acquired Howden in 1982, an acquisition rocked by later revelations of scandal at Howden's underwriting units, "We have worked diligently to increase the expertise of the organization. We feel we've put together the best team of London brokers we can identify and it is only logical that we place the business we produce with people who can do the job," he stressed.

- The added stability and security to clients of having their business handled by one organization. This is "absolutely the primary advantage to our clients," Mr. White said.

"We at A&A have put together and continue to build a global team to serve our clients from beginning to end. To the extent that we fragment and place business through other markets, we do not have as much clout for our clients as we would have otherwise," Mr. White explained.

- The potential errors and omissions liability exposure to A&A if a London broker that places business for A&A goes out of business and coverage problems subsequently arise.

"At the end of the day, the retail brokers. . . are the ones being held responsible for everything being done correctly" for their clients. Mr. White pointed out.

However, he acknowledged that there "will be certain instances" in which A&A brokers will still find it necessary to work with a London broker other than Howden, with prior approval, "because there will always be a niche broker doing something" unique.

Other reasons for the mandate that were cited in the report accompanying the memo are:

- The need for Howden's parent company producers to exhibit their confidence in Howden's capabilities by placing their business through Howden.

- The economic advantage to A&A of retaining more of its commissions on each placement, rather than splitting them with a competitor. ■

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# Cross-border insurance

Continued from previous page

In its ruling, the court said that governments could make a distinction between different types of insurance contracts and impose restrictions if they were intended to protect policyholders.

At last week's meeting, held Nov. 30 in Brussels, Belgium, the EC Council of Ministers attempted to agree on a definition of the difference between cases where protection is justified and cases where cross-border insurance trading should be allowed.

And, while the council generally agrees that larger, commercial risks should be allowed to be insured by foreign underwriters, while personal lines risks should be insured by domestic insurers, it ultimately could not agree on a definition.

Denmark, which currently holds the rotating presidency of

**While the EC Council of Ministers generally agrees that larger, commercial risks should be allowed to be insured by foreign underwriters. . . it ultimately could not agree on a definition.**

the council, suggested that risks such as transport, credit and surety could be insured across borders

In addition, Denmark suggested that risks could be insured across borders if the policyholder met two out of three of the following criteria:

- Employs more than 250 people.
- Has net revenues of 12.8 million ECU (\$16 million).

- Has net income of 6.2 million ECU (\$7.7 million).

If a policyholder is part of a larger group, such as an association, these criteria would be applied to the group as a whole.

EC Commissioner Lord Cockfield, who oversees the Internal Market of the EEC, including insurance, believes that these criteria are too restrictive.

Nevertheless, several member states oppose them on the grounds that they are far too liberal and would allow too much competition in their home markets.

By the end of last week's meeting, only four EC member nations—Denmark, West Germany, the Netherlands and the United Kingdom—were willing to accept Denmark's proposal, so it has been sent back to council experts for further modification.

A new, revised definition for the directive should be ready for presentation to the EC Council of Ministers sometime next year.

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## Work comp rate hikes

Continued from page 3

rate increase, the spokesman said.

If rate inadequacies persist, insurers may reduce the amount of workers compensation insurance they write, thus reducing market competition and forcing employers in some states to turn elsewhere for coverage.

In some states, the constricting commercial market for workers compensation insurance has triggered the growth of assigned risk plans, which now account for about 18% to 20% of all workers compensation premiums written nationwide, according to the NCCI spokesman.

But while the assigned risk plans have provided the necessary coverage, employers that use them are not free to choose an insurer to underwrite their work comp exposures, Mr. Fein pointed out.

"Right now, we are in a prolonged bad period," he added.

The workers compensation market picture is "not very bright" for insurers, concurred NCCI President Kevin Ryan in a recent statement.

Workers compensation insurers expect at least \$4 billion in underwriting losses during 1987, and continued—although diminishing—underwriting losses through 1990.

In 1986, the combined ratio for workers compensation nationwide was 122%, which means that insurers expect to pay out \$1.22 in losses and expenses for every dollar collected in premium.

However, "the results vary from state to state since the underlying benefit delivery systems, economic forces and political environments differ by jurisdiction," the NCCI reports.

Therefore, if the five worst states are excluded, the combined ratio drops to 118% nationwide, the NCCI reports.

The 1986 combined ratios for those five states are: Maine, 211%; Louisiana, 162%; Rhode Island, 152%; Texas, 137%; and Florida, 134%.

The nationwide total combined ratio had been expected to drop to 117.8% by year-end 1987, but a revised estimate shows the ratio will likely remain in the 120% to 122% range, Mr. Fein said.

The NCCI also predicts nationwide combined ratios of 111.8% for 1988, 109.7% for 1989 and 108.1% in 1990.

Four key factors are influencing workers comp insurers' profitability, according to the NCCI. They are:

- Inflation.

"Inflation continues to have a material impact on the profitability of workers compensation," the NCCI said in a recently published 26-page market forecast.

"Historically, workers compensation costs have increased

countrywide at an annual rate in excess of 10%, while wage inflation was somewhat less than 6%," the NCCI reports. "As a result, slightly more than 4% per year was needed in rate level increases in order to maintain the necessary balance between premium and losses."

The unlimited medical care benefits available to employees who are injured on the job currently amount to 40% of total work comp costs.

"Inflationary costs are being driven by medical care costs that have increased by 8% per year since 1981," the NCCI reports.

- Loss reserve changes.

Five-year cyclical changes in insurance companies' loss reserving practices can have a misleading effect on insurers' loss ratios.

"By reducing reserves by 7 points, a company can improve a combined ratio for a year by 14 points," the NCCI said. "This offers too big a temptation for many companies, and loss reserving adjustments have been continuing and are severe."

"The impact is creating reporting-year indications that result in actuarial problems for the rate-making process," it reports.

From 1977 to 1980, when more money was put aside in reserves, insurers' good loss ratio results looked worse than they were. Meanwhile, from 1982 through 1985, when less money was put aside in reserves, bad results looked better than they were.

"Currently, reserve adequacy is increasing, a trend predicted to continue through 1990," the NCCI said.

- Regulatory resistance.

Double-digit rate increases of 13% in 1986 and 10% in 1987 "created increasing regulatory and political resistance, evidenced by heightened activity of consumer and governmental agencies," the NCCI reports says.

"Insurance regulators have a lot of different people they have to listen to," Mr. Fein said.

Rate changes approved during 1987 ranged from an 18.9% rate decrease in Hawaii effective Oct. 1, 1987, to a 25.1% rate increase in Alaska effective Jan. 1, 1988, according to NCCI figures.

Yet, slightly more NCCI rate requests are approved without change than are pared down by state regulators, according to NCCI statistics on rate-level activity during the first 10½ months of this year in 31 states and the District of Columbia.

"There is a much greater understanding of what insurers need," Mr. Fein said.

However, some states don't accept insurers' view about what constitutes a reasonable return on investment.

Virginia's State Corporation Commission rejected the NCCI's 19.7% rate increase request in October and "approved an aggregate change of zero percent in the level of premiums Virginia employers would pay for new and renewal policies."

"The commission found that some of the proposed changes in NCCI's application would produce excessive premiums," according to a commission statement.

Mr. Fein said the NCCI is reviewing the situation, but will have to seek higher rates in the state in some form in the future.

States that grant only part of a needed rate increase "are just putting off the problem," he said. "You can't hide from the rate level. It keeps emerging."

- Actuarially unsound pricing practices.

Deviations, schedule rating and dividends are the "most disturbing" elements contributing to a higher combined ratio and they continue to push this line into unacceptable results because insurers are using actuarially unsound pricing practices to grant them, the NCCI says.

Insurers can use all three elements, when allowed by state regulators, to tailor or reduce an individual work comp policyholder's premium. Deviations allow an insurer to reduce manual premiums by a fixed percentage across-the-board. Schedule rating allows an insurer to adjust premiums on the underwriters' appraisal of the employer's safety force and its management. Dividend plans return funds to an insured with good loss experience after the policy expires.

"Starting in 1980, we have had a growing negative impact from deviations and schedule rating. The average deviation, dividend and schedule rating percentage for the years 1972-1980 was 6.5%," the NCCI reports.

"Since 1980, we have seen dynamic growth in this area, reaching a high in 1984 of 15.4% and 15% in 1985. The level continues to be actuarially unwarranted by underwriting results.

"In earlier years, the current yields from investments tracked competitive practices expressed in terms of dividends, deviations and schedule rating. However, the gap that emerged in 1983 has not narrowed and is expected to widen through 1990. Beginning in 1988, the increase in competitive pricing practices is not expected to be matched by higher investment yields," according to the NCCI.

In addition, insurers' projected returns on equity after tax have or are expected to average less than 7% if capital gains are excluded, but nearly double that if they are included, the NCCI report says.

"Workers compensation requires meaningful improvement in rate level and a return to sound actuarial pricing if the line is to be healthy enough to remain a private-sector mechanism supporting a social program," according to the NCCI. ■

# 39% of plans have AIDS strategy: Survey

About two-fifths of health care plans have begun to take steps to deal with the AIDS epidemic, a new survey shows.

In addition, almost half of health care plans have handled AIDS claims, according to the survey.

Employee benefit experts—including benefit managers—responding to a Census survey by the International Society of Certified Employee Benefit Specialists reported that 39% of the health plans with which they are associated have begun to "map strategies" to deal with acquired immune deficiency syndrome.

Forty-one percent of the plans have not begun to make plans to deal with AIDS, while 20% either did not know or did not answer.

Health plans are using several different strategies for dealing with the disease. For example, 20% of the respondents said they are implementing AIDS education programs for employees, while 18% have drafted a policy statement regarding access to the health care plan.

In addition, 14% of the respondents have drafted a policy statement concerning how employees with AIDS will be accommodated in the workplace through measures like flexible schedules and reduced workloads. And, 14% have begun cooperative efforts with community assistance programs to handle AIDS cases.

Of the respondents that have not yet taken action about AIDS, 40% say they plan to only deal with the issue of AIDS "if and when" it arises, while 38% said they plan to follow the lead of other plans that have adopted AIDS programs.

And, 15% of the respondents are operating on the assumption they will not have to deal with AIDS.

Despite the many respondents that had not mapped strategies against AIDS, 81% of those surveyed said their

**40% of the respondents who have not taken action about AIDS say they plan to deal with the issue "if and when" it arises, while 38% said they will follow the lead of other plans.**

health plans currently include coverage for the disease. Only 3% said their plans did not cover AIDS, while 16% were unsure or did not respond.

However, 5% of the respondents said the plans with which they are associated have "riders" that specifically include coverage for AIDS cases. Seventy-seven percent said their plans did not have such riders, and 18% weren't sure or did not answer.

Thirty percent of those surveyed said they anticipate that their plans may place limitations on coverage for AIDS-related expenses within the next few years, while 35% did not anticipate such a move.

Another 35% were not sure of their plans or did not answer. In addition, 9% said they anticipate their plans may exclude all coverage for AIDS cases within the next few years. Sixty-two percent do not anticipate such an exclusion, while 29% did not respond.

Only 42% of the plans provide coverage for azidothymidine (AZT), a costly drug used to combat AIDS, in the same manner as any other prescription drug. Seven percent of the plans do not cover AZT like any other drug, while 51% of the respondents were not sure or did not answer the

question.

And, 12% of the respondents say they are not using case management techniques for high-cost claims. Sixty-nine percent say they are using such techniques, while 19% either do not know or did not answer.

A strong majority of the respondents believes that the government will become involved in the controversy over coverage for AIDS.

Seventy-seven percent of the respondents say legislative proposals are likely in the near future that will require insurers to cover AIDS.

Only 3% do not expect such proposals, with the remainder not sure or not responding.

In addition, 23% said they foresee the creation of a "federal entitlement program" to pay for AIDS-related health care costs. Forty-one percent do not believe that such a program will be enacted, while 36% had no opinion or did not respond.

One-third of those surveyed said they foresee that employers' attempts to avoid discriminatory measures regarding AIDS patients may result in a reduction of benefit levels for all types of health care claims, while 42% do not see this type of benefit reduction and 25% did not respond.

Almost half—49%—of the respondents say the health plans with which they are associated have handled at least one AIDS claim. Twenty-four percent say their plans have not yet handled an AIDS claim, while 27% did not know or did not respond.

For a free copy of the November Census survey on AIDS issues, contact the Research Department, International Foundation of Employee Benefits, P.O. Box 69, Brookfield, Wis. 53005; 414-786-6700.

# Benefit experts back variable PBGC premium

Benefit experts believe a variable-rate termination insurance premium is the better answer to the Pension Benefit Guaranty Corp.'s financial problems than significant increases in the current flat-rate premium.

Benefit specialists, including employee benefit managers, responding to a CENSUS survey by the International Society of Certified Employee Benefit Specialists also said they believe that employers' pension plan liabilities are insurable.

Fifty-nine percent of the respondents said they support a Reagan administration proposal that would establish a variable-

rate PBGC premium based on the amount of unfunded liability below 125% of a plan's termination liability.

Eighteen percent of the survey respondents do not support such a proposal, while 23% were not sure whether they support it or did not answer.

In addition, 53% of the respondents said they could support a moderately increased flat PBGC premium with a variable surcharge based on the percentage of vested benefits not funded.

Twenty-one percent of the respondents said they could not support such a pro-

posal, while 26% were not sure or did not respond.

But, respondents were dead set against an increased flat PBGC premium for all employers, no matter how well their pension plans are funded. Only 4% said they would support a significantly increased flat premium for all employers with defined benefit plans, while 73% oppose such a proposal and 23% are not sure or did not answer.

Only 26% of the surveyed benefit experts said they agreed with a recent editorial comment that liabilities owed by the PBGC

represent an "uninsurable risk," while 39% said they disagreed with the statement. The other 35% either did not have an opinion or did not answer.

Finally, employers do not favor increased taxes on companies that terminate overfunded pension plans, according to the survey.

Only 31% of the respondents said they support increased excise taxes on asset reversions from terminated plans, while 43% object to such a tax increase and 26% either did not answer or do not have an opinion.

# Lawrence

Continued from page 3 underwriting."

Lloyd's will make "great strides" when the London Market Insurance Network—which will allow underwriters and brokers to accumulate and distribute information electronically—is up and running, according to Mr. Lawrence (BI, Aug. 31).

However, to remain competitive with other markets, Lloyd's must control its costs, he said.

The Lloyd's Council also must find new ways to bring business into the market, he said.

The biggest problem before the Council is that the market's capacity outstrips demand for coverage in the softening market, according to Mr. Lawrence.

Lloyd's may look to Europe for new business, the new chairman said. Insurance spending in Europe is "miles and miles" behind the United States although the Euro-

pean population is nearly equal the U.S. population.

Mr. Lawrence became the leading candidate for the Lloyd's chairmanship earlier this year when rumors began that Mr. Miller planned to step down as chairman.

Mr. Lawrence probably knows as much or more about American corporate lifestyles than any previous Lloyd's chairman. Mr. Lawrence's mother was American and Mr. Lawrence's agency previously was owned by Marsh & McLennan Cos. Inc. of New York.

Mr. Lawrence drifted into Lloyd's in 1957 when a close friend of the family offered him a job as a broker at C.T. Bowring & Co. Ltd. After Bowring's two-year training course, he worked his way to the top spot at the brokerage's American reinsurance treaty department.

Mr. Lawrence was asked to join Bowring's underwriting agency, Harvey Bowring & Others, in 1962 to manage the non-marine side of syndicate 360 after underwriter

Robert Kiln left the agency to start R.J. Kiln & Co. Ltd.

"I had a long heart-searching as to whether I wanted to go into underwriting," Mr. Lawrence has said. "I had no thoughts of it before then."

By 1970, Mr. Lawrence was underwriter for the syndicate, which at that time was a composite syndicate that wrote non-marine, aviation, motor and common law—or employers liability—risks.

In 1970, the syndicate wrote about 20 million pounds in non-marine business (\$48 million at the 1970 exchange rate), including 11.7 million pounds (\$28.1 million) in non-marine business written by Mr. Lawrence himself.

In 1980—the year M&M bought Bowring—the syndicate was split up, and he became the underwriter for non-marine syndicate 362.

In 1984, Richard Keeling took the syndicate's reins, although both men have said that Mr. Keeling had become more involved in

the syndicate's business by 1981 as Mr. Lawrence concentrated on Lloyd's internal activities.

Mr. Lawrence is still the senior partner for Murray Lawrence & Partners, which manages syndicate 362—one of the largest syndicates to write property insurance and reinsurance for North American risks—as well as other syndicates.

Three partners started the agency after completing a management buyout from Marsh & McLennan in January 1985.

Mr. Lawrence was first elected to the Committee of Lloyd's in 1979 and served as deputy chairman in 1982. In 1983, when Lloyd's former chairman Sir Peter Green decided not to serve another term, Mr. Lawrence was expected to be the next Lloyd's chairman. But Mr. Miller was elected by the Council.

One London newspaper alleged that Mr. Lawrence was not elected because the Inland Revenue was examining reinsurance arrangements of his agency's syndicates.

However, the Inland Revenue examined several syndicates' reinsurance arrangements and subsequently settled with Lloyd's in 1986 for 43 million pounds (\$63.8 million at year-end 1986 exchange rates) to end the matter.

At the time Sir Peter stepped down, Mr. Lawrence would not comment on the Lloyd's Council's election of Mr. Miller.

Instead of the chairmanship, Mr. Lawrence was elected a deputy chairman to Mr. Miller beginning in January 1984.

Mr. Lawrence believes his biggest contribution to Lloyd's market in that role was heading the committee that reregistered all Lloyd's underwriting agencies by July this year.

"I would like to make a personal tribute to Peter Miller," Mr. Lawrence said last week during tea in his senior deputy chairman office.

Mr. Miller's "energy and determination" to preserve Lloyd's good name is a credit to the market, he said.

During Mr. Miller's tenure, Lloyd's membership increased about 35% to 31,000 from around 23,000 people and capacity doubled to about 10 billion pounds (\$18 billion) from around 5 billion pounds (\$5.8 billion at year-end 1984 exchange rates). Also under his chairmanship, Lloyd's has:

- Warded off threats to its self-regulatory powers.
- Protected Lloyd's capital base from higher taxation.
- Settled most of the controversies stemming from serious misdeeds from Lloyd's past, including those at Alexander Howden Group P.L.C.
- Avoided years of litigation over 235 million pounds in underwriting losses at syndicates formerly managed by PCW Underwriting Agencies Ltd. (BI, April 13).
- Established the framework for Lloyd's self-regulation by passing bylaws and codes of practice.
- Completed the requirement under Lloyd's Act of 1982 for Lloyd's brokers to sell all their underwriting agencies and to reregister all Lloyd's underwriting agencies.

To show the market's gratitude, the Council awarded Mr. Miller Lloyd's Gold Medal.

"In Peter Miller's chairmanship we were building the bricks," Mr. Lawrence said. "Now, most of the bricks are in place."

Under his chairmanship, Lloyd's will use those bricks to continue building the market, he said.

It is evident that there will be a new aura around the office of the Lloyd's chairman now that Mr. Lawrence is taking the seat. Mr. Lawrence, a tall man, is quieter and not as outspoken as the shorter Mr. Miller.

But, Mr. Lawrence has the respect of his colleagues.

Perhaps the differences between the two men is most evident in the way they answered the same question upon becoming chairman. Both were asked about their relationship with Lloyd's chief executive.

Mr. Miller said at the time he became chairman that he would be the prime minister and then Lloyd's Chief Executive Ian Hay Davison would be the head of the civil service. "Me a figurehead? Not a chance," Mr. Miller then said (BI, Nov. 21, 1983).

Mr. Lawrence, on the other hand, would not be goaded into clever phrases to describe his relationship with Lloyd's current Chief Executive Alan Lord.

"We have worked very well together as a team. The four chairs have worked well together," Mr. Lawrence said, referring to the Lloyd's chairman and the three deputy chairmen, including Mr. Lord. "I can only see that continuing, and I look forward to it." ■

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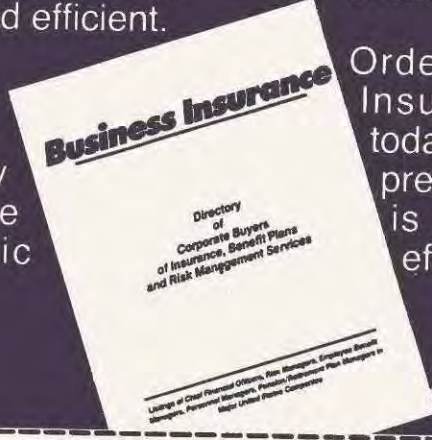
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## Energy risks in London

Continued from page 1

and accidental and sudden pollution, which most marine excess-of-loss underwriters do not write, sources say. Mobil is seeking additional coverage excess of \$100 million, but it would be claims-made.

The package also includes D&O insurance on a claims-made basis, which also is excluded by excess-of-loss reinsurance contracts.

And, the premium being charged for the policy is not much higher than last year.

A portion of Mobil's package is being led by Lloyd's marine underwriter Mr. Rome, confirmed an underwriter for Mr. Rome's syndicate.

"Underwriters are prepared to write (liability risks) on a net line basis, but the coverage is restricted," the underwriter said.

Such restrictions, according to others in the market, include aggregate limits and only writing occurrence coverage in the primary layers.

Mr. Rome, chairman of Lloyd's Underwriters Assn., was unavailable for comment.

Lloyd's broker Willis Faber P.L.C. is attempting to place Texaco's worldwide reinsurance coverage in the London market on a similar basis, sources say.

A Willis Faber spokesman confirmed that it is the London broker for the policy, due to be renewed by Jan. 1, 1988, but refused to give details.

Robert Kreiling, general manager of insurance for Texaco said "more than 50%" of the reinsurance for Texaco's captive, Heddington Insurance Co. Ltd. in Bermuda, is placed in the London marine market.

Texaco has separate global liability programs for onshore risks and offshore risks, he said.

Both programs are reinsured worldwide but predominantly in the London marine market, he said.

"We hope to get better coverage than last year. Property rates are more favorable, and we should get broader liability coverage. We are hoping to move away from claims-made" coverage, he said.

London's marine market is "offering reductions in rates and broader coverages for areas such as pollution," he noted.

Mr. Kreiling refused to disclose policy limits but confirmed they were both in excess of \$100 million.

The policies are written on a part-occurrence and part-claims-made basis, sources say.

British oil company BP also is in the process of renewing its insurance program, confirmed Peter Powell, assistant manager of BP's insurance department.

BP currently has a policy covering its worldwide liability risks, including its U.S. risks, said Mr. Powell, who refused to comment on the policy's limits. BP has a separate policy for its hull and cargo risks.

BP is "heavily reliant on the participation of marine underwriters" for its entire insurance program, according to Mr. Powell.

BP's current policy includes the U.S. risks of its small U.S. subsidiaries. However, the company, which acquired The Standard Oil Co. (Ohio) in July for \$7.5 billion, is hoping to include Standard's insurance within BP's insurance program, sources say.

"In placing cover such as ours, it is essential you use all the capacity available," Mr. Powell said. "There has been considerable softening in the marine market for hull and cargo risks and a slight easing for liability risks for major oil companies."

However, the market has softened less for insurance programs that include U.S. liability risks, he noted.

Mobil and Texaco are paving the way for other oil companies to renew their liability coverage in the London marine market, sources say.

"If Mobil succeeds (in securing the coverage), then all the other oil companies will insist on similar coverage," said one of London's leading energy risk brokers.

Policyholders are in a better position than last year because of the competitiveness of the market, said Peter Evans, underwriter for Indemnity Marine Assurance Co. Ltd., a subsidiary of Commercial Union P.L.C. Premiums are generally lower and more capacity is available, he noted.

"It is symptomatic of the competitiveness of the market that people are willing to subscribe more capacity to" packaged insurance programs, he said.

Lloyd's marine underwriters are hungry for premium because they have excessive capacity at a time when both the shipping industry and oil industry are in a depression, underwriters and brokers explain.

In addition, the London marine market as a whole is facing "significant competition from Norway and the U.S. insurers who are protected in London," Lloyd's underwriter Mr. Agnew said, referring to the reinsurance London provides these markets. "It is the idiosyncrasy of underwriters creating their own violent competition by giving overseas competitors protection in the London market," he added.

Other underwriters say the competition in the marine market is broker driven.

London's marine market has written packaged insurance programs—which wrap several different classes of risks into one policy—for energy-related companies since the 1950s. Traditionally, brokers could place such packages if they proved to the lead marine underwriter that at least 80% of the risk was marine-related.

However, reinsurers have expressed alarm during the past few years at the amount of liability business finding its way into the marine market.

"It's very worrying that so much non-marine ca-

sualty business is pouring into the marine market. The amount of non-marine casualty coming in by the back door is considerably increased since last year," said Lloyd's underwriter Dave King, chairman of K.P.H. Underwriting Agencies Ltd.

"The market is much bigger and there is plenty of capacity. There are plenty of underwriters taking products liability on an occurrence basis," said Tony Pickering, chief executive of the marine division of broker Jenner Fenton Slade Ltd.

When occurrence coverage is available, it is only written in restricted amounts and at a higher price, Mr. Pickering said.

"Because underwriters need income this year, they are prepared to ignore reinsurance" restrictions, he said. "It is becoming a trend for underwriters to take risks on an occurrence basis provided they can get the right premium and aggregate limits."

The underwriters are pricing the package programs recognizing that there is no reinsurance, he noted.

However, Lloyd's underwriter Mr. Agnew disagrees.

"Most underwriters are charging no higher premiums than when the policies were written on a claims-made basis," he told *Business Insurance*.

Underwriters are being persuaded that if they do not write the package as a whole, including the liability, they will lose all aspects of the account, he said.

"Energy packages are a basic part of the marine market and underwriters are not prepared to turn down property premiums because of the dangers of the liability section" of the package, Mr. Agnew said.

Packaging has become a "byword of the marine market. Enormous numbers of risks are being written on a package basis, because brokers and (policyholders) know they can place the bulk (of the risk) on an occurrence basis," he said.

Lloyd's marine underwriter Stephen Catlin does not believe the marine market is taking any more non-marine business than last year. However, much more is being written on a net line basis, he said.

"The (policies of the) major oil companies don't have adequate restrictions. The exposure is too great for the premiums being taken," he asserted.

And, excess-of-loss underwriter Mr. King of K.P.H. Underwriting Agencies believes that many marine underwriters are unaware of the extent to which they are not reinsured.

"In many cases, brokers' wordings are very complex and cleverly designed and many underwriters (on the slip) are not aware of the fact that leaders have (accepted) very wide conditions—wider than their reinsurance cover," he said.

"I suspect there are a number of underwriters (on the policies) who don't understand the extent of coverage being given. If underwriters fully understood, they probably wouldn't give it," Mr. Catlin agreed.

Many brokers believe that non-marine underwriters, particularly at Lloyd's, have overreacted in their rigid application of the claims-made policy and argue that the marine market is courageously writing risks on a basis that is unavailable elsewhere.

The marine underwriters are writing the business sensibly, they argue.

"We have always had the view that if we see a risk as being writeable, we will write it (net line). I believe in offering service to the (policyholder)," said Mr. Evans, a marine underwriter.

At least one broker praised the marine underwriters for writing on a net line basis. "It is very good that underwriters are taking the risks themselves" rather than passing them on to their reinsurers. "That is proper underwriting," he said.

Many critics of the marine underwriters predict the marine market is headed for disaster and that the exclusion clauses introduced by reinsurers, even if adhered to, will not save the market.

The exclusion clauses "may address the worst extravagances but don't address the continued problem of writing general liability on an occurrence basis. The market will bankrupt itself in 10 years" if it continues writing such business on an occurrence basis, Mr. Agnew said.

"The marine market hasn't got the ability to reserve enough to pay pollution and product liability written on an occurrence basis. These losses won't manifest themselves for 10-15 years, and whoever is going to pick up the pieces in 15 years is going to be in a sorry state," Mr. King said.

Even one of the brokers placing package business in the marine market told *Business Insurance* "this won't last, because someone will get bitten."

However, Lloyd's outgoing Chairman Peter Miller said at a press conference last week that Lloyd's has "got to break down its market distinctions" between marine and non-marine syndicates.

"There is already considerable blurring at the edges. The marine market writes a lot of non-marine business," he said. "When a big company wants its entire insurance package insured it can't be restricted" by internal market constraints.

A marine syndicate currently can devote 10% of its capacity to non-marine risks, which must be written by a separate incidental syndicate, Mr. Miller explained. If a syndicate exceeds that amount, it must disclose the fact to its members.

Asked if he is concerned that marine syndicates are writing more liability risks on a net line basis, Mr. Miller said he believes "syndicates are not going to write the same amount of (liability) business on a net line basis." ■

## Update

### Med mal award cap illegal

CHARLOTTESVILLE, Va.—A Virginia statute limiting a plaintiff's recovery for all damages in a medical malpractice case to \$1 million is unconstitutional because it violates both the U.S. Constitution's 7th Amendment right to a jury trial and the separation of powers doctrine, a federal district court judge says.

Judge James Michael Jr. ruled on Nov. 12 that by not allowing a jury to decide the amount of damages a plaintiff can recover, the plaintiff effectively is denied a jury trial.

In addition, permitting the state Legislature to direct judicial review of a verdict violates the separation of powers doctrine, the judge ruled.

### Union Carbide faces charges

BHOPAL, India—Indian government investigators filed criminal charges against Union Carbide Corp., its former chairman, Warren M. Anderson, and eight Indian current or former Union Carbide employees in connection with the 1984 gas leak that killed more than 2,800 people.

In a statement responding to the charges, Danbury, Conn.-based Union Carbide restated its contention that the gas leak was caused by a disgruntled Union Carbide India Ltd. employee, and said the criminal charges were "completely unfounded."

The company also said the Indian government may be using the charge as a tactic to deflect public criticism as the tragedy nears its third anniversary.

Union Carbide and the Indian government have been negotiating a settlement of the government's \$3 billion suit against the company in connection with the gas leak.

### Court limits polluters' liabilities

WASHINGTON—Citizens may not sue companies for their past violations of the Clean Water Act, the Supreme Court has ruled.

However, companies may be sued in federal court by citizens who charge that the violations are either intermittent or occurring at the time the suit is filed, the court unanimously ruled last week.

The decision was returned in the case of *Gwaltney of Smithfield Ltd. vs. Chesapeake Bay Foundation Inc.*, in which the plaintiff charged that Gwaltney, a meatpacking plant, released a level of pollutants into the Pagan River that violated the limits imposed by the company's state permit.

Under the Clean Water Act of 1972, the holder of a state permit that allows the release of a prescribed level of pollutants into a river is subject to both federal and state enforcement if it does not comply with the permit. However, if the federal or state government does not enforce the provisions of the permit, private citizens may bring civil actions against the alleged violator.

In June 1984, two environmental groups filed suit against Gwaltney, charging that it violated its state permit. Gwaltney countered that it had installed equipment to control the pollutants and documented that as of May 15, 1984, it stopped violating its permit.

The Supreme Court ruled that a polluter cannot be held liable for its past violations of the Clean Water Act, because under the act, "the harm sought to be addressed by the citizen suit lies in the present or the future, not in the past."

But the court said its decision "does not necessarily dispose of this lawsuit." The court remanded the case to the 4th Circuit Court of Appeals for further consideration.

### Briefly noted

The Senate Finance Committee last week approved as part of a deficit reduction bill a **variable-rate premium structure** for the Pension Benefit Guaranty Corp. The annual premium for employers—depending on how well their pension plan is funded—would range from \$14 per plan participant to \$70, up from the current \$8.50 flat rate premium. . . . The Senate Finance Committee also agreed to eliminate a provision in the budget reconciliation bill that would have prohibited businesses from **amortizing or depreciating intangible property** with an indeterminable useful life (*BI*, Nov. 9). The clause in H.R. 3545 would have reduced the value of most insurance agencies to potential buyers. . . . The Senate Labor and Human Resources Committee last week scrubbed a vote on the bill introduced by committee Chairman Edward Kennedy, D-Mass., that would require all employers to provide employees with **federally prescribed minimum health insurance** (*BI*, June 29; May 25). Sen. Kennedy failed to line up sufficient support, business lobbyists said. A vote on the legislation, which some groups estimate would cost employers \$100 billion annually, now is not expected until early next year, a committee staffer said. . . . **Richard M. Miller**, president of New York-based Corroon & Black Corp., will also become chief executive officer Jan. 1, succeeding Robert F. Corroon, who will continue as chairman. Also, John R. Lamberson, executive vp, will become chief operating officer of Corroon & Black, the nation's sixth-largest insurance broker. . . . California Gov. George Deukmejian has signed legislation passed in a special session that allows businesses that suffered at least \$20,000 in property damage in the state's recent spate of **earthquakes and forest fires** to defer payment of their state property taxes until April 10, 1988. The state will compensate counties for the loss in cash flow from the deferred taxes, normally due on Dec. 10. In addition, counties may permit businesses to defer property tax payments until Dec. 10. . . . **Gaston Caperton** has stepped down as president of McDonough Caperton Insurance Group in Charleston, W.Va., to run as a Democratic candidate for governor of the state. Mr. Caperton still works with the brokerage, the 19th-largest U.S. broker, in an advisory capacity. W. Marston Becker, formerly senior vp of McDonough Caperton, has been named president of the brokerage. . . . Lloyd's of London is appointing a designer to sort out problems with the **new Lloyd's building**, after a poll showed that 75% of underwriters and brokers prefer the old building.

# Reinsurer nine-month results

Continued from page 3

urers lose premium income because the higher layers of reinsurance purchased are not big premium producers, he said.

According to a survey of 75 reinsurers by the Reinsurance Assn. of America, net written premiums for the nine months ended Sept. 30 increased just 3.2% to \$9.5 billion from \$9.2 billion in the first nine months of 1986.

The nine-month growth rate of reinsurers' net written premiums pales compared with the premium gains reinsurers posted earlier this year and in the first three quarters of 1986. Reinsurers reported an 8.7% increase in the first half of this year and a 15% increase in the first quarter. And, reinsurers' premiums increased 51.4% for the first three-quarters of 1986, compared with the first nine months of 1985.

Similar premium growth rates were posted by the 20 largest reinsurers.

For the first three quarters of 1987, the 20 largest reinsurers-based on net premiums written—reported a 2.4% increase in net premiums written to \$7.5 billion from \$7.3 billion for the comparable period last year. They reported a 5.9% increase for the first half and a 13.5% increase for the first quarter. The Top 20 reinsurers posted a 56.1% increase for the first nine months of 1986.

The reinsurance industry's combined ratio for the first nine months improved slightly to 102%, compared with 104.9% for the comparable period in 1986. However, the ratio deteriorated slightly compared with a 101.5% combined ratio for the first half of 1987.

The Top 20 reinsurers' combined ratio also nearly mirrored the entire group's. They reported a 101.3% combined ratio for the first nine months of 1987, compared with a 104.2% ratio for the same period in 1986. And, the Top 20 reinsurers' ratio deteriorated slightly from 100.9% in the first half of 1987.

While there has been some price competition, reinsurers say their slow premium growth is primarily attributable to increased retentions by primary insurers.

"There's nothing inordinate going on" as far as price

competition is concerned, said Paul F. Butler, president of St. Paul Reinsurance Management Corp. in New York. "Reinsurance buyers are very enthusiastic about the business. As a result, they're retaining more of their business."

"I would say it's the increase in retention much more so than price competition," agreed Jim Stannard, senior vp at F&G Re in Morristown, N.J., a subsidiary of USF&G Corp.

"The numbers, for the time being, on price, are still holding the line," said John Engestrom, senior vp and chief underwriting officer at Skandia America Reinsurance Corp. of New York. "It's nothing that we are overly concerned about."

"There's some softening on the primary side on pricing that gets translated to reinsurers. But a significant portion of what we're seeing is companies holding bigger retentions," said Paul Inderbitzen, executive vp of American Re-Insurance Co. of New York, a unit of Aetna Casualty & Surety Co. of Hartford, Conn.

Don Smith, president and chief operating officer of Kemper Reinsurance Co. of Long Grove, Ill., agreed. "I think it's predominantly the fact the companies are retaining a bigger share of their own business," he said.

"We don't see irresponsible competition at this point. We see reinsurers willing to sacrifice business rather than cut prices beyond what they consider reasonable levels," said William H. Stempson, senior vp at North American Reinsurance Corp./Swiss Reinsurance Co. of New York.

Observers say increased retentions by primary insurers have adversely affected the facultative market in particular.

"The facultative market has, to a very large extent, dried up," said Bard E. Bunaes, chairman and chief executive officer of Constitution Reinsurance Corp. of New York.

During the hard market, light- or moderate-hazard business that normally would be retained by primary insurers entered the facultative market, but that business is "now going home," explained Peter J. Greene, senior vp at Prudential Reinsurance Co. in Newark, N.J.

Treaty reinsurers also have been affected, but to a lesser extent, according to Mr. Cole.

"On the treaty side, I think primary companies are retaining a higher proportion of the risk," said CIGNA's Mr. Wayne.

The leveling off of primary insurers' price increases, which means less income to reinsurers from pro rata treaty business, is reflected in reinsurers' slowing premium growth as well, noted Steve Bensinger, senior vp and chief financial officer at Skandia America.

Reinsurers say a bright spot in the nine-month results—and another indication of reinsurers' avoidance of price competition—is their premium-to-surplus ratio.

If the reinsurance departments of primary insurers and other non-reinsurance entities are excluded, reinsurance companies alone wrote \$8.3 billion in net premiums for the first nine months of 1987.

With \$8.8 billion in surplus, this means the premium-to-surplus ratio was about 1-to-1, noted North American's Mr. Stempson. "We see discipline being exercised in the market, he added.

F&G Re's Mr. Stannard agreed. "I think the premium-to-surplus ratio indicates that there's tremendous capacity," he said. "There is a certainly a lot of room for premium increases against that surplus."

Reinsurers are following sound underwriting practices, Mr. Stannard said. "There doesn't seem to be a pressure for companies to write premiums to justify their surplus."

And this trend will continue, he predicted. Top management at reinsurance companies has promised it will let business go if it is not attractive, and the results demonstrate reinsurers are doing so.

Reinsurers also stressed their determination to hold the line on prices. "We continue, and I hope others continue, to maintain our underwriting standards," said St. Paul's Mr. Butler.

"We'll only grow as the market permits," said Paul J. Galvasio, vp and chief financial officer at NAC Re Corp. in Greenwich, Conn. "We're not revenue conscious. We're only bottom-of-the-line conscious."

Continued on next page

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## Bel-Aire settles

Continued from page 4

The suit, filed in federal court in Miami Sept. 15, charges the defendants with fraud, negligent misrepresentation and breach of contract.

The first three counts of the complaint—demanding that the \$400,000 loan made to Risk Retention Service Corp. be repaid and that Bel-Aire stock certificates be signed over to ICA—are expected to be dismissed following RRSC's repayment of the loan.

However, ICA continues to press charges that Mr. Blumeyer fraudulently induced ICA and Mr. Johnson to make the \$400,000 loan by representing that the additional \$500,000 needed to meet Missouri's \$900,000 minimum capital and surplus requirement was already in place.

Mr. Blumeyer later informed ICA that the \$500,000 was not in place.

If Mr. Blumeyer had told ICA initially that the \$500,000 had not been secured, ICA would not have made the loan to RRSC, the ICA plaintiff says.

"Suddenly thereafter," Mr. Blumeyer reported that the \$500,000 had "materialized," the complaint says.

Despite the previous misrepresentation, ICA then agreed to allow the \$400,000 to be used to capitalize Bel-Aire on the condition that the remaining \$500,000 was not encumbered and did not represent premiums received from prospective policyholders, the complaint says.

ICA also entered into two contracts with Bel-Aire, the suit notes.

Under one of these, Bel-Aire agreed to accept Dyna Span business that had previously been insured by New England International Surety and agreed to use all of its initial capacity on the Dyna Span programs before writing its own programs, ICA says.

Under the other contract, ICA agreed to reinsure Bel-Aire for losses up to \$5 million excess of a \$500,000 retention, the ICA lawsuit also says.

Bel-Aire breached both of these contracts, the complaint charges.

ICA also charges Bel-Aire with several other negligent misrepresentations, including that:

- Bel-Aire would allow Dyna Span's producers to continue to report only to Dyna Span and not to

Bel-Aire directly.

- If ICA agreed to the \$400,000 loan, Bel-Aire would write \$2 million in premiums in its first four weeks of operation, guaranteeing rapid pay-back on the promissory note.

- The Dyna Span programs would be acceptable to the Missouri Insurance Division as appropriate business for Bel-Aire.

- ICA had been approved by the Insurance Division as Bel-Aire's reinsurer.

Bel-Aire, Mr. Blumeyer and the other defendants denied the charges in the complaint and filed a counterclaim against ICA on Oct. 21.

The counterclaim charges that ICA fraudulently induced RRSC and Mr. Blumeyer to accept the \$400,000 loan by promising that:

- The former Dyna Span business would produce more than \$2 million in premiums.

- The premiums would allow quick repayment of the promissory note.

- The premiums were adequate to the risks.

- Bel-Aire would have the opportunity to accept or reject individual risks.

These promises were false, the counterclaim alleges.

ICA and Mr. Johnson then required that Mr. and Mrs. Blumeyer personally guarantee repayment and that Bel-Aire stock be pledged to secure the loan, the counterclaim adds.

The counterclaim requests unspecified compensatory and punitive damages, rescission of the agreements with ICA and indemnification for losses on two specific risks that ICA bound on Bel-Aire's behalf without notifying it.

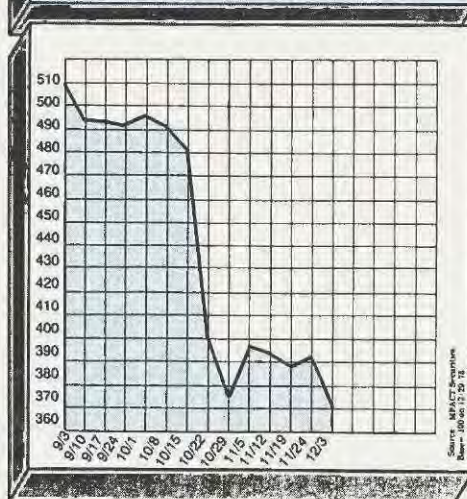
One of the risks was Hickory Hills Park Inc., a lake-front amusement park in Rootstown, Ohio. Bel-Aire, which claims it never would have accepted the risk, now faces a wrongful death claim involving the park.

The other risk is identified only by the name Tool America.

Bel-Aire also says it may be subject to additional liabilities based on ICA's "misrepresentations or omissions."

ICA filed a motion to dismiss the counterclaim Nov. 10.

## BI Insurance Index



The **Business Insurance** index fell sharply last week to 369.2 on Dec. 3 from 391.1 on Nov. 24. The only advancing issues were: Phoenix Re Corp., up 3.4%; United Fire & Casualty Co., up 2.2%; and Kansas City Life Insurance Co., up 1.0%. Decliners were led by: **Orion Capital Corp., down 14.3%; and Alexander & Alexander Services Inc., down 13.9%.** The **BI** index fell 5.6% for the week; and the **Dow Jones** 30 Industrials fell 9.5%.

### British Issues

| Dec. 3                | Price | P/E  | Div. | Yield | High—Low |
|-----------------------|-------|------|------|-------|----------|
| <b>Commi Union</b>    | 294   | 11.3 | 17.8 | 6.1   | 296—291  |
| <b>Genl Accident</b>  | 780   | 9.3  | 38.3 | 4.9   | 780—745  |
| <b>Gen Royal Exch</b> | 770   | 10.4 | 46.6 | 6.0   | 798—765  |
| <b>Royal</b>          | 367   | 6.8  | 21.2 | 5.8   | 368—358  |
| <b>Sun Alliance</b>   | 744   | 11.2 | 32.2 | 4.3   | 748—744  |
| <b>Brokers</b>        |       |      |      |       |          |
| <b>CE Heath</b>       | 367   | 12.2 | 34.5 | 9.3   | 367—358  |
| <b>Hogg Robinson</b>  | 119   | 9.2  | 9.6  | 8.1   | 123—119  |
| <b>JH Minet</b>       | 283   | 10.3 | 12.9 | 4.6   | 283—279  |
| <b>Sedg Grp</b>       | 180   | 11.3 | 16.4 | 9.1   | 187—180  |
| <b>Willis Faber</b>   | 210   | 9.1  | 14.8 | 7.0   | 210—203  |

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

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# Largest U.S. reinsurers' nine-month 1987 results

(All amounts in thousands of dollars)

(Ranked by net reinsurance premium written)

| Reinsurers                     | Policyholders' surplus (reinsurers only) | Net reinsurance premiums written 1987 | Net reinsurance premiums written 1986 | Net reinsurance premiums earned | Losses & loss adjustment expenses | Loss ratio  | Underwriting expenses | Expense ratio | Combined ratio 1987 | Combined ratio 1986 |
|--------------------------------|--|---------------------------------------|---------------------------------------|---------------------------------|-----------------------------------|-------------|-----------------------|---------------|---------------------|---------------------|
| <b>General Re</b>              | \$2,265,362                              | \$1,736,244                           | \$1,805,093                           | \$1,795,854                     | \$1,349,351                       | 75.1%       | \$433,800             | 25.0%         | 100.1%              | 104.1%              |
| <b>Employers Re</b>            | 795,559                                  | 955,163                               | 880,573                               | 949,398                         | 746,550                           | 78.6        | 192,558               | 20.2          | 98.8                | 105.6               |
| <b>American Re</b>             | 502,856                                  | 750,977                               | 702,666                               | 772,606                         | 597,670                           | 77.4        | 168,144               | 22.4          | 99.8                | 98.5                |
| <b>Munich Re</b>               | 433,677                                  | 520,516                               | 450,540                               | 527,944                         | 365,173                           | 69.2        | 159,249               | 30.6          | 99.8                | 99.4                |
| <b>Prudential Re</b>           | 412,305                                  | 494,039                               | 457,476                               | 500,435                         | 363,909                           | 72.7        | 142,892               | 28.9          | 101.6               | 104.8               |
| <b>North American/Swiss Re</b> | 611,848                                  | 461,883                               | 545,019                               | 467,179                         | 314,411                           | 67.3        | 170,365               | 36.9          | 104.2               | 109.1               |
| <b>USF&amp;G</b>               | N/A                                      | 308,355                               | 218,561                               | 289,088                         | 203,995                           | 70.6        | 87,639                | 28.4          | 99.0                | 99.0                |
| <b>Transatlantic Re</b>        | 138,031                                  | 234,365                               | 201,732                               | 210,029                         | 169,359                           | 80.6        | 56,192                | 24.0          | 104.6               | 109.9               |
| <b>Kemper Re</b>               | 294,461                                  | 231,617                               | 307,237                               | 249,639                         | 206,294                           | 82.6        | 43,625                | 18.8          | 101.4               | 106.6               |
| <b>National Re</b>             | 167,148                                  | 230,021                               | 256,268                               | 236,904                         | 200,561                           | 84.7        | 41,716                | 18.1          | 102.8               | 105.3               |
| <b>Continental Re</b>          | 120,250                                  | 206,949                               | 209,864                               | 206,432                         | 156,547                           | 75.8        | 60,153                | 29.1          | 104.9               | 103.8               |
| <b>CIGNA Re</b>                | 186,980                                  | 204,126                               | 211,783                               | 203,400                         | 152,020                           | 74.7        | 58,812                | 28.8          | 103.5               | 106.8               |
| <b>Constitution State Mgt.</b> | N/A                                      | 186,142                               | 166,121                               | 185,790                         | 141,664                           | 76.2        | 44,826                | 24.1          | 100.3               | 108.9               |
| <b>Skandia America Group</b>   | 317,647                                  | 173,095                               | 155,693                               | 177,993                         | 127,275                           | 71.5        | 57,940                | 33.5          | 105.0               | 114.0               |
| <b>Constitution Re</b>         | 163,350                                  | 172,110                               | 160,534                               | 172,038                         | 125,700                           | 73.1        | 44,368                | 25.8          | 98.9                | 101.9               |
| <b>St. Paul Re</b>             | N/A                                      | 148,953                               | 175,896                               | 152,194                         | 109,324                           | 71.8        | 42,182                | 28.3          | 100.1               | 98.1                |
| <b>Buffalo Re</b>              | 163,950                                  | 140,435                               | 129,628                               | 129,199                         | 130,898                           | 101.3       | 29,002                | 20.7          | 122.0               | 108.9               |
| <b>US Int'l Re</b>             | 104,837                                  | 131,864                               | 149,130                               | 132,351                         | 95,427                            | 72.1        | 35,162                | 26.7          | 98.8                | 97.9                |
| <b>PMA Re</b>                  | 53,682                                   | 120,560                               | 94,127                                | 96,726                          | 82,059                            | 84.8        | 20,508                | 17.0          | 101.8               | 101.8               |
| <b>NAC Re</b>                  | 162,058                                  | 115,725                               | 65,801                                | 102,995                         | 80,867                            | 78.5        | 33,845                | 29.2          | 107.7               | 112.6               |
| <b>Totals for top 20</b>       | <b>6,894,001</b>                         | <b>7,523,139</b>                      | <b>7,343,742</b>                      | <b>7,558,194</b>                | <b>5,719,054</b>                  | <b>75.7</b> | <b>1,922,978</b>      | <b>25.6</b>   | <b>101.3</b>        | <b>104.2</b>        |
| <b>Total for all companies</b> | <b>8,798,733</b>                         | <b>9,472,796</b>                      | <b>9,174,812</b>                      | <b>9,491,150</b>                | <b>7,173,914</b>                  | <b>75.6</b> | <b>2,501,497</b>      | <b>26.4</b>   | <b>102.0</b>        | <b>104.9</b>        |

Source: Reinsurance Assn. of America

Continued from previous page

Reserves also are much stronger, reinsurance officials say. "I would anticipate the industry, as a whole, has strengthened reserves tremendously," said Kemper's Mr. Smith. Because few major catastrophes have occurred during the past couple of years, the industry has been able to strengthen its reserves, he explained.

But some reinsurers still question whether all reinsurers' reserves are adequate.

"That's the big question mark," said Constitution Re's Mr. Bunas.

"Reserves are always an open question," agreed Michael Smith, an analyst at stock brokerage Shearson Lehman Brothers in New York.

Reinsurers say the slight deterioration in their combined ratio for the first nine months compared with the first-half results is not a cause for concern. "I would imagine it's just an aberration," said USF&G's Mr. Stannard.

Reinsurance officials expect the overall trends evident this year to continue into next year.

"We see somewhat more of the same," said Mr. Malvasio of NAC Re, which appears among the Top 20 reinsurers this quarter for the first time. He said a clearer picture will emerge in early January.

Early indications are that the reinsurance market generally will hold prices steady, said John W. Smithsen, president and chief operating officer of PMA Reinsurance Corp. in Philadelphia, a unit of Pennsylvania Manufacturers' Corp.

"I think next year probably would be fairly flat for reinsurers," said American Re's Mr. Inderbitzen. "I think most people would expect 1988 premium volume to be in line with

'87."

North American's Mr. Stempson said, "We see a gradual softening of the market." But, he added that it will be nowhere near as severe as it has been in the past.

CIGNA's Mr. Wayne said he anticipates "modest, but rather insignificant, growth. I think '88 should be a relatively good year for the industry again."

Observers note that the Oct. 19 stock market crash could, to a degree, be reflected in next year's results (BI, Nov. 30).

The stock market crash could lead to somewhat greater demand for reinsurance, particularly facultative, because it may have reduced primary insurers' surplus, said Shearson Lehman's Mr. Smith. With less surplus, primary insurers may need reinsurance to support their premium writings.

In addition, the crash means the primary insurers will be unable to go to the market for additional capital by selling stock. "The only place they're going to get capacity right now is from reinsurers," he said.

The crash could lead to greater demand for reinsurance, agreed Kemper's Mr. Smith. "It's a possibility if the market doesn't recover," he said.

The stock market crash could increase demand for reinsurance "to some degree, depending on where the stock market ends up," said Mr. Inderbitzen of American Re. Companies that were heavily invested in equities are now essentially back in the same position they were in at the beginning of 1987, he said.

Constitution State's Mr. Cole said he would like to think primary companies will turn more to reinsurance as a result of the crash, "but I don't know if that's wishful thinking or not."

But if primary insurers price and underwrite business well "those with the courage of their convictions" will still retain more business, he added. "I don't think it's going to have big effect," he concluded, referring to the stock market crash.

Reinsurers said they are pleased with their own companies' performance.

"We're happy with how they've developed," said Mr. Greene of Pru Re's results. "We're certainly enjoying the profits that are coming into our book. We're not different from anybody else, I guess. It's nice to see that."

Pru Re posted a 101.6% combined ratio for the first nine months of 1987, compared with a 104.8% combined ratio for the comparable period in 1986.

"We're very satisfied with overall results," said Mr. Smithsen of PMA Re, which posted a 101.8% combined ratio, the same as a year ago. Mr. Smithsen noted PMA Re's 84.8% pure loss ratio was higher than average because of increased reinsurance.

"We're quite satisfied with what we have seen so far this year," said CIGNA Re's Mr. Wayne, adding there have been "no surprises." CIGNA posted a 103.5% combined ratio compared with a 106.8% combined ratio for the comparable period a year ago. He added that CIGNA is "reasonably optimistic" about 1988.

Next year's expense ratio may "creep up" because of somewhat flat premium volume, commented American Re's Mr. Inderbitzen. "But we think it should be a pretty good year." American Re posted a 99.8% combined ratio for the first three quarters this year, up slightly from 98.5% for the same period last year.

## BI Industry Stock Report

DEC. 3, 1987

11/25/87 THRU 12/3/87

|  | Price   | Weekly % change | Year to Date % change | Annual |          | Vol.(000) | \$ Div. | % Yield | P/E | Book value | Mkt/Bk. value | Price | Weekly % change              | Year to Date % change | Annual |       | Vol.(000) | \$ Div. | % Yield | P/E  | Book value | Mkt/Bk. value |      |       |      |
|--|---------|-----------------|-----------------------|--------|----------|-----------|---------|---------|-----|------------|---------------|-------|------------------------------|-----------------------|--------|-------|-----------|---------|---------|------|------------|---------------|------|-------|------|
|  |         |                 |                       | High   | Low      |           |         |         |     |            |               |       |                              |                       | High   | Low   |           |         |         |      |            |               |      |       |      |
| <b>BROKERS</b>                               |         |                 |                       |        |          |           |         |         |     |            |               |       |                              |                       |        |       |           |         |         |      |            |               |      |       |      |
| Alexander & Alexander Svcs                   | NYSE    | 17.00           | -13.9                 | -35.8  | 32.00    | 17.13     | 576     | 1.00    | 5.9 | 11.9       | 2.98          | 5.70  | Durham Corp.                 | OTC                   | 21.00  | -1.2  | -24.2     | 34.00   | 20.00   | 8    | 0.92       | 4.4           | 16.9 | 26.15 | 0.80 |
| Baldwin & Lyons Inc.                         | OTC     | 12.00           | -7.7                  | -45.5  | 27.00    | 12.00     | 8       | 0.20    | 1.7 | 4.5        | 16.40         | 0.73  | Farmers Group Inc.           | OTC                   | 41.00  | -3.0  | 5.8       | 51.25   | 37.75   | 919  | 1.20       | 2.9           | 12.0 | 19.95 | 2.06 |
| Corroon & Black Corp.                        | NYSE    | 24.50           | -12.1                 | -24.9  | 37.50    | 22.00     | 526     | 0.84    | 3.4 | 11.4       | 6.31          | 3.88  | Fireman's Fund Corp.         | NYSE                  | 25.88  | -4.6  | -26.3     | 42.75   | 24.63   | 784  | 0.40       | 1.5           | 47.9 | 23.55 | 1.10 |
| Gallagher Arthur J. & Co.                    | OTC     | 16.00           | -1.5                  | -39.0  | 31.00    | 15.00     | 42      | 0.40    | 2.5 | 10.6       | 4.81          | 3.33  | Fremont Gen Corp.            | OTC                   | 11.13  | -5.3  | -31.0     | 20.50   | 7.88    | 255  | 0.60       | 5.4           | 47.9 | 16.75 | 0.66 |
| Hall Frank B. & Co.                          | NYSE    | 3.63            | 0.0                   | -75.0  | 19.00    | 3.25      | 388     | 0.00    | 0.0 | 10.6       | 0.00          | N/A   | Home Group Inc.              | NYSE                  | 11.38  | -1.0  | -45.8     | 24.98   | 10.50   | 661  | 0.20       | 1.8           | 1.9  | 16.30 | 0.70 |
| Marsh & McLennan Cos Inc.                    | NYSE    | 47.25           | -6.9                  | -22.2  | 72.00    | 45.00     | 606     | 2.40    | 5.1 | 11.8       | 5.14          | 9.19  | Hanover Ins Co.              | OTC                   | 24.50  | -10.1 | -22.8     | 37.25   | 23.75   | 151  | 0.36       | 1.5           | 5.2  | 21.16 | 1.16 |
| Poe & Assoc Inc.                             | OTC     | 7.75            | -3.1                  | -35.4  | 13.25    | 7.75      | 0       | 0.40    | 5.2 | 7.5        | 0.57          | 13.60 | Harford Steam Boiler         | OTC                   | 22.00  | -8.3  | -6.7      | 36.63   | 20.25   | 190  | 1.00       | 4.5           | 8.7  | 10.17 | 2.16 |
| BROKERS                                      | AVERAGE |                 | -6.5                  | -39.7  |          |           |         |         | 3.4 | 9.6        |               |       | Kans City Life Ins.          | OTC                   | 26.00  | 1.0   | 1.0       | 31.50   | 21.50   | 0    | 0.00       | 0.0           | 8.7  | 0.00  | N/A  |
| <b>CONGLOMERATES &amp; HOLDING COMPANIES</b> |         |                 |                       |        |          |           |         |         |     |            |               |       |                              |                       |        |       |           |         |         |      |            |               |      |       |      |
| Berkley W.R. Corp.                           | OTC     | 21.50           | -7.5                  | -18.1  | 37.00    | 18.75     | 508     | 0.28    | 1.3 | 5.4        | 13.72         | 1.57  | Kemper Corp.                 | OTC                   | 20.00  | -10.1 | -20.0     | 38.75   | 19.88   | 1626 | 0.60       | 3.0           | 6.1  | 23.48 | 0.85 |
| Berkshire Hathaway Inc. DEL                  | OTC     | 2850.00         | -5.0                  | 1.1    | -3792.00 | 2510.00   | 150     | 0.00    | 0.0 | 17.9       | 62.53         | 2.96  | Liberty Corp. S. C.          | NYSE                  | 36.50  | -3.9  | -0.7      | 53.00   | 32.50   | 6    | 0.80       | 2.2           | 16.4 | 19.96 | 1.83 |
| CIGNA Corp.                                  | NYSE    | 44.63           | -10.1                 | -18.9  | 69.50    | 45.38     | 830     | 2.80    | 6.3 | 5.5        | 42.01         | 1.06  | Lincoln Nat'l Corp.          | NYSE                  | 40.88  | -7.1  | -11.9     | 60.50   | 35.75   | 242  | 2.36       | 5.8           | 8.2  | 44.85 | 0.91 |
| CNA Fin'l Corp.                              | NYSE    | 51.75           | -9.2                  | -3.7   | 66.50    | 47.00     | 215     | 0.00    | 0.0 | 9.3        | 42.71         | 1.21  | NAC Re Corp.                 | OTC                   | 19.25  | -12.5 | -26.7     | 32.25   | 18.75   | 33   | 0.00       | 0.0           | 17.8 | 18.12 | 1.06 |
| General Re Corp.                             | NYSE    | 51.25           | -6.2                  | -7.7   | 68.88    | 46.00     | 1319    | 1.00    | 2.0 | 11.6       | 23.47         | 2.18  | Nobel Ins Ltd.               | OTC                   | 8.25   | -1.6  | -49.2     | 18.50   | 8.00    | 99   | 0.40       | 4.8           | 39.3 | 9.37  | 0.88 |
| ITT (Harford Group)                          | NYSE    | 42.50           | -9.6                  | -20.4  | 66.38    | 43.50     | 2869    | 1.25    | 2.9 | 8.5        | 44.08         | 0.96  | Northwestern Nat'l Life      | OTC                   | 22.00  | -13.7 | -29.0     | 32.38   | 20.75   | 169  | 0.96       | 4.4           | 5.8  | 33.26 | 0.66 |
| Sears Roebuck & Co. (Allstate)               | NYSE    | 30.25           | -13.3                 | -23.9  | 59.50    | 30.75     | 3727    | 2.00    | 6.6 | 7.0        | 32.94         | 0.92  | Ohio Cas Corp.               | OTC                   | 36.50  | -5.2  | -5.5      | 49.25   | 34.75   | 193  | 1.68       | 4.6           | 8.6  | 26.80 | 1.36 |
| Transamerica Corp.                           | NYSE    | 30.00           | -8.8                  | -8.1   | 51.38    | 22.63     | 512     | 1.84    | 6.1 | 5.7        | 26.94         | 1.11  | Old Rep Int'l Corp.          | OTC                   | 20.25  | -10.0 | -26.0     | 33.63   | 18.88   | 333  | 0.74       | 3.7           | 6.4  | 19.80 | 1.02 |
| CONGLOMERATES                                | AVERAGE |                 | -8.7                  | -12.5  |          |           |         |         | 3.2 | 8.8        |               |       | Orion Cap Corp.              | NYSE                  | 12.00  | -14.3 | -55.8     | 31.00   | 12.25   | 122  | 0.76       | 6.3           | 6.4  | 9.39  | 1.29 |
| <b>INSURERS</b>                              |         |                 |                       |        |          |           |         |         |     |            |               |       |                              |                       |        |       |           |         |         |      |            |               |      |       |      |
| Aetna Life & Cas Co.                         | NYSE    | 44.38           | -7.8                  | -21.6  | 68.13    | 44.13     | 1320    | 2.76    | 6.2 | 6.0        | 44.75         | 0.99  | Phoenix Re Corp.             | OTC                   | 7.50   | -3.4  | -42.3     | 14.63   | 5.00    | 106  | 0.00       | 0.0           | 5.2  | 9.43  | 0.80 |
| American General Corp.                       | NYSE    | 28.25           | -6.6                  | -23.4  | 44.75    | 28.13     | 1341    | 1.25    | 4.4 | 7.5        | 27.13         | 1.04  | Protective Corp.             | OTC                   | 12.00  | -2.0  | -33.3     | 21.25   | 11.38   | 328  | 0.70       | 5.8           | 11.3 | 16.51 | 0.73 |
| Amer Heritage Life Inv't                     | NYSE    | 23.50           | 0.0                   | -8.5   | 34.00    | 23.00     | 3       | 0.96    | 4.1 | 11.2       | 20.37         | 1.15  | Provident Life & Acc Ins Co. | OTC                   | 16.00  | -5.9  | -35.0     | 28.75   | 14.25   | 274  | 0.84       | 5.3           | 40.0 | 27.00 | 0.59 |
| Amer Ind'y Fin'l Corp.                       | OTC     | 8.00            | -13.5                 | -55.6  | 19.00    | 7.75      | 36      | 0.56    | 7.0 | 11.2       | 20.40         | 0.39  | St. Paul Cos. Inc.           | OTC                   | 46.00  | -2.6  | 14.3      | 60.00   | 40.25   | 1879 | 1.76       | 3.8           | 7.2  | 29.89 | 1.54 |
| American Int'l Group                         | NYSE    | 55.50           | -13.3                 | -9.2   | 83.75    | 53.50     | 1602    | 0.30    | 0.5 | 10.3       | 29.02         | 1.91  | SAFECO Corp.                 | OTC                   | 25.75  | -8.8  | -3.7      | 38.00   | 24.38   | 802  | 0.96       | 3.7           | 8.4  | 19.68 | 1.31 |
| Aneco Reins Ltd.                             | OTC     | 3.38            | -3.4                  | 58.7   | 4.38     | 2.13      | 75      | 0.00    | 0.0 | 10.3       | 1.93          | 1.75  | SCOR US Corp.                | OTC                   | 9.25   | 0.0   | -19.6     | 16.25   | 5.00    | 143  | 0.00       | 0.0           | 7.1  | 8.08  | 1.14 |
| AON Corp.                                    | NYSE    | 23.25           | -5.1                  | -11.9  | 29.88    | 20.50     | 881     | 1.00    | 5.2 | 8.2        | 15.23         | 1.53  | Seibels Bruce Group Inc.     | OTC                   | 11.25  | -4.3  | -23.7     | 19.00   | 9.75    | 143  | 0.80       | 7.1           | 6.6  | 11.88 | 0.95 |
|  |         |                 |                       |        |          |           |         |         |     |            |               |       |                              |                       |        |       |           |         |         |      |            |               |      |       |      |



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