

# business insurance

update

## California asks court to give reinsurance money to MIC

SAN FRANCISCO—The California Insurance Department last week asked a San Francisco Superior Court to rule that Mission Insurance Co. is entitled to reinsurance proceeds that Delaware regulators say should go to Pacific American Insurance Co., which is in liquidation in Delaware.

MIC, in conservation in California, fronted long-haul truckers liability policies for Pacific American. As se-

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Reporting weekly for corporate risk, employee benefit and financial executives/\$1.50 a copy; \$60 a year

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## What went wrong?

### Occidental tracing apparently bogus policies

By DOUGLAS McLEOD

NEW YORK—One year after it paid \$22.5 million for two apparently bogus property reinsurance policies, Occidental Petroleum Corp. is still trying to find out what went wrong.

Occidental, which believed it was buying reinsurance for its Bermuda captive from London-based Phoenix Assurance P.L.C.—is investigating how the coverage ended up with a Canadian agent representing an apparently non-existent Phoenix Insurance Co.

This company is not related to a Travelers Corp. subsidiary in Hartford, Conn., also called Phoenix Insurance Co.

Occidental is also trying to find out who ultimately received its premiums, most of which were wired through bank accounts in New York, Florida and Switzerland before disappearing.

Also investigating the placement are Occidental broker Bayly Martin & Fay International Inc., which Occidental is suing for \$150 million, and regulatory and law enforcement agencies in the United States and Great Britain.

But while the inquiries have revealed more about who was involved in the placement, how the business was brokered and where the premium went, Occidental doesn't appear much closer to recovering its lost premium.

BMF has yet to answer Occidental's lawsuit, filed last August in California State Superior Court for Orange County (BI, Aug. 26, 1985). The suit charges BMF with fraud, breach of contract and negligence in placing the coverage.

None of the four other British and U.S. brokers involved in the placement has been named in the lawsuit or has been accused of any wrongdoing. In

recent interviews, two of these brokers said they were duped.

Meanwhile, Occidental has been unable to collect from Phoenix Insurance Co.—or anyone connected with Phoenix—on several million dollars in property losses suffered during 1985, a source close to Occidental said.

Thomas P. Lambert, a Los Angeles lawyer representing Occidental in its suit against BMF, said the oil company would not comment on whether it had been able to obtain coverage to replace that supposedly written by Phoenix for 1985 claims.

Occidental has not filed any of its claims with Sterling Insurance Co., a Liberian corporation purportedly formed last year to pay losses on behalf of Phoenix's reinsurers, according to E. Glen Johnson, a lawyer representing BMF with the Fort Worth, Texas, firm of Kelly, Appleman, Hart & Hallman.

Bernard Hubscher, a New York attorney who said he represents Phoenix's reinsurers, told BMF that the reinsurers would pay valid claims through Sterling as long as the claims were not "substantial," according to Mr. Johnson.

Mr. Hubscher also told BMF that the reinsurers could not return Occidental's premiums because they had passed along premiums to their own reinsurers, Mr. Johnson said.

Mr. Hubscher—who declined to identify Phoenix's reinsurers for BMF—would not comment for the record on the Occidental case.

The Phoenix placement involved two layers of property reinsurance for Occidental's Bermuda captive, Piper Indemnity Ltd. The first layer comprised aggregate stop-loss reinsurance for Piper's \$1 million per-occurrence retention and the second comprised reinsurance for \$9 million excess of \$1 million.

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## New rate hikes seen as major insurers boost their reserves

By JUDY GREENWALD

NEW YORK—Analysts say the decision by major insurers to add substantially to property/casualty reserves reflects how badly the industry as a whole is under-reserved.

The analysts add that the actions also indicate that further rate increases are necessary and that the tight market cycle may last longer than many observers have predicted.

Philadelphia-based CIGNA Corp. announced Jan. 30 that it would report a \$1.2 billion charge against its fourth-quarter 1985 earnings to strengthen its reserves (BI, Feb. 3). The increase is equivalent to 28% of CIGNA's year-end 1984 reserves.

The CIGNA move will result in an anticipated operating loss of about \$853 million for 1985, which analysts describe as the largest loss ever reported by a property/casualty company.

In addition, Continental Corp. said last week it will also report a 1985 operating loss because it is adding \$220 million to reserves, an amount equivalent to 5.9% of its year-end 1984 reserves.

New York-based Continental did not estimate the size of its 1985 operating loss, though it did say it would report a net gain for the year as a result of investment gains.

Meanwhile, Standard & Poor's Corp., which has given CIGNA an AAA rating for its claims-paying ability, says it is now reconsidering that rating because of the \$1.2 billion charge.

Both S&P and Moody's Investors Services Inc. in New York plan to re-evaluate both CIGNA's and Continental's ratings on debt issues, as well as a CIGNA preferred stock issue.

Analysts say CIGNA's and Continental's actions are an indication of how

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**'In general, I think the industry is still under-reserved, but is catching up,' says David Seiffer of First Boston.**

## Benefit costs jump 3.3% in '84: Chamber

By JERRY GEISEL

WASHINGTON—Increases in employers' benefit costs continued to moderate in 1984, a new survey shows.

Benefit costs per employee increased only 3.3% in 1984 to an average of \$7,842 from \$7,582 in 1983, according to the latest U.S. Chamber of Commerce benefits survey.

While benefit costs continue to rise, benefit expenditures equaled 36.6% of total payroll in 1984, unchanged from the previous year, the survey shows.

The 3.3% increase in overall benefit costs is substantially less than hikes in recent years. Benefit costs jumped 5.5% in 1983 to \$7,582. In 1982, benefit costs rose 8.5% to \$7,187 from \$6,627 in 1981 (BI, Jan. 14, 1985).

As was the case in 1983, benefit costs eased in 1984 because pension costs—employers' third most expensive benefit—

dropped 2.1% to \$1,011 from \$1,032. Pension expenditures as a percent of payroll decreased to 4.7% from 5%.

However, both health insurance and Social Security payroll taxes rose sharply in 1984.

Insurance costs, which include health and life insurance payments, increased 8.3% to \$1,581 per employee from \$1,460, rising as a percent of payroll to 7.4% in 1984 from 7% in 1983.

Social Security payroll taxes climbed 7.9% to \$1,408 from \$1,305 per employee, increasing as a percent of payroll to 6.6% from 6.3%.

Benefit costs increased in 13 of the 21 industries included in the Chamber survey. The largest jump was found in the pulp, paper, lumber & furniture industry, where expenditures increased 21.4% to \$8,079 from \$6,656.

Double-digit increases also were recorded in three other industries:

- Trade (wholesale and retail), up 21.2% to \$6,006 from \$4,956.

- Food, beverages and tobacco, up 20.4% to \$8,531 from \$7,083.

- Rubber, leather and plastics products, up 12.4% to \$7,847 from \$6,979.

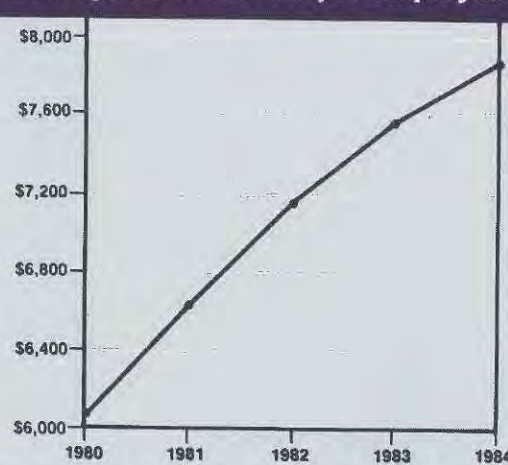
Eight of the surveyed industries reported declines in benefit costs during 1984: banks, finance companies and trust companies; chemicals and allied products; machinery (excluding electrical); miscellaneous non-manufacturing industries; primary metal; printing and publishing; stone, clay and glass products; and transportation equipment.

These decreases ranged from 0.8% in the primary metal industry to 8% in the machinery (excluding electrical) industry.

The cost of providing benefits to employees is outlined in the survey, the 23rd since the Chamber project began in the 1940s.

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Average benefit costs per employee



Source: U.S. Chamber of Commerce Survey Research Section. Chart: Amy Palmer

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## update

## Reinsurance proceeds sought

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curity to MIC, it was named an additional reinsured on Pacific American's own reinsurance policies, the suit says. The regulators are competing over the proceeds from these policies.

The reinsurers, also named defendants, are Fremont Indemnity Co., Eagle Star Insurance Co., Republic Insurance Co. and Pine Top Insurance Co.

Meanwhile, negotiations to avoid liquidating MIC are taking longer than expected. "Intense negotiations" were still going on late last week between California regulators, MIC's reinsurance policyholders and representatives of American Financial Corp., Mission Insurance Group's chief shareholder, says a department spokesman.

## CGL form available in 22 states

NEW YORK—The revised claims-made commercial general liability policy form is now available for use in 22 states, according to the Insurance Services Office.

But, to date, Illinois and Connecticut are the only two of the 14 states that rejected an earlier version of ISO's claims-made CGL to have approved the revised form. ISO revised the form last month after many regulators declined to approve it (BI, Jan. 13).

ISO says the form has been approved in Alabama, Connecticut, Florida, Idaho, Illinois, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Mississippi, Montana, Nevada, Utah and Wisconsin.

The form also is available for use in California, Colorado, Indiana, Missouri, New Mexico and Tennessee, unless they reject it.

## \$50 million added to National Re

STAMFORD, Conn.—National Reinsurance Corp. has received a \$50 million capital infusion from its parent, Lincoln National Corp., boosting its surplus to about \$121 million, says William D. Warren, National Re's chairman and president.

National Re, the 11th-largest U.S. reinsurer with nine-month net premiums of \$143.3 million, plans to use the money to support existing business and pursue new opportunities, Mr. Warren says.

## High school sports to continue

WINNETKA, Ill.—New Trier High School is continuing its sports programs after finding \$6 million in general liability coverage. The school had considered cutting sports Feb. 1 because \$10 million in expiring coverage could not be replaced (BI, Feb. 3).

New Trier has a \$1 million primary policy written by Continental Insurance Co. and \$5 million in excess coverage from Great American Surplus Lines Insurance Co. It is paying \$127,000 for the \$6 million in coverage, compared with the \$26,682 it paid for the \$10 million in coverage, says Business Manager Robert Larsen.

## UNR settles with two insurers

CHICAGO—Asbestos defendant UNR Industries Inc. has settled a lawsuit over asbestos coverage with two insurers for \$11.6 million.

The Chicago-based company, which filed for Chapter 11 protection in 1982, said Commercial Union Insurance Co. and affiliate Falcon Insurance Co. agreed to pay the money when UNR reorganizes or no later than April 1, 1988. The settlement is subject to the approval of the bankruptcy court.

UNR filed suit in 1983 in federal court against about a dozen primary and excess insurers, including Commercial Union and Falcon, alleging they conspired to fix prices, boycott and intimidate policyholders and deny coverage, ultimately forcing UNR into bankruptcy (BI, Sept. 26, 1983).

A trial date is expected to be set soon. UNR attorney Philip Heller said settlement discussions continue with other insurers.

## Fee limit sought in Manville

NEW YORK—Manville Corp. shareholders are seeking to limit contingent fees plaintiffs' attorneys may receive as a result of a proposed \$2.5 billion to \$3 billion settlement with asbestos victims.

Attorneys for the shareholders committee in Manville's reorganization recently filed papers with the U.S. Bankruptcy Court in New York asking the court to fix "reasonable" compensation for plaintiffs' attorneys. Some estimate plaintiffs' attorneys may get as much as \$1 billion from the settlement.

The motion says the committee has a "vital interest" in the issue since "this drain on the estate directly dilutes equity." Plaintiffs' attorneys deny they will get \$1 billion and have said voluntary procedures may be adopted to limit fees (BI, Dec. 16, 1985).

Manville is also expected to file its consensual reorganization plan and supporting documents to the bankruptcy court this Friday.

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## Decision could cost firm millions in asbestos cover

By STEPHEN TARNOFF

SAN FRANCISCO—A policy exclusion for "asbestosis" written in the late 1970s and early 1980s excludes coverage for all asbestos-related diseases and not just asbestosis, a Superior Court judge says.

In the first interpretation of an "asbestosis exclusion," San Francisco State Superior Court Judge Ira A. Brown Jr. ruled that former asbestos producer Armstrong World Industries Inc. and its insurers between 1977 and 1982 understood the terms of the coverage to mean that coverage for all asbestos diseases be excluded.

As a result of last month's decision, Lancaster, Pa.-based Armstrong won't have access to more than \$125 million in liability insurance it sought for asbestos bodily-injury claims under policies written during those years, insurers' attorneys say.

However, the court also ruled the asbestosis exclusion does not apply to asbestos property damage claims brought against Armstrong, and thus the coverage is potentially available for Armstrong for these types of claims, which involve the cost of removing asbestos from buildings.

The Jan. 14 decision by Judge Brown came in the midst of the third phase of massive insurance litigation

between five asbestos producers and scores of insurers over the scope and extent of insurance coverage for asbestos diseases.

The producers in the trial, which began March 4, 1985, are Manville Corp., GAF Corp., Nicolet Inc., Fibreboard Corp. and Armstrong.

Phase 2 of the trial, which concerned interpretation of the asbestosis exclusion, began last July and ended in August. Armstrong was the only producer involved in this phase of the litigation.

At issue was how to interpret exclusions for "all liability from asbestosis" in policies for Armstrong written between Jan. 1, 1977, and Jan. 1, 1982.

The lead underwriter for Armstrong was H.S. Weavers Underwriting Agencies Ltd., which, along with other participants from the London market, wrote first-layer umbrella insurance of \$5 million per year.

Insurers on other layers during the five years at issue included The Home Insurance Co., National Union Fire Insurance Co. of Pittsburgh, Pa., Interstate Fire & Casualty Cos., United States Fire Insurance Co., Central National Insurance Co., Puritan Insurance Co., CNA Insurance Co., and various London market insurers.

These insurers wrote more than \$125 million in liability coverage.

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**'This is the first ruling on what the exclusion means,' attorney Fred Gregory says.**

## N.J. rules reaffirmed by court

By MEG FLETCHER

TRENTON, N.J.—The New Jersey Insurance Department now has a 3-0 record in legal skirmishes with insurers over its regulations that limit insurers' rights to cancel or not renew many property/casualty insurance policies.

In the most recent test, a three-judge panel from the Appellate Division of the state Superior Court last week unanimously ruled that the department's regulations were valid.

"We are very happy about it. It's a pretty strong opinion," said Insurance Commissioner Hazel Frank Gluck.

The Feb. 3 court decision is the third time state judges upheld the Insurance Department's controversial regulations, which were adopted on an emergency basis in September and made permanent one month later. The regulations were later revised, and some amendments are still pending (BI, Oct. 7, 1985; Nov. 18, 1985).

Two courts in November denied insurers' request for relief from the rules (BI, Nov. 11, 1985).

The regulations "were designed

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## Capacity still plentiful in political risk market

By STACY SHAPIRO

LONDON—Predictions of a capacity shortage for political risk insurance are proving wrong, with three new players entering the market in recent months.

But the coverage may not suit clients' needs or may be too expensive. And underwriters are being very selective about the risks they decide to take.

The new participants, all with the reinsurance to back them up, are Trade Indemnity P.L.C., Britain's lead credit insurer; PanFinancial Insurance Co. Ltd. in London; and Trade Credit Underwriters Agency Inc. in New York.

Competition is so heated, in fact, that Trade Indemnity last month gave presentations to insurance brokers to generate new business, sources say.

Only last May, political risk insurers were concerned that the lack of reinsurance support would significantly reduce their capacity, both in the United States and London (BI, May 27, 1985).

But, although there has been a reduction in reinsurance capacity, "there is no capacity shortage," says Michael Eve, managing director of BankAmerica Insurance Brokers Ltd. in London, a division of BankAmerica Corp. and a political risk specialist.

"A lot of underwriters like to blame the lack of capacity for not writing certain deals, but they should call the deals unsuitable rather than say there is a capacity shortage," says Robert E. Svensk, chairman and president of TCU.

"If there is a good deal, you can usually find the capacity to support it," he says.

Political risk is a generic term used for several specific types of coverage that protect a company from loss of assets or goods due to political strife.

The most-often-requested political risk coverage is contract frustration insurance, which covers losses due to the cancellation or re-

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## Tort reform on the docket at RIMS

By JOANNE WOJCIK O'HARE

Are the U.S. and Canadian civil justice systems, in fact, civil and just?

That's the question the general session of the Risk & Insurance Management Society Conference will explore on April 16.

The 24th annual RIMS conference will be held April 13-18 in Toronto.

Conference registrants also will be able to see both the U.S. and Canadian court systems in action during two simulated trials of product liability lawsuits.

"We want our members to hear firsthand what the real positions are of the insurance industry, of the trial lawyers, of the defense attorneys" toward tort reform, said Robert Esenberg, risk management administrator for the city of Virginia Beach, Va.

Mr. Esenberg is coordinating the general session of this year's RIMS conference.

The session, moderated by RIMS President P. Richard Hackenburg, staff vp and assistant treasurer of Allegheny International Inc. in Pittsburgh, will feature a panel of experts who will examine problems inherent in the civil justice system from different points of view.

The panelists will recommend appropriate changes and suggest methods to implement them, Mr. Esenberg said.

Franklin Nutter, president of the Alliance of American Insurers, will discuss the current state of the civil justice system from an insurer's point of view.

He will probe the questions, "Are we insurable under the present tort system?" and "What changes, if any are needed?" said Mr. Esenberg.

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# Reagan budget would shift health costs

By JERRY GEISEL

WASHINGTON—Some employers will have to pick up more health care costs for their retired workers if the Reagan administration gets its way.

In its proposed budget for fiscal 1987 submitted to Congress last week, the administration recommended that retirees and employers pay for a greater share of Medicare costs now paid by general revenues.

Under current law, the Medicare Part B premium, which covers physician bills, is supposed to pay for 25% of that program's costs. The administration is proposing that the Part B premium, which is currently \$15.50 a month, be raised so that it covers a much greater percentage of the program's costs.

Where retirees pay the premium, the premium would be gradually raised over the next several years so that by 1991 it would cover 35% of the program's cost.

But, where third parties, such as employers and multiemployer health plans, pay the retirees' premium, the premium would be jacked up next year so that it would cover 50% of the program's cost.

Employers with big retiree populations would experience large increases in health

care costs. For example, an employer with 10,000 retirees would see its annual Part B premium costs shoot up to \$3.72 million from \$1.86 million in fiscal 1987.

The impact of the proposal would vary widely. For example, of employers that offer post-retirement health care benefits, between 15% to 20% pick up the Part B premium for retired salaried employees, estimates Frank McArdle, director of education and communications at the Employee Benefit Research Institute, a Washington-based benefits think-tank.

But among multi-employer health plans offering post-retirement health benefits, the vast majority pay the Part B premium, said Judith Mazo, vp and director of research at New York-based benefit consultant Martin E. Segal Co.

Changing the basis for setting the Part B Medicare premium would require congressional approval. Such a change "will be controversial and will generate opposition," Ms.

Mazo predicts.

Some experts believe that some employers will decide to eliminate picking up the Part B premium for future retirees rather than face the prospect of paying substantially higher premiums.

But employers might be reluctant to reduce or eliminate payment of Part B premiums for current retirees because of recent court decisions that have barred companies from making unilateral cuts in their post-retirement health care programs, some say.

"Employers are quite skittish about making any post-retirement health care changes," a consultant noted.

Other Reagan administration Medicare proposals also would shift more health care costs to employers.

For example, the administration is recommending lifting in 1987 the annual Part B Medicare deductible to \$100 from \$75. After 1987, the deductible would be indexed to rise in tandem with increases in the medical care component of the Consumer Price Index.

Raising the deductible would affect employers whose post-retirement health programs are coordinated with Medicare. Under some arrangements, the employer plan automatically picks up health care costs not covered by Medicare.

Thus, as Medicare pays less, the employer automatically has to pay more.

The administration also proposes that Medicare coverage for retirees would not begin until the first full month after a beneficiary turned 65.

Under current law, retirees are eligible for Medicare on the first day of the month in which they turn 65.

For example, a retiree who turns 65 on July 15 now is covered under Medicare starting on July 1. Under the administration's proposal, Medicare coverage would not begin until Aug. 1.

Last year, when it unveiled a similar proposal, the administration said the delay in Medicare eligibility would not hurt many individuals since most employer provided plans automatically extend benefits until Medicare coverage begins.

The administration is repeating its support for a proposal in a pending budget bill to require employers to offer workers and their spouses age 70 and older the opportunity to enroll in their group health care program in lieu of Medicare for their primary health care coverage.

Currently, the choice of opting for the employer health care plan over Medicare for primary coverage only has to be extended to

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## Searle says it has cover for its discontinued IUDs

By STEPHEN TARNOFF

SKOKIE, Ill.—Pharmaceutical giant G.D. Searle & Co., in the wake of its decision to discontinue sales of its two popular intrauterine devices, says it has adequate insurance and reserves to cover any awards or settlements.

However, the Skokie-based company is declining to reveal just how much it has reserved or the limits of its liability insurance coverage.

The company announced last week that it would no longer sell its CU-7, or "Copper 7," and TATUM-T intrauterine copper contraceptives in the United States, blaming escalating product liability litigation costs and the inability to obtain product liability insurance for the IUDs.

Despite the action, Searle continues to express confidence in the IUDs' "safety, efficacy and medical utility" when used in accordance with U.S. Food and Drug Administration prescribing information.

The company also said that discontinuing sales of the IUDs will have no material effect on earnings.

"Between insurance and reserves for potential losses, I think we've covered all the potential bases," said Paul Morrison, director of risk management for Searle, which is now a unit of St. Louis-based Monsanto Co.

Searle was unable to obtain liability coverage for its IUD products for 1986 forward, Mr. Morrison explained. However, the company does have insurance for prior years.

"We were not offered terms for coverage," Mr. Morrison said. "I think the general liability insurance crisis everyone is experiencing was certainly not a helpful factor in searching for coverage for IUD products."

However, he said underwriters' decision to exclude IUDs has not hurt Searle's ability to obtain coverage for other products it manufactures.

Searle's decision to discontinue sales of the IUDs came approximately six months after A.H. Robins Co., manufacturer of the Dalkon Shield IUD,

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## Hardening market puts county jailers in a bind

By ROBERT A. FINLAYSON

BENTON, Mo.—When the Scott County Sheriff's Department's law enforcement liability insurance was canceled last November, Sheriff William Ferrell closed the county jail and sent 43 prisoners packing to other county lockups in the state.

The jail closing proved only temporary, however, when later that same month sheriffs in Missouri agreed to form a self-insurance pool, which began issuing policies Jan. 1.

But Sheriff Ferrell's action is symptomatic of the insurance problems local law enforcement officials now face—particularly those operating jails.

Only a few years ago, law enforcement coverage for local peace officers was plentiful, with 30 to 40 insurers offering the coverage. First-dollar coverage was common, and premiums were relatively cheap.

Now, only two insurers—Imperial Casualty and Indemnity and National Casualty Co.—remain as major players in this market, according to brokers and law enforcement market, although a few small companies are offering limited amounts of coverage.

County sheriffs who manage to get coverage say they are being forced to accept substantial deductibles, sometimes as high as \$50,000 per occurrence, while premiums have jumped as much as 300%.

But many other county sheriff departments either can't afford coverage or can't buy it at any price.

The National Sheriff's Assn. in Washington, D.C., says it has been unable to find liability insurance for about a third of the more than 2,000 sheriff's departments for which it once helped find law enforcement coverage.

Insurers and law enforcement officials contend much of the problem

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Photo: AP/Wide World

Liability insurance problems threaten Mardi Gras plans of the Zulu, shown in an earlier parade.

## Mardi Gras

### Coverage problems rain on famous parade

By MICHAEL BRADFORD

NEW ORLEANS—Even New Orleans' Mardi Gras, one of the most famous pre-Lenten festivals of fantasy, is being hit by the realities of the tight liability insurance market.

A week before Fat Tuesday, at least one krewe, or Mardi Gras parading organization, was still scrambling for the \$500,000 in liability coverage that is required by city officials.

If no coverage is in place by tomorrow, members of Zulu will be watching the festivities from the sidelines.

The rest of the krewes have found liability coverage, but they have had to pay more than twice as much for about half the limits.

And, for a while, it looked as if the liability insurance crisis, coupled with New Orleans City Council action, might turn the colorful parades into a jazz funeral.

Orleans and three other area parishes, or counties, always required at least \$500,000 in liability coverage for parading krewes, according to Dorothy Gettys, an underwriter with Gettys Insurance Agency in New Orleans, which places coverage for about 50 krewes.

Then last year, Ms. Gettys explained, the New Orleans City Council passed an ordinance requiring krewes to carry at least \$1 million in liability coverage for parades in the city.

However, it soon became apparent that that re-

quirement could not be met, she said.

"They wanted \$1 million, but no one would write it," said Ms. Gettys. "The (krewe) captains went before the council and convinced them to drop it back down to a half-million," she said.

Facing the loss of millions of dollars in revenue that the carnival annually generates for New Orleans, the City Council decided to reinstate the old liability insurance requirement, Ms. Gettys explained.

"Once they found out no one was going to write \$1 million, it was either go back down or call off Mardi Gras. We were all worried," she said.

Almost all the krewes managed to find the \$500,000 in coverage, officials said. But, last week, the krewe of Zulu was still looking for coverage for its coconut-tossing troops.

The Zulu parade is one of the most popular, mainly because of the unique souvenirs that have become the krewe's trademark. All the krewes throw beads and doubloons, but Zulu is known for chucking coconuts.

And, it is those gold-painted souvenirs that are causing Zulu's insurance blues.

Ms. Gettys explained that most krewes have had few, if any claims, during recent Mardi Gras celebrations. But Zulu generates 15 to 20 claims each year from revelers who have been beamed by the husky palm nuts, she said.

According to Ms. Getty, National Union Fire In-

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## Flow of Occidental premiums

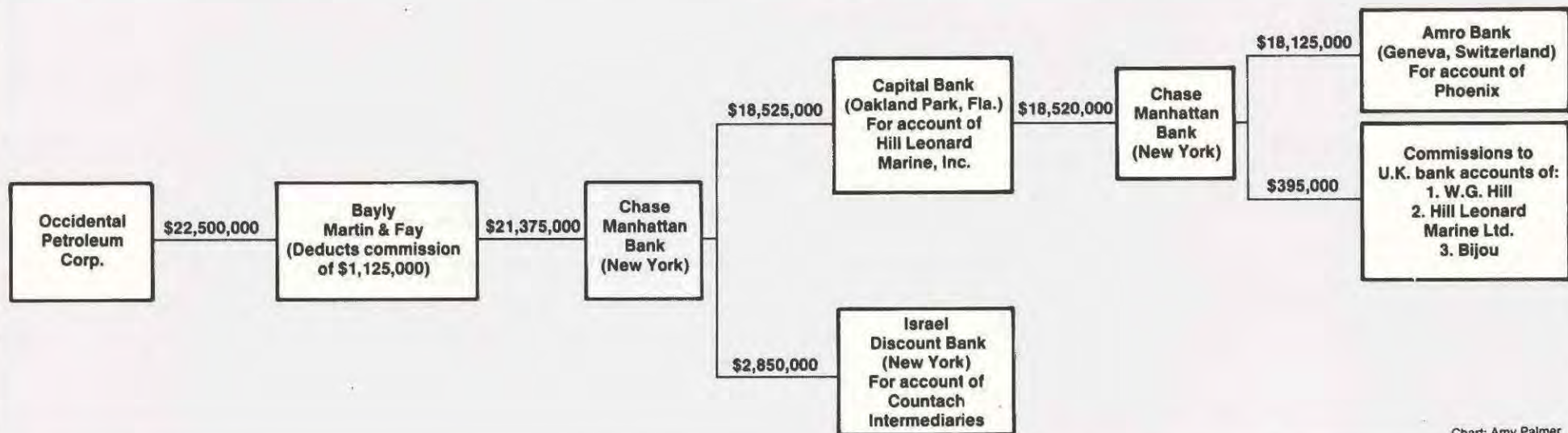


Chart: Amy Palmer

## Occidental cover

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lion.

Occidental had worldwide property coverage of up to \$500 million on certain exposures written by Lloyd's of London and other British and U.S. insurers. The remainder of this coverage is not in dispute.

The aggregate stop-loss reinsurance for Piper was originally to have been placed directly with the Insurance Exchange of the Americas in Miami through Countach Intermediaries Ltd. in New York.

However, this coverage was eventually placed with Phoenix. Although Phoenix was then to have retroceded the business to the Miami exchange, IEA President Arturo Toro confirms the retrocession was never placed with the exchange.

Countach's reinsurance intermediary license expired last August, and the company's New York phone number has since been disconnected. Countach Executive Vp Gary I. Hoskie, reached at his home in Levittown, N.Y., referred questions to Mr. Hubscher, who declined comment. Two other Countach employees involved in the Occidental placement could not be reached.

Reinsurance for the \$9 million excess of \$1 million per-occurrence layer was placed with Phoenix through three British brokers: Bijou Insurance Services, based in the London suburb of Warlingham and designated as BMF's British consultant; Hill Leonard Marine Ltd., based in Chelmsford; and W.G. Hill & Son (Insurance) Ltd., a London-based Lloyd's broker that acted as a fronting broker for Hill Leonard.

David A.V. Carter, a director of W.G. Hill, said his company had acted as Hill Leonard's fronting broker on previous placements at Lloyd's. W.G. Hill became involved in the Occidental placement because the deal required "the strength of someone larger than Hill Leonard," he said.

BMF's attempts to place the Occidental program began in late 1984. By the first week of January 1985, the \$9 million excess layer had been bound with Phoenix through an underwriter named Gordon Clark at an agency called Phoenix of Switzerland in Vancouver, British Columbia.

The chain of brokers subsequently issued a series of cover notes confirming this placement.

According to Mr. Carter, W.G. Hill issued a cover note on the excess layer to R. Ian McGuire Bijou's managing director, on Jan 2, after receiving assurances that Hill Leonard would issue a supporting cover note to W.G. Hill. That cover note was received from

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## Occidental cover

Continued from page 4  
Hill Leonard on Feb. 7.

Meanwhile, BMF had received the W.G. Hill cover note and a cover note from Countach on the placement of the aggregate stop-loss reinsurance with the Miami exchange. BMF then sent its own cover note for both layers to Occidental on Jan. 4.

All of the cover notes for the \$9 million excess layer showed Piper's reinsurer as "Phoenix Insurance Co."

The reinsurance purportedly covered a three-year period starting Dec. 31, 1984, and required up-front premium payments of \$3 million for the aggregate stop-loss layer and \$19.5 million for the \$9 million per-occurrence excess layer.

The cover notes specified that premiums were to be paid within 45 days after inception of the coverage.

On Feb. 5, 1985, Bijou's Mr. McGuire sent a telex to Michael Vizio, a BMF vp, passing on instructions from Countach and Hill Leonard on where the Occidental premiums should be wired.

The telex instructed that:

- Net premiums of \$2.85 million after BMF's commission on the \$1 million aggregate stop-loss layer should be wired through Chase Manhattan Bank in New York to Israel Discount Bank in New York for the account of Countach Intermediaries.

- Net premiums of \$18.525 million after BMF's commission on the \$9 million excess layer should be wired through Chase to Capital Bank in Oakland Park, Fla., for the account of Hill Leonard Marine Inc. (see chart, page 4).

Hill Leonard Marine Inc. was a Florida corporation formed in December 1984 by Philip H. Leonard, managing director of Hill Leonard Ltd., and Richard L. Fast, a Fort Lauderdale insurance agent.

In an interview, Mr. Fast—listed in incorporation papers as president of Hill Leonard Marine Inc.—said he helped set up the Florida company and that he opened its account at Capital Bank with \$100.

Mr. Fast said he was not involved in the Occidental placement.

"I had no part of that deal. That would have been way over my head," Mr. Fast said.

He confirmed, though, that more than \$18 million in Occidental premiums arrived in Hill Leonard's Capital Bank account. He also confirmed that he received telexed instructions from Mr. Leonard to authorize the bank to wire \$18.125 million of the money through Chase in New York to Amro Bank in Geneva, Switzerland, for the account of Phoenix.

The remaining \$400,000 represented commissions of \$100,000 to W.G. Hill, \$100,000 to Bijou and \$200,000 to Hill Leonard Marine Ltd. All of this money—with the exception of a \$5,000 fee that was retained in the Florida account—was later wired to the British bank accounts of the three brokers.

Mr. Fast said he was surprised by the amount of money suddenly appearing in Hill Leonard Marine's account at Capital Bank.

"It was a \$100 account, and the next thing you know, there's \$18 million going through there," he said.

He also said Mr. Leonard had told him to instruct Capital Bank that a Mr. Davis of BMF would be checking on the transfer.

But Mr. Johnson, BMF's lawyer, says that there was no one named Davis at BMF who would have been involved in the Occidental program.

Philip Willis, a former Capital Bank officer who handled the Hill Leonard account and who recently left the bank, said that he could not remember if a Mr. Davis ever called on the transaction.

Occidental and BMF are still trying to learn what happened to the premiums after they passed through Israel Discount Bank and Amro, the Swiss Bank. Mr. Johnson said the premiums wired to Amro were withdrawn the same day.

Pierre Baeriswil, an Amro officer, said he had refused to accept the \$18.125 million as a deposit and had asked a Geneva lawyer representing Phoenix to remove the money as soon as it was wired.

"I said to the client, 'You have to take out this amount as soon as it comes,'" Mr. Baeriswil said, explaining that the sum was too large to accept as a deposit.

Mr. Baeriswil would not identify the Geneva lawyer representing Phoenix or the name of the bank to which the money was transferred.

Officials at BMF, W.G. Hill and Hill Leonard all say that, as the premiums were transferred and for several months thereafter, they believed that Occidental's reinsur-

ance had been placed with Phoenix Assurance, a unit of Sun Alliance & London Insurance P.L.C.

"The suggestion all along was that it was the U.K. Phoenix," Mr. Carter said, though he added that no one had ever told him so specifically.

Mr. Leonard, responding to questions telexed to his lawyer, Howard Barrington-Clark, said he was assured by Mr. McGuire of Bijou and Gordon Clark, the Vancouver underwriter, that the Sun Alliance unit was on the risk.

A reporter who called Mr. McGuire's home in Warlingham was told by Mr. McGuire's wife that he did not wish to discuss Occidental.

Repeated attempts to reach Mr. Clark were unsuccessful. The phone at Phoenix of Switzerland, Mr. Clark's Vancouver agency, has been answered by a variety of recorded messages since last year. The phone has since been disconnected.

Two former BMF officials who were fired following the Occidental placement—Executive Vp William A. Baxter and Senior Vp Russell Larsen—also declined to comment for this story.

In an interview last year, however, Mr. Baxter said BMF had been assured by W.G. Hill that the coverage was placed with Phoenix Assurance.

BMF's lawyer, Mr. Johnson, confirmed that BMF added "Phoenix Assurance Co." over the signature of Gordon Clark on manuscript policy forms for the aggregate and excess coverage. Mr. Johnson said this was done on Mr. McGuire's authority.

Which of the brokers was actually responsible for placing the \$9 million layer with Phoenix Insurance Co. is a matter of dispute.

Mr. Barrington-Clark said that Mr. Leonard had "absolutely" nothing to do with the placement of the Occidental business with Gordon Clark, though he said that Mr.

Leonard had previously attempted to place accident and health business with Mr. Clark.

"His contact with Clark (on the Occidental placement) came only after the cover note was issued and the business done," Mr. Barrington-Clark said.

Mr. Leonard was first contacted regarding Occidental in early January by Mr. McGuire, who told him that he "could get in on it and stand by," Mr. Barrington-Clark said.

Mr. Leonard then heard nothing more and thought he had been "cut out of the deal" until he received a telex from Gordon Clark later in January saying that Mr. Clark was "glad to be doing business" with him, Mr. Barrington-Clark said. By this time, W.G. Hill had already issued its cover note, Mr. Barrington-Clark said.

"We believe the chain was already established and Leonard was added as a separate link," Mr. Barrington-Clark said.

Continued on facing page

# HOW UAC BACKS UP THE BEFORE THE CLAIMS GET



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The UAC team of adjusters, specialists

Continued from facing page  
rington-Clark said.

W.G. Hill's Mr. Carter, however, said that this version of events was "as incorrect as you could get."

Mr. Carter denied that W.G. Hill had any part in the actual placement of Occidental's coverage with Phoenix and added that Mr. Leonard had told him that Mr. McGuire had no part in it either.

When Mr. Leonard first approached him to act as fronting broker on the excess portion of the Occidental risk, Mr. Carter said he told Mr. Leonard that W.G. Hill would not take the business if Mr. McGuire "had anything to do with" placing the reinsurance.

"Leonard assured me absolutely, categorically that McGuire had absolutely nothing to do with the placement of that bloody insurance," said Mr. Carter.

Mr. Carter also said he had previously dealt with Gordon Clark on other business.

Whether or not Hill Leonard was

directly involved in placing the \$9 million excess layer with Phoenix through Gordon Clark, it apparently was involved in placing the \$1 million aggregate layer that originally was intended to go to the Miami exchange, according to Tony Harris, BMF's general counsel.

In a March 20, 1985, telex to Vancouver, Mr. Leonard asked Mr. Clark if he would be able to accept the \$1 million aggregate layer with the Miami exchange acting as Phoenix's reinsurer, according to Mr. Harris.

Mr. Clark responded by telex the same day that Phoenix would accept the risk and that he would work out the details with David Skoller, secretary/treasurer at Countach in New York, Mr. Harris says.

Occidental apparently had no indication for several months that there was any problem with Piper's reinsurance.

On April 3, 1985, BMF's Mr. Lar-

son informed Occidental in a letter that because of delays in lining up coverage with the Miami exchange, the aggregate stop-loss layer had also been placed with Phoenix, according to Mr. Johnson, BMF's attorney.

Ten weeks later, in mid-June, Occidental received a phone call from an FBI agent warning that the coverage written by Phoenix might be fraudulent, Mr. Johnson said.

At about the same time, Mr. Leonard at Hill Leonard sent a telex to Robert Bolderson, a business acquaintance at Ocean State Insurance Group in Newport, R.I., asking him to make "confidential enquiries" about Mr. Clark and Phoenix of Switzerland through contacts in Canada.

Mr. Bolderson, who confirmed he received the telex, said he wasn't able to furnish Mr. Leonard with any information.

Mr. Johnson said that by the end of July, Mr. Baxter, the BMF exec-

utive vp who was later fired, was meeting in London with Mr. Hubscher, who had stepped forward as a representative of Phoenix Insurance Co.'s unnamed reinsurers.

Occidental filed its lawsuit against BMF on Aug. 9, charging negligence and breach of contract and asking for at least \$22.5 million in compensatory damages and \$100 million in punitive damages.

Occidental's complaint was amended in October to add a charge of fraud and to increase the compensatory damage claim to at least \$50 million.

The compensatory claim was increased to include not only the \$22.5 million premium Occidental paid but also the cost of replacement coverage, potential uninsured claims and legal costs.

BMF is awaiting a court hearing on a motion to strike certain elements of the complaint and is not expected to file an answer until the motion is decided.

Sources say that BMF has approximately \$50 million in applicable errors and omissions coverage with several insurers, including Employers of Wausau.

E&O insurers for W.G. Hill, which voluntarily suspended doing business at Lloyd's last year—have already denied the broker's claim under a policy exclusion covering all Hill Leonard business, according to Mr. Carter. W.G. Hill has since sold its client portfolio and is essentially out of business, Mr. Carter said.

BMF is continuing to investigate the placement, Mr. Johnson said.

Other investigations are being conducted by the New York Insurance Department's insurance frauds bureau, in conjunction with the office of the U.S. Attorney for the Southern District of New York; the FBI; and the city of London Police Department's fraud squad.

Representatives of each of these agencies declined to comment on their inquiries.

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THE TEAM WORKS

## Consultants in Oregon to be tested

By MEG FLETCHER

SALEM, Ore.—Insurance consultants in Oregon will have their first opportunity to take a newly mandated licensing test in mid-March.

However, the test date has not been officially scheduled by state officials, who are busy implementing the risk management consultants' licensing law, H.B. 3004, which went into effect Jan. 1.

The law applies to persons who charge a separate fee for giving advice on insurance matters, including financial planners.

The law does not specify whether a risk management consulting firm or each individual consultant must be licensed, according to Joyce Meagher, supervisor of licensing and continuing education for the Insurance Division of the Oregon Department of Commerce.

Division officials are seeking the advice of the state attorney general's office in deciding whether licenses will be required for each firm or each individual consultant, she said.

Exempted from the law are attorneys, certified public accountants and bank trust officers, when acting in those respective capacities, Ms. Meagher said.

In addition, "a licensed insurance agent is not expected to obtain an insurance consultant's license in order to give advice about insurance in the usual course of placing a risk and earning a commission," according to a bulletin from the state Insurance Division.

To be licensed, a consultant must pass the examination, be at least 18 years old and provide proof of residency in Oregon or in a state with a law similar to Oregon's, Ms. Meagher explained.

Although Ms. Meagher said she does not know of states with similar licensing laws, a consultant licensed in another state could be granted reciprocity if he submitted a copy of his state's law and Oregon insurance officials found it acceptable.

Currently, about 27 other states have laws requiring insurance and or risk management consultants to be licensed.

An Oregon consultant must also provide proof that he has five years of experience in the insurance field and has secured \$1 million in errors and omissions coverage underwritten by an insurer authorized to do business in Oregon.

The consultant must also post a \$5,000 bond and pay an as-yet undetermined application fee. There is no renewal fee.

## opinions

# First things first

Discussion of privatizing the Pension Benefit Guaranty Corp. insurance program should be put on the back burner until Congress completes action on a more urgent task: shoring up the agency's financial base.

The PBGC is currently on the road to insolvency; its termination insurance program has a \$1.3 billion deficit. Unless revenues are increased, the PBGC will be unable to guarantee benefits to participants in terminated pension plans the agency has taken over.

That would be a social catastrophe that Congress cannot allow to happen. Public support for employer-sponsored pension plans would plummet without a program to guarantee payment of benefits when companies can't meet their obligations.

A budget reconciliation bill now pending in Congress would prevent such a disaster by boosting the termination insurance premiums the PBGC charges employers with defined benefit plans to \$8.50 per plan participant from \$2.60.

So the PBGC does not keep coming back to Congress for additional premium hikes, the legislation would close many loopholes in current law that allow employers to shift underfunded plans onto the PBGC at a relatively low cost.

For example, most employers would have to fully fund their benefit promises before they could terminate pension plans.

And, companies in financial difficulty no longer

could dump their plans on the PBGC and walk away from their pension promises, as can be the case now. They would be responsible for paying a much greater share of the benefits.

If these reforms were enacted, the PBGC insurance program would much more closely resemble what it is supposed to be—a last-resort guarantor of pension benefits—rather than a system in which healthy employers subsidize the benefits of companies no longer willing to honor their promises.

Once these reforms are enacted, and only then, should discussion begin on long-term alternatives to the PBGC insurance program.

One alternative that we like is allowing the PBGC to charge so-called risk-related premiums. Under that concept, premiums would be based on the financial condition of a company's pension plan.

If the PBGC were allowed to charge risk-related premiums, employers would have a financial incentive to improve the funding of their pension programs.

Reagan administration officials, as we reported recently, also are interested in allowing commercial insurers to provide termination insurance coverage. They believe having private industry provide coverage would be more efficient than a monopoly program.

Privatization may have merit, but it certainly needs more study. Among other things, it isn't clear whether insurers would write the needed coverages.

## letters

### Minimum premium plans don't limit employer liability

To the editor: May I take issue with a statement in your otherwise excellent article concerning self-funding health benefits in the Jan. 27 issue.

In your discussion of minimum premium plans, you give an example where an employer with a conventional insurance premium of \$2 million would pay a \$200,000 minimum premium, leaving the balance of \$1.8 million to pay claims. So far, so good.

The problem lies in your statement: "However, no matter how high claims go, the employer will not owe the insurer

more than the additional \$1.8 million. That is the insurance aspect of minimum premium plans."

Unfortunately, under most minimum premium arrangements, the statement is incorrect.

Claims exceeding the \$1.8 million liability limit would result in a deficit and an obligation on the part of the employer to the insurer in future years to the extent the deficit is not recoverable from other sources of surplus.

The possibility of a deficit, which is generally carried forward to the next

year, is exactly the same as under a conventionally funded plan, and in fact the statement has frequently been made that the "risk position" of both the employer and the insurer are precisely the same under conventional funding and minimum premium arrangements.

This is a frequently misunderstood point about minimum premium arrangements.

**Marshall P. Stuart**

Senior Vp

Alexander & Alexander of California Inc.

San Francisco

### One more 'no' vote for claims-made policy

To the editor: The ongoing debate on the claims-made commercial general liability insurance form in your Letters column appears equally divided. Our municipal government will cast a no vote at our 1986 renewal date.

It is true that this form has long been with us for directors and officers and professional liability coverages. Our equivalent is the public officials liability policy.

In 1985, our professional liability insurer ceased providing this coverage and the new insurer refused an acceptable retroactive date. It was a simple matter for us to buy the extended reporting endorse-

ment for 50% of the modest premium then charged. Our cost: \$7,000.

If the same circumstances occurred on our excess general liability coverage, the outcome would be very different. Would we pay hundreds of thousands of dollars for the extended reporting period in addition to the new insurer's premium? This would not be very attractive.

Our answer: Bank the premium and issue tax-exempt bonds in the event of a catastrophic loss.

**Daniel W. Ryan**

Director of Finance  
Village of Skokie, Ill.

### Why is industry fighting for 'inferior' product?

To the editor: Regarding John A. Churilla's Jan. 20 letter, if there is nothing a claims-made policy can't do that an occurrence policy can, why is the insurance industry fighting so hard to get it approved? Will the claims-made policy automatically give me an unlimited tail without charge? Or will I have to pay triple the premium to get it?

What if I don't have a risk manager to mind the store? What if I let the 60 days slide by? What if my agent forgets to remind me? Has he enough E&O coverage?

There is no way to make a silk purse out of a sow's ear. Even the industry people can't agree on a form: London doesn't like the ISO form and, so far, has three of its own. St. Paul and Trenwick have written their own forms already. Where is the concurrency between layers?

It is an inferior product, and it won't fly. The insurance regulators plan to limit its use to only certain types of business.

Those of us who can band together to pool our risk under modified occurrence policies. And, the courts will have their day with it.

**Lawrence J. Bell**

Assistant Vp-Risk Management  
Revco D.S. Inc.  
Twinsburg, Ohio

### Sorry, wrong number, administrator says

To the editor: We submitted the wrong telephone number with our entry to the directory of claims administrators in the Jan. 27 issue. The correct telephone number is 212-997-5713.

**Robert P.J. Booher**

Manager  
Claims Management Services  
Marsh & McLennan Inc.  
New York

### Middle class also hurt by pension plan limits

To the editor: Allow me to provide another perspective on the issue of qualified pension plan benefit and contribution limits.

I believe that low- and middle-paid employees would benefit in the aggregate if there were no limits, and that there should be no limits:

- Many employers set plan formulas so that top-paid employees receive the limits and other employees receive a pro rata (scaled down) benefit. When the Section 415 limits are met at the top, no new plans are added.

- With no limit on non-qualified deferred compensation plans, the limits do not affect top management at public corporations and provide a rationale to limit benefits for others.

- The limits reduce total plan funding and, therefore, overall U.S. savings.

Those who feel that limits do not matter since they affect only the rich do not understand the limits.

**Robert L. Williams**

Williams, Thacher & Rand  
Baltimore

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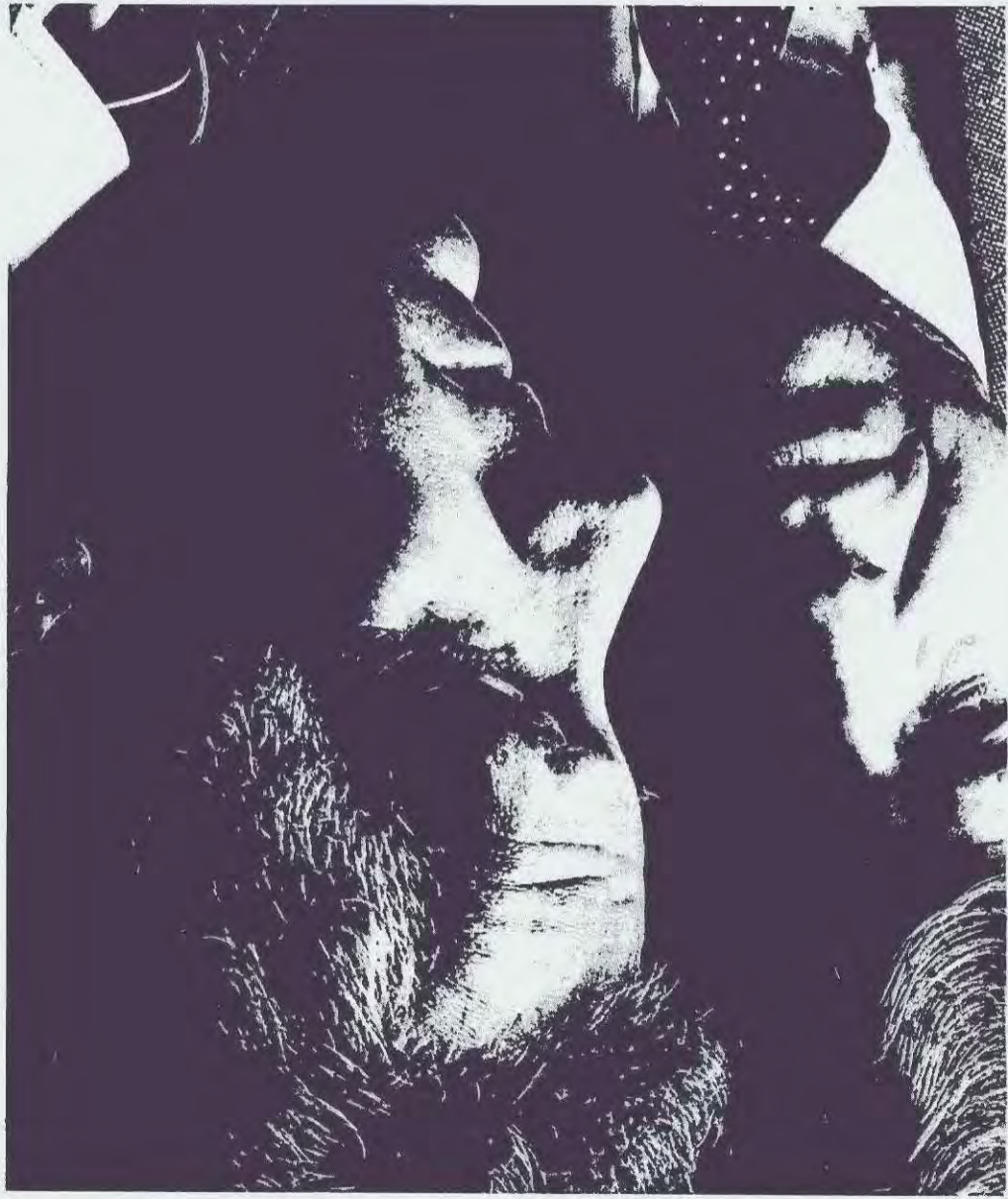
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**“GOING  
TO BE SOME  
NEW LEADERS?”**

**“WHO  
DO YOU LIKE?”**

**“FOR MY MONEY,  
FIREMAN’S FUND.”**

**LEADERSHIP  
MATCH FIREMAN’S  
FUND.**



# Hughes requires new employees to join HMO

Following in the footsteps of Lockheed Corp., Hughes Aircraft Co. now requires all new employees at its Los Angeles facilities to enroll in a health maintenance organization during the first year of their employment.

Lockheed, based in nearby Burbank, is believed to be the first major employer to establish such a policy (BI, Sept. 17, 1984).

Effective Jan. 1, all new Hughes employees in the greater Los Angeles area must enroll in one of nine HMOs. Hughes Employee

## benefit beat

Benefits Manager Dick Smith projects the move could save the company \$3 million to \$5 million after one year, depending on the number of employees hired.

After their first year in an HMO, employees may opt for enrollment in the company's indemnity health plan, but Mr. Smith predicts most employees will remain in an HMO.

Previously, new employees were

given the choice of enrolling in an HMO or in the company's self-insured indemnity health plan, which is administered by Aetna Life & Casualty Co. in Orange, Calif. Hughes pays about 14% less per month per employee enrolling in an HMO than it does per employee covered by its self-insured program, Mr. Smith estimates.

Hughes pays the total HMO en-

rollment cost; the employee does not contribute to the premium.

The number of Hughes employees enrolling in HMOs has increased by about 10% in each of the past several years, Mr. Smith said.

About 60,000 of Hughes' 75,000 U.S. employees are based in Los Angeles. Mr. Smith says the new provision does not apply to employees outside the Los Angeles area because both the number of employees hired and the number of available HMOs are too small to make such a policy practical.

By year-end 1986, Mr. Smith predicts more than 50% of Hughes' Los Angeles employees will be enrolled in an HMO.

In a separate 1986 benefit change, Hughes is imposing a 50% reimbursement penalty against those employees in its self-insured plan who do not use hospitals belonging to Hughes' Preferred Hospital Network, Mr. Smith reports.

Employees must choose one of the 50 hospitals in Los Angeles, San Diego and Orange counties that Hughes has determined to be cost-conscious or forfeit 50% of their reimbursement for incurred hospitalization expenses. Employees who use designated hospitals are reimbursed for 90% of their expenses.

A year ago, Hughes had only 13 hospitals on its preferred provider roster.

## Retirement incentives

Grand Rapids, Mich.-based Booth Newspapers Inc. is using cash bonuses to persuade 106 composing room employees at its eight newspapers in Michigan to retire early, said Vp Roger Schoemaker.

The composing room employees are eligible to receive a lump sum of \$14,000, plus \$400 for each year of service, plus full retirement benefits from Booth's defined benefit pension plan. Ordinarily, the plan does not pay full benefits until a worker reaches age 62.

In addition, eligible employees will receive \$10,000 for each year until they reach 62, while employees between 62 and 65 will receive \$2,500 for each year until they reach 65.

Employees can receive a maximum of \$100,000 under the incentive plan.

The incentives are intended to cut the composing-room workforce, which eventually will be replaced by computer technology, Mr. Schoemaker said.

Composing room employees at six of the company's newspapers are represented by the International Typographical Union Wolverine Local 535; employees at the other two newspapers are represented by ITU Local 18.

Contracts negotiated by both locals guarantee employment for members, but not necessarily in the composing room.

## Early retirement

Some 2,340 salaried employees at St. Louis-based Monsanto Co. have opted for early retirement under a program offering cash incentives in addition to full pension benefits.

Eligible employees were offered an incentive ranging from 50% to 140% of base salary, a spokesman said. About 62% of the 3,880 eligible employees opted for the plan.

To be eligible, workers had to be at least 50 years old, with a minimum of 10 years of service with Monsanto. In addition, employees' age and years of service had to equal a combined total of 70, the spokesman said, noting that the amount of each worker's incentive was based on this total.

The spokesman said the early retirement program was offered to decrease Monsanto's salaried workforce to better accommodate "a different business environment."

Under the early retirement program, Monsanto also is providing a "career center," said the spokesman. The center offers a job search program for retirees who wish to continue working, along with counseling for retirees interested in starting their own businesses.

Made any benefit changes? Write Donna DiBlase, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611; 312-649-5393.

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## update

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## markets

### Corroon & Black acquiring Phoenix-based Olliver/Pilcher

Corroon & Black Corp., the nation's sixth-largest insurance brokerage, has acquired Olliver/Pilcher Insurance Inc., a regional brokerage based in Phoenix, Ariz., in a stock exchange valued in excess of \$14 million.

Olliver/Pilcher, which specializes in commercial lines, generated gross revenues of about \$11 million in 1985, up 26% from 1984. *Business Insurance* ranked Olliver/Pilcher as the nation's 35th-largest brokerage based on 1984 revenues of \$8.6 million.

Corroon & Black had not yet released its 1985 results last week. C&B reported 1984 revenues of

\$199.1 million.

Corroon & Black says it acquired Olliver/Pilcher to strengthen its presence in the Arizona market and in the Southwest.

"Olliver/Pilcher is the No. 1 broker in Arizona, and the acquisition reflects our desire to be No. 1 in the Southwest. . . We're committed to expansion in the Southwest, which we see as a high growth area in the next few years," said Stephen Crane, Corroon & Black's senior vp and chief financial officer.

"We hope to augment this thrust with other acquisitions in that area in the future," he added.

Olliver/Pilcher will initially retain its own name because of its name recognition in the Arizona market, said William W. "Wick" Pilcher II, who will become president of Olliver/Pilcher. He had been vice chairman.

Mike Metzger, who had been president of Olliver/Pilcher, will become executive vp in charge of sales and branch operations.

All other executives will retain their current positions with Olliver/Pilcher, Mr. Pilcher said.

Corroon & Black's Phoenix office will operate independently from Olliver/Pilcher throughout 1986, although the offices are expected to merge sometime in early 1987, Mr. Pilcher said. Olliver/Pilcher will retain its four branch offices in Arizona and its current staff of 175, he added.

About 40% of the brokerage's stock was owned by employees through an employee stock option plan, while the remaining stock was held by principals of the brokerage.

Olliver/Pilcher shareholders will receive Corroon & Black stock in the exchange.

"We decided to go with Corroon & Black because their philosophy and their mix of business were similar to ours," Mr. Pilcher said, adding that the brokerage was at an "all time high" and was in a good position to sell.

### NYIE syndicates

IAT Syndicate Inc., capitalized at \$5 million, has been formed to write treaty and facultative reinsurance on the New York Insurance Exchange.

The syndicate's sole investor is Peter Kellogg, chief executive officer of the New York investment firm Spear Leeds & Kellogg.

In addition, Massachusetts Mutual Life Insurance Co. has raised the surplus of its MML Syndicate Inc. to \$10.5 million from \$5 million. MML also writes treaty and facultative reinsurance.

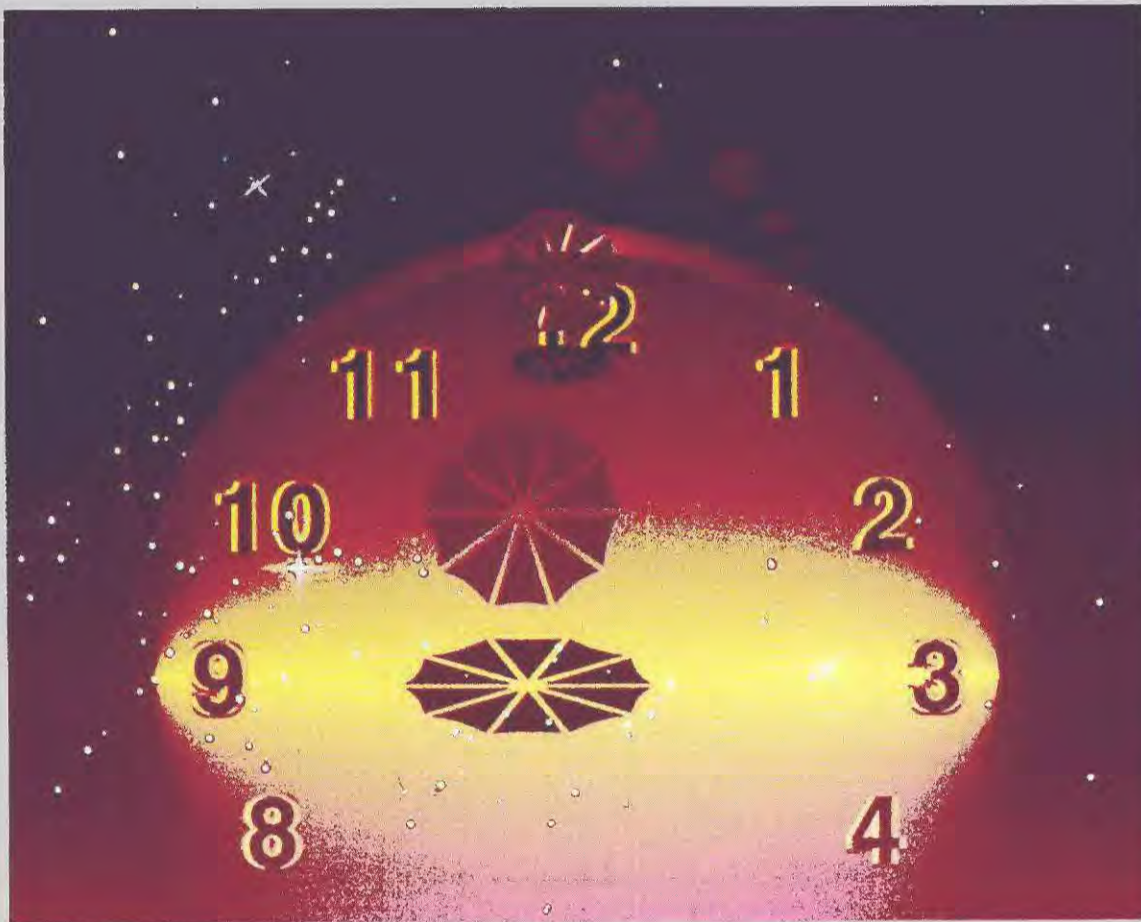
Both syndicates are managed by Johnson & Higgins Willis Faber (USA) Inc.

According to the exchange, MML Syndicate joins five other syndicates at the exchange that have increased capital since the third quarter of 1985.

Allianz Syndicate Inc. has seen the largest single increase since last year's third quarter, when \$7.5 million was added to its capital, according to exchange figures. Gold Street Syndicate Corp. added \$3 million to its capital and Pan Atlantic Investors Ltd. has upped its capital by \$800,000, says the exchange.

J&H, W.F. Syndicate B Inc. has increased capital by \$560,000 and Candon Syndicate N.B. has put an additional \$500,000 into its capital, according to the exchange.

The exchange could not provide current capitalization figures for these five syndicates.



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\*A.M. Best's most recent comparison ranks the Berkshire Hathaway Insurance Group first among all major property/casualty groups in their key measurement of financial strength — Best's test of gross leverage. See Best's Insurance Management Report Property/Casualty Release No. 6 March 4, 1985.

## Benefit costs

*Continued from page 1*

The survey is based on the responses of 1,154 employers, ranging from those with fewer than 100 employees to those with more than 5,000 workers. Some 40.2% of the employers surveyed have fewer than 500 workers.

Of the many benefits surveys published each year, the Chamber's is especially important to benefit managers because it lists exact per-employee expenditures in a broad cross-section of industry. The expenditures include costs for such benefits as pensions, health and life insurance, Social Security and profit-sharing plans.

The survey can help benefit managers compare their companies' benefit costs to others in the same industry and determine how successful their companies have been in controlling benefit costs.

While the 1984 Chamber survey provides more evidence that the dramatic surge in benefit costs is over, a new historical section shows how expensive benefits have become since the early 1970s.

For example, insurance payments per employee have increased to \$1,581 in 1984 from \$369 per employee in 1971—a 328.5% increase.

Also, between 1971 and 1984, the average cost per employee for Social Security payroll tax climbed to \$1,408 from \$372—a 278.5% increase.

Eighteen of the 21 surveyed industries reported an increase in insurance costs, the most expensive employer-provided benefit.

The biggest percentage increases were reported in the trade (wholesale and retail) industry, whose insurance costs jumped 60% to \$1,369 per employee from \$889. In addition, insurance costs in the stone, clay and glass products industry increased 25.6% to \$2,294 from \$1,827.

Insurance costs also jumped sharply in the pulp, paper and lumber industry to \$1,722 from \$1,429, a 20.5% increase. Insurance expenditures in the petroleum industry increased an average of 18.5% to \$2,227 from \$1,880 in 1983.

And, insurance costs rose by an average of \$10 each per employee in two industries: fabricated metal products, \$1,980 from \$1,970; and printing and publishing, \$1,385 from \$1,375.

However, insurance costs declined in two industries: machinery (excluding electrical), down 6.1% to \$2,032 from \$2,163; and chemicals and allied products, down 4.4% to \$1,671 from \$1,748.

Social Security costs, the second most expensive benefit expense, increased in all 21 surveyed industries as a result of a mandated FICA tax increase. The tax climbed 7.9% per employee in 1984, up to \$1,408 from \$1,305 in 1983.

In 1984, the FICA tax for employers was boosted to 7% of an employee's first \$37,800 of salary, compared with a 1983 tax rate of 6.7% of the first \$35,700 of salary. The FICA tax now is 7.15% of the first \$42,000 of wages.

However, several employers did save money on pension costs during 1984, the survey shows.

Among employers in the machinery (excluding electrical) industry, pension costs per employee fell 35.6% in 1984 to \$754 from \$1,171 the previous year. Pension costs slid 22.1% in the transportation equipment industry, down to \$1,003 from \$1,288.

Other decreases were reported by employers in the pulp, paper, lumber and furniture industry, where pension costs declined 19.9% to \$450 from \$562, and in the petroleum industry, where pension costs declined 18.7% to \$1,667 from \$2,050.

Also, pension costs in the printing and publishing industry slipped 17.4% to \$765 from \$962, and 14.8% to \$609 from \$715 among banks, finance and trust companies.

The decline in pension costs for many of the surveyed companies can probably be attributed to advances in the stock market. As the stock market rose, the value of plan assets increased, reducing the need to make fund contributions.

But some industries did not follow this trend, and instead found their pension costs rising in 1984.

Among surveyed employers in the food, beverage and tobacco industry, pension costs rose 44.7% in 1984 to an average of \$1,231 per employee from \$851. Pension costs in the department store industry increased 24.4% to \$260 from \$209.

Profit-sharing payments, reflecting a generally bullish economy, rose in 18 of the 21 surveyed industries.

Big percentage increases were found in the transportation equipment industry, up 166.7% to \$240 per employee from \$90; the trade industry (wholesale and retail), up 102.2% to \$459 from \$227; and the stone, clay and glass products in-

dustry, up 94.1% to \$196 from \$101.

However, profit-sharing payments among banks, finance and trust companies slipped 21.1% to \$321 per employee from \$407. Profit-sharing payments also fell 19.5% to \$572 from \$711 in the petroleum industry, and 4.3% to \$163 from \$170 among surveyed employers in the rubber leather and plastics industry.

That 19.5% decline cost the petroleum industry its status as paying the most generous profit-sharing payments. It fell to the No. 2 position, surpassed by the instruments and miscellaneous manufacturing industries, where profit-sharing payments increased an average of 67.3% to \$629 per employee from \$376.

Other findings in the Chamber survey include

- Despite declining pension and profit-sharing costs, the petroleum industry still spends more on benefits than any other industry. Surveyed petroleum companies in 1984

spent \$12,671 per employee, up 4.5% from \$12,122 in 1983.

That expenditure was far ahead of the second-ranked public utilities industry, with an average per-employee benefit cost of \$10,371, a 2.3% increase from \$10,142 in 1984.

- As an industry, department stores contributed the least to employee benefits in 1984. That industry spent \$3,956 in 1984, up 6.3% from \$3,721 in 1983. Spending a bit more were surveyed employers in the textile products and apparel industries, with an average per-employee benefit cost of \$4,322, up 8.9% from \$3,968.

- The public utility industry recorded the highest pension costs in 1984. It spent \$2,124 per employee, down slightly from \$2,125 in 1983.

Other industries with large pension costs included the petroleum industry, where costs slipped to \$1,667 from \$2,050, and the primary metal industry, which spent \$1,487, up slightly from \$1,463.

The textile products and apparel

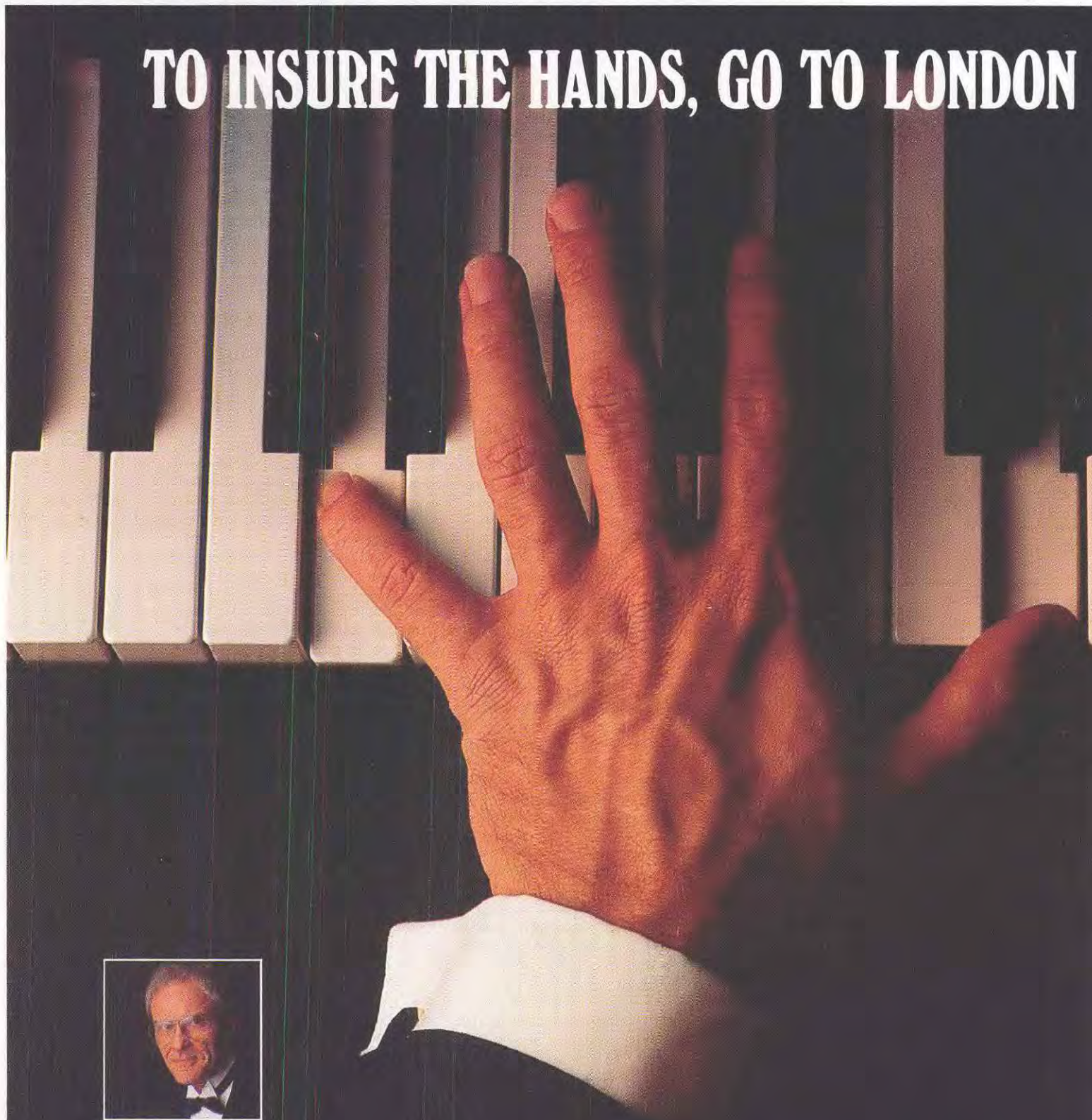
industry spent the least on pension plans in 1984: \$221 per employee, down from \$239 in 1983. Pension costs also were low among department stores, which spent \$260 per employee, up 24.4% from \$209.

- The primary metal industry spent the most on health and life insurance. It spent \$2,760 per employee in 1984, up 13.3% from \$2,436 in 1983. Other big spenders included the stone, clay and glass products industry, which paid \$2,294 or 25.6% more than the \$1,827 it paid in 1983; and the petroleum industry, with a \$2,227 tab in 1984, up 18.5% from \$1,880.

Health and life insurance costs were lowest among department stores, where per-employee costs in 1984 were \$578, up 14% from 1983. The only other industry with health and life insurance costs of less than \$1,000 per employee was the textile products and apparel industry. That industry spent \$910 per employee, up 11.3% from \$800.

*Continued on next page*

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Continued from previous page

• Industries with the highest benefit costs as a percent of payroll in 1984 include: primary metal, 45.4%, down from 47.1%; petroleum, 43.8%, up from 40.7%; and public utilities, 41%, up from 40% in 1983.

• Industries with the lowest benefit costs in 1984 as a percentage of payroll include: department stores, 29.1%, down from 31.8%; textile products and apparel, 30.9%, up from 30.5%; and miscellaneous non-manufacturing, 31.3%, down from 32.8% in 1983.

• Of the average \$7,824 spent on benefits per employee in 1984, some \$2,054, or 26.2%, went to cover legally required benefits, like Social Security. Some \$1,721, or 21.9%, was spent on tax-exempt benefits, like group health and life insurance. And, \$1,460, or 18.6%, was paid for tax-deferred benefits, like pensions and profit-sharing plans. In addition, an average of \$2,381, or 30.4%, was spent per employee on taxable benefits, like vacations and rest periods.

• Employers spent an estimated \$610 billion on benefits in 1984, up from \$550 billion in 1983, said James Morris, a Chamber consultant who directed the survey.

Copies of "Employee Benefits 1984" are available from the U.S. Chamber of Commerce, Publications Fulfillment (RKVL), 1615 H St. N.W., Washington, D.C. 20062. The cost is \$20 per copy. Discounts are available for bulk orders. Prepayment is requested.

## Employers' benefit costs per employee

Industry	1984	1983	% Change
Petroleum	\$12,671	\$12,122	4.8
Public utilities	10,371	10,142	2.3
Primary metal	10,343	10,422	-0.8
Transportation equipment	9,525	9,794	-2.7
Chemicals & allied products	9,119	9,198	-0.9
Machinery (excluding electrical)	8,556	9,296	-8.0
Food, beverages & tobacco	8,531	7,083	20.4
Fabricated metal products	8,394	7,776	7.9
Stone, clay & glass products	8,313	8,112	-2.5
Pulp, paper, lumber & furniture	8,079	6,656	21.4
Printing and publishing	7,856	8,216	-4.4
Rubber, leather & plastics products	7,847	6,979	12.4
Electrical machinery, equipment & supplies	7,808	7,406	5.4
Instruments & miscellaneous manufacturing	7,591	7,457	1.8
Insurance companies	7,319	6,833	7.1
Miscellaneous non-manufacturing industries	7,196	7,511	-4.2
Hospitals	6,146	5,728	7.3
Trade (wholesale and retail)	6,006	4,956	21.2
Banks, finance companies & trust companies	5,873	6,277	-6.4
Textile products and apparel	4,322	3,968	8.9
Department stores	3,956	3,721	6.3

Source: U.S. Chamber of Commerce Survey Research Section

Chart: Holly Seguire

## RIMS conference

Continued from page 2

Presenting the plaintiffs' bar's perspective will be Robert L. Habush, president-elect of the American Trial Lawyers Assn., while Eugene Anderson of the New York law firm of Anderson, Russell, Kill & Olick will represent defense attorneys.

Mr. Habush and Mr. Anderson will debate whether a complete overhaul or only minor adjustments to the civil justice system are needed.

Patrick Head, president and general counsel for FMC Corp., a Chicago-based manufacturer, will speak on the need for tort reform from the point of view of corporations.

Wrapping up the program will be a presentation of the judicial view of the current North American civil justice system.

Because many RIMS member companies are based in Canada or do business there, retired Canadian Supreme Court Justice Allen M. Linden, who also is president of the Law Reform Commission of Canada, will direct this portion of the program, according to Mr. Esenberg.

Justice Linden will compare the civil justice systems in the United

**'RIMS is very much involved in tort reform,' explains session coordinator Robert Esenberg.**

States and Canada, describing the influence U.S. court decisions have on Canada.

In addition, a jurist from the United States will speak at the session.

Questions from the floor will be encouraged after the presentations, and microphones will be placed throughout the Metro Toronto Convention Centre auditorium for that purpose.

"RIMS is very much involved in tort reform," and the program is designed so that members "will have the knowledge...and can actively support on a grass-roots level the tort reform issues," said Mr. Esenberg.

The general session is open to all conference registrants, as are the two mock trials. During those dramatizations, the audience will be divided into juries that deliberate to reach a verdict after attorneys for both sides present their arguments.

One of the suits will be tried in a simulated U.S. court, and the other will be set in a Canadian-style courtroom.

The simulated trials are intended to give registrants a better understanding of the risk manager's and corporation's roles in the defense of product liability lawsuits.

Additional seminars at this year's RIMS conference will focus on general risk management, risk finance, loss control, employee benefits and workers compensation issues.

In addition, Geraldine Ferraro, the 1984 Democratic nominee for vice president, will address the conference luncheon on Thursday, April 17.

Many of the sessions will be held in the Metro Toronto Convention Centre, which also will house exhibits from more than 200 vendors.

Registration fees for the full conference are \$595 for RIMS members, and \$695 for non-members. For a partial week, the fees are \$475 for RIMS members, and \$575 for non-members. The cost for one day is \$195.

For more information, contact the RIMS Conference Department, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

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# Lloyd's sues expelled underwriters for costs

By STACY SHAPIRO

## london line

LONDON—Lloyd's of London is taking legal action to recover more than 1.25 million pounds (\$1.76 million) in penalties and legal costs from two expelled underwriters.

Peter Stephen Dixon, former chairman of PCW Underwriting Agencies Ltd., and Thomas Raymond, former chairman of Brooks & Dooley (Underwriting Agency) Ltd., were named in separate lawsuits filed Jan. 28 in High Court in London.

Mr. Dixon owes 1 million pounds (\$1.41 million) in fines and 215,430 pounds (\$304,000) in legal costs, Lloyd's claims. Lloyd's demanded that Mr. Dixon pay the fines and legal costs after he was found guilty of misconduct and expelled in November 1985.

Lloyd's said Mr. Dixon, who now lives in Warrenton, Va., helped mastermind plans to misappropriate millions of pounds in syndicate funds to benefit himself and his business associates (*BI*, Nov. 11, 1985).

Mr. Brooks owes Lloyd's 39,688 pounds (\$56,000) in legal costs, Lloyd's says. Lloyd's demanded he pay that amount after he was expelled in December 1984 for misconduct.

Lloyd's said Mr. Brooks, who now resides in Milan, Italy, helped siphon more than 6.2 million pounds (\$7.44 million) of reinsurance premiums from Lloyd's syndicates over a 13-year period (*BI*, Dec. 17, 1984).

If the High Court agrees that these "civil debts" should be paid, Lloyd's will have the power to seize any assets that Mr. Dixon or Mr. Brooks have in the United Kingdom to pay the debts, said a Lloyd's spokesman.

## Financial services

The controversial British financial services reform bill should be law by July, according to the British Department of Trade and Industry.

The bill, published Dec. 19, 1985, received its second reading in Parliament on Jan. 14 and went to a committee on Jan. 28.

According to the department, the bill should be approved by the House of Commons by April, then passed by the House of Lords and signed into law by July.

The bill, designed to protect individual investors, sets up regulation for the Stock Exchange and other financial services.

However, the bill as currently written would not regulate Lloyd's of London or non-life insurance transactions.

But members of Parliament are expected to argue that Lloyd's be regulated by the Securities and Investment Board, which the bill would establish.

"To my mind there can be no doubt that the changes affecting the financial services industry will have a profound influence on the economy as a whole, but still far too many people regard the financial services industry as a distant institution that hardly touches them," Michael Howard, British minister of corporate and consumer affairs, said in a guide to the bill furnished by the Department of Trade and Industry.

"Through the financial services bill we seek to maintain and enhance the U.K.'s position as one of the world's financial centers. We must ensure that the new system of regulation inspires confidence," he said.

One of the companies that opposes portions of the financial services bill is Alexander Stenhouse Financial Services Ltd., a company

formed following the merger of brokers Alexander & Alexander Services Inc. and Reed Stenhouse Cos. Ltd.

Although the company has not stated exactly which provisions of the bill it opposes, Alexander Stenhouse said last week that "if many of the proposals as outlined... are allowed to proceed, it will sound the death knell of the independent intermediary...."

"For our part at Alexander Stenhouse Financial Services, we would have to think seriously about whether we should continue to operate as independent intermediaries in what we see would be an extremely difficult market," the

company said.

## Captive reinsurance

The Institute of London Underwriters, a powerful trade association, last month defeated a motion calling for the London market to stop providing reinsurance for captives.

Reg Brown, underwriter for the Dugdale Syndicate at Lloyd's of London, explained that he made the motion because he said captives were "tax avoidance" schemes designed to take "premiums from our mouths."

Captives expose reinsurers to greater risks because they are not

"professional insurers," Mr. Brown said.

He blamed that inexperience for creating "innocent capacity," which caused the underwriting losses that subsequently triggered the current tight property/casualty market.

However, Mr. Brown admitted he knew nothing about reinsuring captive insurance companies and that he had never written reinsurance for them.

In arguments against the motion, John Elliott, director of Sedgwick Risk Management Services Ltd., said that captives help control costs for reinsurers because they retain smaller, frequently occurring, claims rather than pass them on to commercial underwriters.

Also, "captives are committed to risk management," said Mr. Elliott.

"You must welcome any steps anyone takes in this direction," he said.

A captive promotes risk management, because the corporation would rather prevent losses than pay claims, he noted.

"Anything the industry can do to help (reduce losses) certainly should be welcome," Mr. Elliott commented.

Mr. Elliott also noted that if London doesn't support captives with reinsurance, they will shop in other markets, depriving London of an important source of premiums.

In addition, he noted that many commercial insurers, including "one that was started at a coffee house called Lloyd's," began as mutual insurance pools like the mutual captives now being formed for U.S. liability exposures. ■



*Season after season, responding  
in an ever-changing*

# Delays seen in California comp reform

SACRAMENTO, Calif.—The workers compensation reform pot is beginning to boil in California, but observers say the final product probably won't jell until 1987.

The high cost and scarce supply of commercial liability insurance is expected to dominate the California legislative scene this session, pushing workers compensation to the back burner, observers say.

In addition, 1986 is an election year, which means legislators don't like to tackle tough issues, one observer notes.

However, some workers compensation reform activity is already taking place.

Most recently, the Senate Rules Committee approved the Senate Industrial Relations Committee's request to hire Florida-based work comp troubleshooter John Lewis.

The Industrial Relations Committee, chaired by Sen. Bill Greene, D-Sacramento, wants Mr. Lewis to help it draft a reform bill by this spring, said Casey Young, chief consultant to the committee.

Mr. Lewis carried out a similar task most recently in Massachusetts, where he and Cornell University Professor John F. Burton Jr. assisted the Legislature with a reform measure (BI, Dec. 9, 1985).

Also, an employer-backed multifaceted "wage-loss" work comp bill was recently withdrawn from legislative consideration. However, it's expected to be reintroduced later this year.

That bill—A.B. 1000—was withdrawn last month in a strategic move. Backers would have been unable to secure enough support to move the bill out of committee be-

## around the states

fore a Jan. 31 deadline.

A.B. 1000 called for the replacement of the state's current workers compensation system with one in which benefits are based on actual wages lost as the result of a workplace injury (BI, Sept. 23, 1985; Nov. 18, 1985). Currently, injured workers are compensated according to subjective criteria used to predict lost earning capacity.

The measure can be given a new number and reintroduced, or it can become an amendment to bills still pending, said William George, chief consultant to the state Assembly Finance and Insurance Committee, which is chaired by Assemblyman Alister McAlister, D-Sacra-

mento, the bill's sponsor.

Californians for Compensation Reform, a coalition of more than 800 employers, local governments and insurers that is backing the bill, is still trying to determine the best strategy, said Linda Brodt, assistant executive director.

But Paul Gladfelty, vp of the California Manufacturers Assn. and a member of the CCR, said: "The bottom line is that we have to work out a compromise with organized labor if anything is going to happen in 1986."

Labor, still stinging from the governor's veto of its workers comp bill last session (BI, Oct. 14, 1985), says it tried to negotiate with em-

ployers in the past and will try again this year.

Meanwhile, both sides are awaiting a legislative report on the state workers compensation system. Mr. Young of the Senate Industrial Relations Committee, is drafting the report and expects it to be released this month. One observer said the report will serve as a blueprint for the reform effort.

## Malpractice policies

NEW YORK—A state Supreme Court judge has ordered an unlicensed insurance company and a related brokerage firm to stop selling malpractice policies to dentists formerly insured by Union Indemnity Insurance Co. of New York.

Judge Stanley S. Ostrau issued the temporary restraining order last month against Promark Risk Management Corp. and British & American Casualty Co., both owned by Stephen Weicholz of East Rockaway, N.Y., and Coral Springs, Fla.

The restraining order was granted at the request of New York Insurance Superintendent James Corcoran, who sued the two companies Jan. 2 to stop the sale of malpractice policies and to recover premiums paid to Promark.

According to the complaint, Mr. Weicholz was an agent for Union Indemnity, a unit of Frank B. Hall & Co. Inc., and American Fidelity Fire Insurance Co., a unit of American Plan Group. Both insurers have been declared insolvent by New York regulators.

Mr. Weicholz allegedly informed 3,000 dentists who were policyholders of the two insolvent companies that Promark had arranged replacement dental malpractice coverage with British & American. Neither Promark nor British & American is licensed to operate in New York, the lawsuit says.

The complaint asks for a court order halting the sale of the British & American policies and seeks recovery of about \$1,400 for each dentist who paid premiums to Promark. The suit also asks the court to fine the two companies \$30,000 for violations of New York insurance law.

## Self-insurer fund

SACRAMENTO, Calif.—Employers in California that self-insure their workers compensation risks may be required to pay a pre-occurrence assessment to a statewide security fund that covers the claims of bankrupt self-insurers, a fund official says.

The California Self-Insurance Assn. is setting up a committee to study possible changes in the funding mechanism of the state's Self-Insurance Security Fund, said Joseph E. Markey, legislative advocate for the association and the secretary/treasurer of the fund.

The security fund was established in 1984 to pay the claims of injured workers if the assets of a bankrupt self-insurer are inadequate to make the payments.

Currently, self-insurers can be assessed 1.5% of what they paid in the prior year in workers compensation benefits to pay the claims of the bankrupt employer. However, assessments cannot be made until a self-insured employer is unable to pay benefits.

One possible change that the committee will study will be to change the assessment schedule to a pre-occurrence basis from the current post-occurrence system, Mr. Markey said.

Late last year, the fund assessed workers compensation self-insurers the maximum 1.5% to satisfy claims against bankrupt self-insurers (BI, Jan. 13).

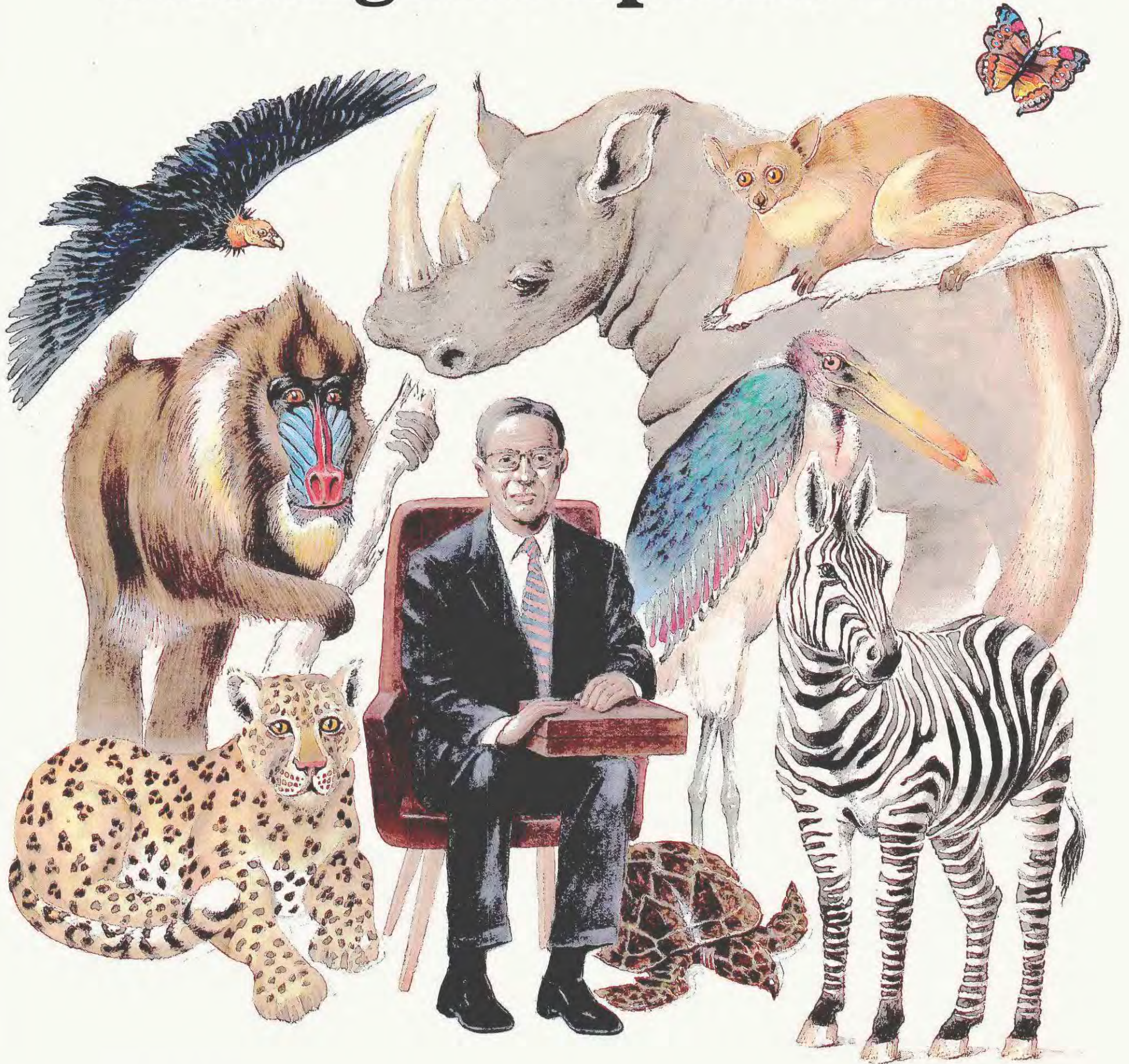


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# Reinsurers Have Just Joined The Endangered Species List.



**M**any naive reinsurers have underpriced themselves into extinction.

The bargain hunters' search for cheaper reinsurance, coupled with massive overcapacity, led the industry into the depths of a \$2.7 billion loss in 1984, with a combined ratio of 127.1.

The reinsurers who are left are the ones with the resources, the under-

writing skills and the toughness to say "Enough."

While there's now a big gap in reinsurance capacity for some risks, North American Re continues to provide stable and reliable reinsurance for our clients.

North American Re. To survive, we had to be one of the fittest.

NORTH AMERICAN



We Take Your Risk  
Out Of Reinsurance.

# ASK A RISK MANAGER

Use examples to show value of managing risks

**Q**

**With the insurance market in the doldrums, brokers overworked and risk managers unable to satisfy their corporate insurance needs, what do you do to show the boss the benefits of risk management?**

**A**

This is a good question, very broad in its scope. And, it has not been completely answered to my satisfaction in our company.

To set the proper tone, I think risk managers should take advantage of their current environment in an aggressive way.

There are several possible projects, and many should be started early in 1986 and carried on through the year.

Some colleagues may say you're doing well to hang on in this environment. But I believe you will do better by challenging what you're doing and how you're doing it.

The challenge I like best is to tell your company that insurance expense can be held to a zero increase in 1986. With all the publicity and negative conversation, this should get someone's attention.

To meet this challenge, begin by analyzing your total insurance expense. I find that 68% of my expense is self-funded moneys set aside to pay workers compensation, general and automobile liability losses.

About 1% of this amount involves property insurance,

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

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

*This month's column, on risk management issues, is written by Ralph F. Perry Jr., vp and director of risk management at Amfac Inc. in San Francisco. Joseph Duva, director of employee benefits and compensation at SCM Corp. in New York, answers benefit management questions. And, William J. Miner, an actuary with The Wyatt Co. in Chicago, answers actuarial questions.*

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

*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.*



Mr. Perry

so my problem obviously is in the casualty area. Further analysis shows that almost 70% of these self-funded moneys are in the workers compensation area.

Now, I analyze the total insured expense increase from one year to the next and find this increase was about 30%, or about \$3.9 million. This is the number you need to attack to keep overall expenses from rising.

Now that you have a number, you must logically apportion it, based on a profit center's loss history, to each of your profit center operations.

The challenge now becomes localized, and you can place this challenge on the back of the decentralized safety management program. There is no question profit centers must run their own safety management program—and you have given them the target.

With self-insured claim dollars exceeding \$10 million, it is conceivable that well-managed safety programs can reduce this part of your expense close to 30%.

There are several other areas that should be addressed and can be part of your overall objectives in this unstable environment.

For example, a risk management information system is now mandatory. There is no way to track losses and control the financing of these losses without it.

An RMIS also is needed to administer a good risk-control program, whether centralized or decentralized.

You also may want to consider a centralized, guided risk control program, if it appears that the decentralized program is not doing the job. Remember, there is a need to measure and reward successful programs.

Claim administration is more visible than ever before and will grow in importance with increased deductibles and retentions. How are you handling claim/loss administration? Is it in your control? Is this the time for a comprehensive claim administration audit?

Effective management in this area is all-important to your internal control of the risk management department, and it also is as important in the marketing of your insured program. In the latter area, a well-thought-out, written claim administration procedure for your company may be the only way you can continue an unbundled program.

Look at the risk management department itself. Is it structured in a way that can assist and support your broker in marketing your program? Your insured program is one buying catastrophe coverage—and the marketing of this coverage needs solid internal support.

Have you communicated with your profit center people to explain insurance market problems and your need for their support and response when gathering underwriting information? This seems obvious, but doing so with a good new article and brief statement from your department can do wonders.

Also, communicate with your legal department. Contractual obligations must be tightened and written precisely. Avoiding the assumption of risk in contract language is more important than ever these days.

Give some lessons to your profit centers on reading

certificates of insurance they receive. Does the certificate provide the coverage that was requested? Are they interpreting our "insurance" language correctly?

Perhaps it is time to review your department's job descriptions. This is a good exercise to do yearly, but it is more important now.

Above all, be aggressive. Get the message across that you and your company want to be responsible for themselves in today's insurance world.

## Developing five-year plan may help you meet goals

**Q**

**Do you develop a five-year plan for your risk management department's expenses? If so, what does it encompass, and can you describe its principal features?**

**A**

I actually do not develop a five-year plan.

However, I have been challenged by an outsider to do one for my risk management department, and perhaps even to consider a personal one for myself.

The intriguing part of my conversation with this individual was his statement that, "You would be surprised how many of these goals come true within that five-year period"—if you do a five-year plan.

This led me to thinking about my department, its internal structure and contribution to the corporation, and how I might like to see it positioned sometime in the future.

Why not write a 1990 or 1991 report to put these ideas in perspective? They then would become the goals and directions you would be working toward to accomplish your plan.

This is better than no real direction at all.

As you can see, I am still talking myself into this. And, since I cannot offer any real suggestions, perhaps one additional thought may help.

I truly believe that the insurance market down cycle, which well may continue for several years, offers the best opportunity for the risk management community to contemplate its future.

Corporations can no longer—and may never again—transfer certain risks to others for a price.

And, their need to evaluate, control and finance these risks for themselves provides you as a risk management professional with the best opportunity ever to be a major contributing force in your company's future.

# Industry actions beg federal regulation

By Thomas S. Bloom

## speaking out

**T**HE COMMERCIAL property and casualty insurance industry is in the process of creating the most effective argument for federal regulation that could be devised.

Certain classifications of coverage have become virtually unobtainable—public entity liability, directors and officers liability and many lines of errors and omissions, among others.

Hardly any member of the public will not be adversely affected, directly or indirectly, by these tight market problems.

The size and influence of the portion of the market that has been abandoned is

staggering.

Only some prompt and responsible action by a significant portion of the insurance industry will forestall the consideration of potentially drastic legislative remedies.

Adequate umbrella limits cannot be provided for an entity of any appreciable size.

Programs providing total protection in the hundreds of millions of dollars are being replaced with limits usually not exceeding \$10 million or \$20 million, with some even lower. In addition, the new terms for coverage almost always

are more restrictive than the terms that are expiring.

Pricing has become a joke. Of the few underwriters still active in these areas, principally in the surplus lines market, most do not even maintain the pretense that the pricing of their products is based on any actuarial reality.

Premiums are purely a function of what the market will bear.

Buyers are being forced to bid higher and higher for increasingly unavailable capacity.

As individual insurers get closer to their targeted premium, or near the

maximum volume established by either their home office or their premium-to-surplus ratio, prices climb even higher and terms become even more restrictive.

This is the age of arrogance. Few individual underwriters exhibit the least

*Continued on next page*

Thomas S. Bloom is president of McAlear Associates Inc., an excess and surplus lines wholesaler in Grand Rapids, Mich.



# Predicting accidents could prevent them

By The Insurance Institute of America

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 on, and possible answers to, the three examinations for the A.R.M. designation. This month's material, taken from the May 1984 examinations for ARM 55, Risk Control, deals with some basic concepts for both predicting and preventing accidents—in this case, motor vehicle accidents. Accident frequency indicates the importance of preventing or reducing these accidents.

**Q:** Over the past 10 years, the delivery trucks of Acme Furniture Co. have been involved in numerous traffic accidents. On the average, one truck in every 15 has been involved in an accident each year. The driver has not been injured in three out of every five of these accidents. However, one out of six drivers injured has died as a result.

Based on the above information, compute—or show how to compute—the probability that:

- A particular truck will be involved in a traffic accident this year.
- A randomly selected driver will be hurt in an accident this year.

## A.R.M. exercises

- A randomly selected driver will be killed in an accident this year.

Injuries and fatalities to its truck drivers impose significant workers compensation costs on Acme. Describe one specific way in which Acme could reduce these workers compensation costs through:

- Loss prevention.
- Loss reduction.
- Non-insurance transfer.

**A:** Considering the probabilities of accidents, injury and death asked in the first part of the question:

- As the question indicates, the likelihood of a given truck being in an accident in any given year is one-fifteenth, or 0.067 or 6.7%.

- For a particular driver to be hurt this year requires two events to occur: The driver must be in an accident, and the driver must be hurt in that accident. The fact that the driver is not injured in three out of every five accidents means that the driver is injured in two out of every five accidents, or in 40%—or 0.4—of them.

Therefore, the probability of a given driver being injured in an accident this year is the joint probability of an accident and an injury, computed as 0.067 times 0.4, which equals 0.027, or 2.7%. This joint

probability also could be computed as one-fifteenth times two-fifths, which equals two-seventy-fifths.

- For a driver to be killed, that driver must be among those one out of six injured drivers who dies. As computed above, the probability of a randomly selected driver being injured is 0.027. Thus, it follows that the probability of such a truck driver being killed is one-sixth of this, or approximately 0.004.

The specific ways in which Acme can reduce its workers compensation costs related to driver injuries and fatalities include:

- Loss prevention measures. Any measure that would reduce the number—or probability—of accidents in which drivers are injured would reduce Acme's workers compensation costs. These measures could include driver training or vehicle maintenance to reduce the likelihood of any truck accident.

They also could include better design of the truck cab to reduce the likelihood that, if an accident occurs, the driver will be injured.

- Loss reduction measures. Action to reduce loss severity measured in dollars of workers compensation claims can be taken either before or after the vehicle

accidents.

Pre-accident measures to reduce severity could include reducing the speed at which the trucks are operated, thus also reducing the violence of the accidents and the severity of driver injury.

After a driver has been injured, effective medical management of the injuries and rehabilitation of the driver could cut workers compensation costs.

- Non-insurance transfer. One way for Acme to transfer to another company, other than an insurer, its workers compensation costs for driver injuries would be to subcontract the delivery work to another firm, which then would bear the workers compensation costs of delivery vehicle accidents. Note, however, that trying to contract with another firm—not a workers compensation insurer—to be responsible for Acme's statutory workers compensation obligations to its own employees would violate the typical statutory provision against transferring an employer's duty to provide workers compensation benefits. ■

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.

# Insurance industry crying for federal regulation

Continued from previous page

interest in the policyholder's legitimate right to fair treatment. Even fewer have any interest in the problems faced by the retail or the wholesale market in attempting to construct adequate programs for their clients.

The concept of good faith, once presumed to be the bedrock upon which this industry rests, seems to have disappeared with the soft market.

There is no spirit of cooperation between markets. The practice of a broker and his or her markets working together to construct a coordinated placement, fair to the policyholder and all participating insurers, has disappeared.

Each insurer wants to use only its form, on its terms, at its price, with no consideration given to the fact that a concurrent program thereby is made impossible.

The worst is yet to come. Superimposed on these other conditions is the fact that the industry is well on its way to forcing on commercial policyholders the most drastic change in coverage in history.

Even supporters of the claims-made concept admit that the reduction in coverage will be significant. Why else would they support it?

Some observers feel that the reduction is so severe as to be undefendable in the litigation that is sure to follow.

Beyond its more limited coverage, the form lends itself to the future manipulation of the policyholder's interests to the insurer's advantage. The chance of the courts allowing such manipulation to stand is almost nil.

There are any number of these forms now in the market. Each insurer insists on using its own version. Non-concurrency of form, on an industrywide basis, is now a matter of fact.

As an additional inducement to legislative action, the insurance industry recently put itself through one of the most destructive price wars in the history of any business.

That insanity now has led to a string of insurer insolvencies that may continue well into the future. Those failures are not minor. Thousands of

**Each insurer wants to use only its form, on its terms, at its price, with no consideration given to the fact that a concurrent program thereby is made impossible.**

commercial policyholders and public entities have been left with uncovered claims and uninsured gaps in their programs.

Only responsible parents and lucky mergers have prevented several major failures.

How long can an industry with such broad fiduciary responsibilities continue to damage its customers without inviting a public response? Surely the twin remedies of federal legislation and a national guaranty fund will seem the obvious response.

With much good cause, the insurance industry is crying for legislative relief—on both the state and the national level—from a civil justice system that is out of control.

But, once invited into the tent, the legislative camel may not eat only from the other side's plate, particularly to the extent that it is perceived that the current crises in availability and affordability have been caused by, or exacerbated by, the industry's own foolishness and greed.

The industry had few friends among the public or the legislators before this scenario began. It will have fewer still when it is over.

Individual managers and underwriters are hard to fault for doing what they are paid to do—maximizing profit.

But jointly, for the first time in the history of the business, they have created a situation that is simply not defensible to society as a whole. From the perception of the public, the situation cries out for legislative relief.

State regulation is patently not capable of addressing the issue. The efforts of individual states to establish voluntary market assistance programs are

commendable but will fall short of success.

New laws and regulatory rulings limiting the right of insurers' cancellation and non-renewal of policies only serve to drive capacity away from the states that need it most.

If the National Assn. of Insurance Commissioners could act in effective concert, perhaps the individual states could establish meaningful remedies. But, this has never been done before, and there is no indication it will begin now.

The American insurance industry has consistently and effectively supported state regulation for any number of reasons, and many of those reasons are valid.

But, the simple fact is that the industry likes state regulation because it is perceived as being both ineffective and easily manipulated.

Insurance is the only industry of any size in the United States that is not subject to federal regulation. That fact will become more apparent over the next few years.

Repeal or amendment of the McCarran-Ferguson Act, the federal law that leaves primary regulation of the insurance industry up to the states, could be only one congressional debate away. There is sure to be much pressure on national legislators to consider such action.

Only immediate and effective voluntary action by the majority of the commercial property and casualty industry will prevent this action being considered. And, such enlightened self-interest never before has been demonstrated by the insurance industry.

It is said that, in the long run, every constituency gets the government that it deserves. The same could be said of business and regulators.

If the insurance industry, by abandoning its obligation to those it is supposed to serve, goads society into demanding new and more effective regulation, then it will have no one to blame but itself when it finds it is playing a new game under new rules and is answering to a new master. ■



**Medical Plan Update**

The only exceptions where you should submit your medical expenses immediately are when:

- Your expenses will be reimbursed at 80% of the reasonable and customary expense without the deductible for:
  - outpatient surgery (except foot surgery)
  - prosthetic dentistry
  - second opinion for surgery
  - home health care
  - extended care facility
  - hospice care
- You also have medical coverage under another plan of insurance and a coordination of benefits administration is necessary.

Once the deductible is met, you should submit claims periodically (for example, once a month) rather than each time you incur an expense.

Submit a claim form properly completed by you and, where called for, the provider of medical services—each time you submit medical expenses for reimbursement.

**401(k) Statement**



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## datebook

**FEB. 24-25. Overhead Crane Safety** seminar in Madison, Wis., sponsored by The University of Wisconsin-Madison; \$320. James E. Nicholls, Department of Engineering, University of Wisconsin at Madison, 432 N. Lake St., Madison, Wis. 53706; 608-262-0638.

**FEB. 25. How to Audit and Check Insurance Policy Costs and Coverages** course in Washington, sponsored by the American Management Assn.; \$675 for AMA members; \$775 non-members. Also, **March 13-14** in New York and San Francisco; **March 20-21** in Chicago; **April 3-4** in Honolulu; **April 10-11** in Dallas; **April 17-18** in Philadelphia; **May 8-9** in Los Angeles; **May 15-16** in Burlington, Mass.; **May 22-23** in Atlanta. American Management Assn., P.O. Box 319, Saranac Lake, N.Y. 12983; 518-891-0065.

**FEB. 24-28. Reinsurance Practice** course in London, sponsored by Risk Research Group Ltd.; 718.75 pounds (about \$1,006). Judith Hobday, Risk Research Group Ltd., Bridge House, 181 Queen Victoria St., London, EC4V 4DD; 01-441-236-2175.

**FEB. 25. OSHA Hazard Communication** conference in Springfield, Ill., sponsored by the Illinois State Chamber of Commerce; \$45 for ISCC members; \$70 for non-members. Carol Jensen, Illinois State Chamber of Commerce, 20 N. Wacker Drive, Chicago, Ill. 60606; 312-372-7373.

**FEB. 27. Risk Management of PCBs in Electrical Systems** seminar in Oakland, Calif., sponsored by Electro-Test Inc.; \$175; \$30 discount for cash payments. Also **March 4** in Oakland; **March 6** in Pasadena, Calif.; **March 11** in Miami; **March 12** in Jacksonville, Fla.; **March 13** in Mobile, Ala.; **March 18** in New York; **March 19** in Philadelphia; **March 20** in Washington; **March 25** in Kansas City, Mo.; **March 26** in St. Louis; **March 27** in Little Rock, Ark.; **April 1** in Jackson, La.; **April 2** in New Orleans, La.; **April 3** in Atlanta; **April 8** in Detroit; **April 9** in Cleveland; **April 10** in Pittsburgh; **April 15** in Houston; **April 16** in Dallas; **April 17** in Oklahoma City; **April 22** in Cincinnati; **April 23** in Columbus, Ohio; **April 25** in Indianapolis; **April 29** in White Plains, N.Y.; **April 30** in Hartford, Conn.; **May 1** in Boston; **May 3** in Nashville, Tenn.; **May 7** in Columbia S.C.; **May 8** in Raleigh, N.C.; **May 13** in Chicago; **May 14** in Des Moines, Iowa; **May 15** in Minneapolis; **May 20** in Long Island, N.Y.; **May 21** in Clifton, N.J.; **May 22** in Niagara Falls, N.Y.; **May 28** in Baltimore; **May 29** in Harrisburg, W.Va. Electro-Test Learning Center, P.O. Box 159, 3470 Fostoria Way, San Ramon, Calif. 94583; 415-866-8566.

**FEB. 27-28. Executive Compensation: Planning Techniques and Strategies** seminar in San Francisco, sponsored by the Practising Law Institute. \$390. Course handbook only, \$40. Ann Tracy, Public Information Officer, Practising Law Institute, Department A5, 810 Seventh Ave., New York, N.Y.; 212-765-5700.

**MARCH 3-5. The Tax Reform Upheaval: 1986 Flexible Compensation** conference in Washington, sponsored by the Employers Council on Flexible Compensation; \$425 each for first two members; \$350 each for additional members registering at the same time; \$550 for non-members. Employers Council on Flexible Compensation, Flexible Compensation/1986, 1660 L St. N.W., Suite 711, Washington, D.C. 20036; 202-659-4300.

**MARCH 5-7. Life Safety Symposium** in College Park, Md., sponsored by the Society of Fire Protection Engineers; \$515 for members; \$545 for non-members. Lisa Juliano, Administrative Assistant, Society of Fire Protection Engineers, 60 Batterymarch St. Boston, Mass. 02110; 617-482-0686.

**MARCH 5-7. Fundamentals of Insurance** course in Houston, sponsored by the Risk & Insurance Management Society; \$490 for members; \$590 for non-members. Fran Jordan, Administrator-Continuing Education Program, Risk & Insurance Management Society, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

**MARCH 5-7. 56th Annual Meeting California Self-Insurers Assn.** in San Diego Calif. Includes Second Annual Meeting of Self-Insurers Security Fund on March 7. \$235 for members; \$295 for non-members; \$95 spouse registration. No refunds for cancellations after Feb. 28. California Self-Insurers Assn., 921 11th St. Suite 619, Sacramento, Calif. 95814; 916-442-4576.

**MARCH 6. The New Insurance Services Office Commercial General Liability Policy Workshop** in Philadelphia, sponsored by the Insurance Society of Philadelphia; \$90 for members; \$135 for non-members. Also **April 22** in Philadelphia. The Insurance Society of Philadelphia Inc., 737 Public Ledger Building, Philadelphia, Pa. 19106; 215-627-5306.

**MARCH 6. Financial Accounting Standard Board's Statements 27 and 88** workshop in Chicago, sponsored by A.S. Hanser Inc. and Arthur Andersen & Co; no charge. Also, **March 13** in Rosemont, Ill. Jo Wolicki, A.S. Hansen Inc., 1417 Lake Cook Road, Deerfield, Ill. 60015; 312-821-9800.

**MARCH 9-11. HMO Orientation Programs** in New Orleans, sponsored by the Group Health Foundation and the Medical Directors Division of the Group Health Assn. of America; before Feb. 18: \$345 for GHAA members, \$385 for non-members; after Feb. 18: \$385 for GHAA members, \$425 for non-members. Conference Office, Group Health Foundation, 624 Ninth St. N.W., Suite 703, Washington, D.C. 20001; 202-737-4311.

**MARCH 9-12. International Benefits Conference** in New Orleans, sponsored by the International Foundation of Employee Benefit Plans; \$530 for members; \$605 for non-members. International Foundation of Employee Benefit Plans, Attention Registrar Department, 18700 W. Bluemound Road, P.O. Box 69, Ercofield, Wis. 53008-0069; 414-786-6700.

**MARCH 10-11. Health Care Cost Containment Workshop** in Salt Lake City, sponsored by Health Research Institute; \$495. Also, **March 17-18** in Los Angeles; **April 7-8** in New York; **April 21-22** in Portland, Ore.; **May 5-6** in Chicago; **May 12-13** in Washington; **June 2-3** in Houston; **June 23-24** in Atlanta; **July 14-15** in Denver; **July 21-22** in San Jose, Calif.; **Aug. 11-12** in Minneapolis; **Sept. 22-23** in New Orleans; **Oct. 6-7** in San Francisco; **Oct. 27-28** in Boston; **Nov. 10-11** in New York; **Nov. 17-18** in Dallas; **Dec. 8-9** in Chicago. Health Research Institute, 49 Quail Court, #200, Walnut Creek, Calif. 94596; 415-876-2320.

**MARCH 10-14. Fundamentals of Money Management** workshop in Philadelphia, sponsored by the International Foundation of Employee Benefit Plans; \$750 for members; \$875

for non-members. Registrations Department, International Foundation of Employee Benefit Plans, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6700.

**MARCH 11. Captives in Brief** workshop in Hamilton, Bermuda, sponsored by Tillinghast, Nelson & Warren Inc.; \$300. Micki Briskin, Tillinghast, Nelson & Warren Inc., 722 Post Road, Darien, Conn. 06820-4798; 203-655-9791.

**MARCH 11. All-Industry Insurance Conference: Risk Management in 1986—Survival of the Fittest** conference in Seattle, sponsored by the Washington Chapter of the Risk & Insurance Management Society; \$45 before March 1; \$55 after March 1. Rich Sadler, Puget Sound Power & Light Co., 10608 N.E. 4th St., OBC-06S, Bellevue, Wash. 98009; 206-462-3859.

**MARCH 11-14. Seminar for Non-Insurance Professionals** in Princeton, N.J., sponsored by The College of Insurance; \$595 for College sponsors, \$675 for others. Ronnie Kranis, Professional Development Programs, The College of Insurance, One Insurance Plaza, 101 Murray St., New York, N.Y. 10007; 212-962-4111.

**MARCH 12. Health Improvement/Wellness** workshop in Salt Lake City, sponsored by Health Research Institute; \$250. Also **March 19** in Los Angeles; **April 9** in New York; **April 23** in Portland, Ore.; **May 7** in Chicago; **May 14** in Washington; **June 4** in Houston; **June 25** in Atlanta; **July 16** in Denver; **July 23** in San Jose, Calif.; **Aug. 13** in Minneapolis; **Sept. 24** in New Orleans; **Oct. 8** in San Francisco; **Oct. 29** in Boston; **Nov. 12** in New York; **Nov. 19** in Dallas; **Dec. 10** in Chicago. Health Research Institute, 49 Quail Court, #200, Walnut Creek, Calif. 94596; 415-876-2320.

**MARCH 12. Advanced Cost Containment** workshop in Salt Lake City, sponsored by Health Research Institute; \$250. Also **March 19** in Los Angeles; **April 9** in New York; **April 23** in Portland, Ore.; **May 7** in Chicago; **May 14** in Washington; **June 4** in Houston; **June 25** in Atlanta; **July 16** in Denver; **July 23** in San Jose, Calif.; **Aug. 13** in Minneapolis; **Sept. 24** in New Orleans; **Oct. 8** in San Francisco; **Oct. 29** in Boston; **Nov. 12** in New York; **Nov. 19** in Dallas; **Dec. 10** in Chicago. Health Research Institute, 49 Quail Court, #200, Walnut Creek, Calif. 94596; 415-876-2320.

**MARCH 12-13. Financial Analysis for Risk Management Decisions** program in Tampa, Fla., sponsored by The College of Insurance; \$700 plus \$50 per organization. Laura McKeon, Professional Development Programs, The College of Insurance, One Insurance Plaza, 101 Murray St., New York, N.Y. 10007; 212-962-4111.

**MARCH 12-13. Election Year 1986: Employee Benefits vs. Tax Reform and Deficit Reduction** conference in Washington, sponsored by the National Employee Benefits Institute; no charge to members; \$395 for non-members. Sandy Sparacino, National Employee Benefits Institute, 2250 M St. N.W., Suite 785, Washington, D.C. 20037; 1-800-558-7258.

**MARCH 12-14. 18th International Captive Insurance & Reinsurance Forum** in Hamilton, Bermuda, sponsored by Tillinghast, Nelson & Warren Inc.; \$750; \$875 for additional registrants from same organization. Micki Briskin, Tillinghast, Nelson & Warren Inc., 722 Post Road, Darien, Conn. 06820-4798; 203-655-9791.

**MARCH 12-14. Techniques of Finance and Accounting** course in New York, sponsored by the Risk & Insurance Man-

agement Society; \$490 for members; \$590 for non-members. Fran Jordan, Administrator-Continuing Education, Risk & Insurance Management Society, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

**MARCH 12-14. Coping with the Changing Reinsurance Market** symposium in Philadelphia, sponsored by the Reinsurance Section of the Society of Chartered Property Casualty Underwriters. \$200 for CPCU Reinsurance Section members; \$250 for others. Mari Jennings, Society of CPCU, Kahler Hall, 720 Providence Road, CB #19, Malvern, Pa. 19355; 215-251-2739.

**MARCH 13. The New Insurance Services Office Commercial Property Forms Workshop** in Philadelphia, sponsored by the Insurance Society of Philadelphia Inc.; \$90 for members; \$105 for non-members. Also **April 29** in Philadelphia. The Insurance Society of Philadelphia Inc., 737 Public Ledger Building, Philadelphia, Pa. 19106; 215-627-5306.

**MARCH 13-14. The Crises in Directors & Officers Liability Insurance: Advising Corporations on Alternatives, Indemnification & the Business Judgment Rule** conference in San Francisco, sponsored by Law & Business Inc.; \$425. Law & Business Inc., 855 Valley Road, Clifton, N.J. 07013; 800-223-0231; 201-472-7400 in New Jersey.

**MARCH 13-14. Workers Compensation: Your Safety and Health Balance Sheet** course in Los Angeles, offered by the University of Southern California; \$150 per day. University of Southern California, Institute of Safety and Systems Management, Office of Extension and In-Service Programs, Los Angeles, Calif. 90089-0021; 213-743-6523.

**MARCH 16-21. The College of Insurance Management Program** in Princeton, N.J., sponsored by The College of Insurance; \$895 for College sponsors; \$1,050 for others. Also **April 13-18** in Tarrytown, N.Y. Ronnie Kranis, Professional Development Programs, The College of Insurance, One Insurance Plaza, 101 Murray St., New York, N.Y. 10007; 212-962-4111.

**MARCH 17-19. Techniques of Risk Management** course in Toronto, sponsored by the Risk & Insurance Management Society; \$490 for members; \$590 for non-members. Fran Jordan, Administrator-Continuing Education Program, Risk & Insurance Management Society, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

**MARCH 18. 1986 Commercial General Liability** program in Dallas, sponsored by the International Risk Management Institute Inc.; \$295. International Risk Management Institute Inc., 10300 North Central Expressway, Building III, Suite 208, Dallas, Texas 75231-3390; 800-527-2580, 214-363-9656 in Texas.

**APRIL 13-18. "Reach for the Top"—Risk & Insurance Management Society 24th annual conference** in Toronto. \$545 for members and \$645 for non-members before Feb. 14; \$595 for members and \$695 for non-members after Feb. 14; reduced fees available for those attending only part of the conference. RIMS Conference Department, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

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# PBGC drops its allegations against benefit consultant

WASHINGTON—The Pension Benefit Guaranty Corp. is dropping charges that a benefit consultant's negligence damaged an employer's pension plans and the PBGC's pension insurance program.

In a suit filed last year, the PBGC alleged that George B. Buck Consulting Actuaries, a subsidiary of Buck Consultants Inc. of New York, underestimated the likelihood that Mesta Machine Co.'s pension plans would have to pay special early retirement benefits to workers because of plant shutdowns (BI, Sept. 2, 1985).

The PBGC lawsuit sought unspecified damages from Buck for losses suffered by the agency's insurance program as a result of Buck actions. The PBGC also had asked the court to bar Buck from preparing and signing actuarial valuation statements for clients unless the statements were reviewed and approved by other consultants.

The PBGC took over the plans in 1983 and assumed their estimated \$56 million in liabilities. Also in 1983, Pittsburgh-based Mesta filed for reorganization under Chapter 11 of the Federal Bankruptcy Act.

In preparing annual actuarial valuations for Mesta's two defined benefit plans between 1979 and 1983, Buck assumed the probability that the plans would have to pay the so-called shutdown benefits was between less than 1% and 6%, the PBGC had said.

Since Mesta was shutting down operations at the time, Buck should have given a higher probability that the shutdown benefits would be paid, PBGC officials said. "The probable chances that shutdown benefits would be paid may not have been 100%...but they were close to that. Certainly, 1% to 6% was not reasonable," PBGC General Counsel Edward Mackiewicz said when the suit was filed.

Since the suit was filed, Buck has provided "newly disclosed" facts indicating that the consultant had changed certain actuarial assumptions to take into account Mesta's troubled financial condition, according to a joint Buck-PBGC statement released last week.

The statement also noted that many of the issues, such as how a company's financial condition should be taken into account in establishing actuarial assumptions, have not been resolved by pension experts.

"Both Buck and the PBGC agree that these issues should be addressed by members of the pension community," the statement said, adding that Buck and several other actuarial consultants will conduct a study of these issues.

A Buck spokesman said, "We thought from the very beginning that the charges were without merit...and this vindicates our position."

# Exchange OKs liquor liability form

MIAMI—Underwriters at the Insurance Exchange of the Americas have approved a new claims-made form and regulations for writing liquor liability coverage. The exchange now writes the coverage in Georgia, Texas, Florida and Wyoming. Until Feb. 1, the cover was on an occurrence basis.

Leonard Traurig, a member of the Insurance Exchange Underwriters Assn. and general manager of AIB Syndicate Inc., said the new form will include a retroactive date that provides coverage from the inception of the first claims-made policy.

Mr. Traurig said defense costs will be included within the policy limits and that an automatic 60-day discovery clause to report claims after the policy period ends will be included at no additional charge.

Punitive and exemplary damages are excluded from the coverage, and one aggregate limit applies to all locations of a multilocation risk.

Mr. Traurig said the association decided to begin writing liquor liability cover on a claims-made form "because of the current state of the market."

The exchange has said it feels the move to a

claims-made form for liquor liability insurance will enable it to continue providing a market for the coverage. Recently, other insurers have begun restricting the amount of liquor liability coverage they will write (BI, Dec. 23, 1985).

Exchange underwriters are providing up to \$1 million in coverage and charge rates based on liquor receipts. For example, a policyholder with \$1 million in coverage would pay \$2.396 for each \$100 in receipts, with a minimum premium of \$1,500.

Discounts of 25% are available to clients with receipts from \$500,001 to \$2.5 million; those with receipts of more than \$2.5 million can get a 50% discount. Exchange underwriters have eliminated their discounts to private clubs and liquor stores, and risks for liquor wholesalers and distributors must be submitted for rating. Minimum premiums for limits of \$100,000 to \$300,000 are now \$1,000.

The underwriters also will continue writing liquor liability for special events on a selective basis. The claims-made coverage has a minimum premium of \$1,000.

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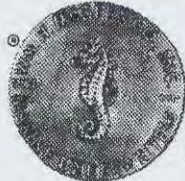


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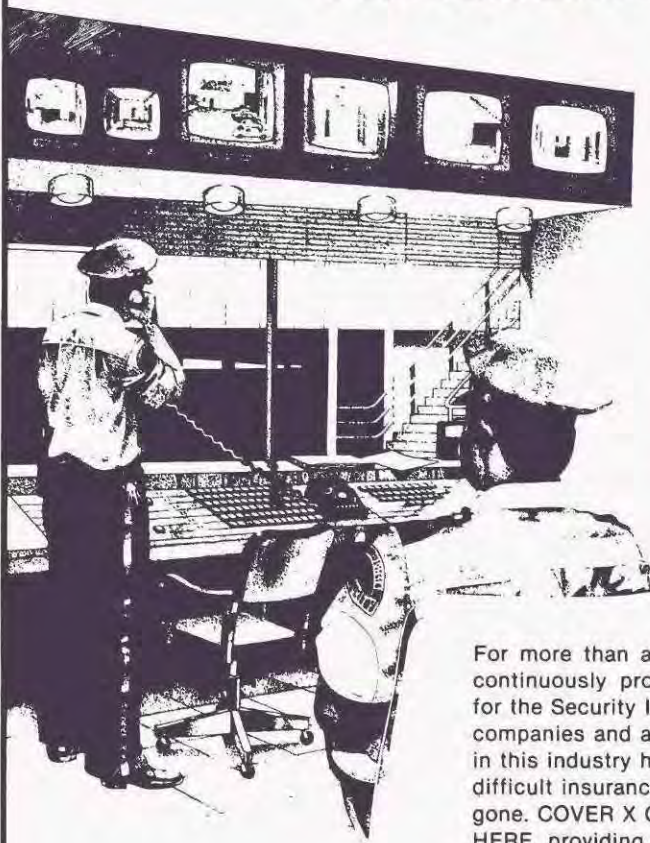
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## League of Cities planning to form reinsurance facility

By MEG FLETCHER

WASHINGTON—The National League of Cities plans to create a reinsurance facility by spring to help insurance pools operated by member municipal leagues find reinsurance support.

The cost of forming the facility, plus additional fees, will be passed on to participating pools operated by members of the Washington-based national organization. No estimate on the cost is available yet.

Formation of the facility was authorized by the league's board at the organization's annual Congress of Cities convention, held late last year in Seattle.

The board also gave the organization's executive director the authority to negotiate and enter into agreements to establish the reinsurance facility.

Plans are to file an application by mid-February to establish the facility in Vermont. Vermont was chosen because member pools thought it appropriate to locate a facility for public entities in the United States, said Donald L. Jones, special assistant to the executive director.

Also, Vermont expressed a willingness to work with facility planners, and the state's capitalization requirements were acceptable, Mr. Jones explained.

Plans are to capitalize the facility with contributions from participating pools. A pool is expected to contribute \$1 in capital for every \$3 in premium it pays, said Mr. Jones.

The facility will separate workers compensation risks from other risks, although details are still being worked out, he said. "The hope is to have the facility up and running to provide reinsurance in the spring."

There are 49 municipal leagues nationwide, with one in every state but Hawaii. Of those, 22 operate self-insurance pools that provide a variety of coverages.

"A substantial number of additional state municipal leagues also are taking steps to form such pools," the board's resolution says.

About 10 of the 22 existing pools have taken the lead to assist in establishing the "pool of pools," Mr. Jones said. He declined to identify them until their governing boards formally authorize their participation.

New York-based Corroon & Black Corp.'s Advanced Risk Management Services Division was named as broker for the facility in mid-November, Mr. Jones said. The broker's will line up reinsurance for the facility.

Consultant Tillinghast, Nelson and Warren Inc. in Atlanta has been hired to help gather and analyze loss data from proposed members.

The resolution says adequate reinsurance is essential to the continued viability of existing pools: "The combined forces of declining interest rates, lack of capacity within the insurance industry and expanding notions of municipal liability on the part of the judiciary are likely to continue over the next several years to adversely affect the capability of American cities to obtain both primary and reinsurance protection for their day-to-day activities."

Participation in the proposed facility now is limited to league members. However, the possibility of non-member pools joining in later has not been ruled out, Mr. Jones said.

## Additional directors resign

Cook Data Services Inc. in Dallas and International Soft Drinks Inc. in Minneapolis are among the latest companies to lose members of their boards of directors because of a lack of directors and officers liability coverage (BI, Jan. 27).

Cook Data Services has lost two of its four directors. Robert E.

Glaze and Vestor T. Hughes Jr. resigned following the Jan. 20 expiration of the Dallas-based holding company's D&O coverage.

Kenneth Anderson, president of Cook Data, would not identify the company's D&O insurer but said the decision not to renew the coverage was made because Cook had changed its business direction.

Cook's main focus had been on producing computer software for the oil and gas industry through its subsidiary David P. Cook & Associates, he explained. However, that company was sold and Cook recently entered the video rental business through subsidiary Blockbuster Video Inc.

Mr. Anderson said Cook hopes to replace its D&O coverage soon and agents are gathering quotes from insurers. He said he did not know if the directors would return if coverage were found.

Mr. Glaze and Mr. Hughes have agreed to serve as consultants to the board of directors, he said.

International Soft Drinks Inc. lost three corporate directors—one of whom was also an officer of the company—because it could not obtain D&O coverage.

The resignations of outside directors James F. Ehrlich and Howard M. Zimmerman and of Gerald Lapides, who also was the company's vp and secretary, were disclosed Jan. 22 in an 8K filing with the Securities & Exchange Commission in Washington. Mr. Lapides also resigned as a company official.

The company, which manufactures and distributes a soft drink called *Champagne Brus*, now only has one remaining director and officer, Howard Lapides. Mr. Lapides, the company's president and treasurer, would not comment on the resignations or on the company's insurance problems.

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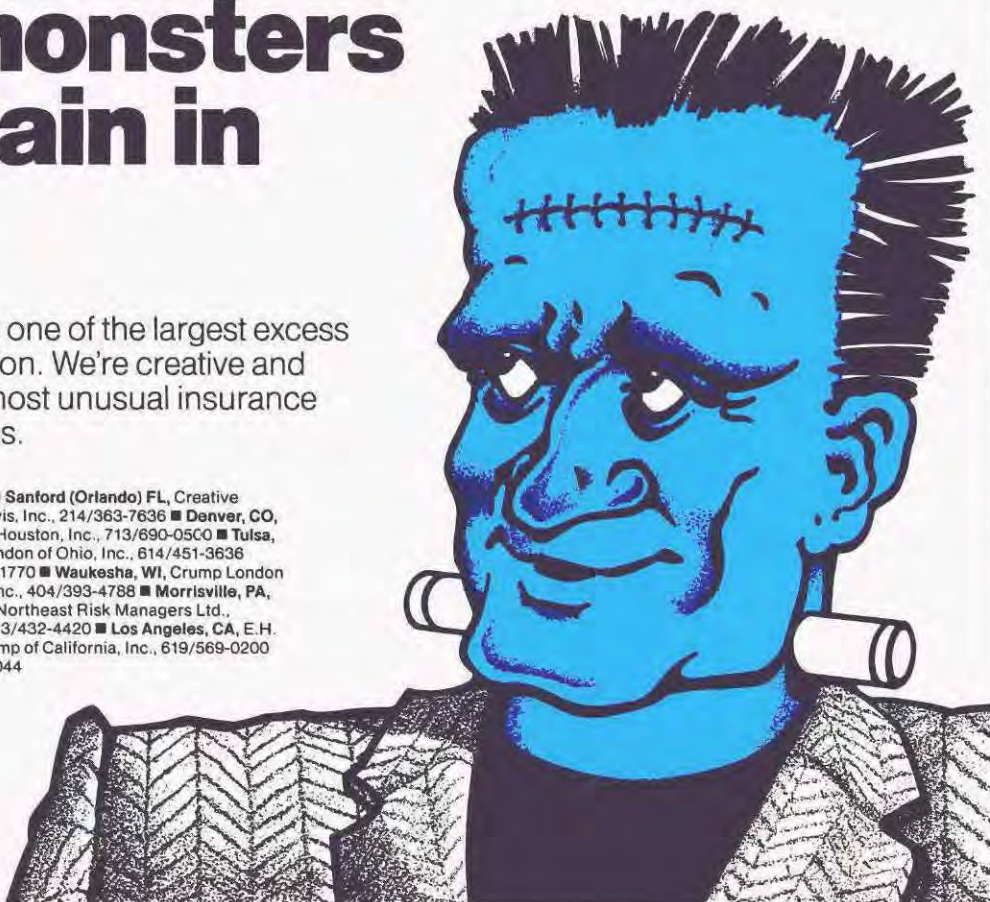
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## New Jersey rules

*Continued from page 2*  
to curb what the commissioner conceived as abuses by insurance companies, including midterm policy cancellations, blanket non-renewals, cancellations of entire lines of insurance and midterm premium increases without adequate reasons or notice to the insureds," said the 24-page opinion.

The regulations now apply to all admitted insurers writing most property/casualty lines. Excluded are: surplus lines insurers; ocean marine and aviation insurance; out-of-state risks covered by policies issued in New Jersey; workers compensation and employers' liability insurance; and fidelity, surety and performance bonds.

Specifically, the rules prohibit midterm premium increases and/or any reduction in the amount of coverage provided under most policies without departmental approval. They prohibit insurers from canceling blocks of policies or not renewing entire lines without approval.

The regulations also prohibit issuance of notices of non-renewal or cancellation unless the department approves an insurer's underwriting standards 90 days in advance. They also prohibit changes in policy terms and conditions when policies are renewed, unless mutually agreed upon by the policyholder and the insurer.

Three insurer trade organizations—the American Insurance Assn., the National Assn. of Independent Insurers and the Alliance of American Insurers—have unsuccessfully challenged those regulations in New Jersey courts.

In the Feb. 3 decision, the judges rejected the insurers' "principal contention that there is no statutory authority for the rule."

The judges also found that the rule does not violate the Commercial Insurance Deregulation Act of 1982 and found "no merit" in insurers' arguments that the rule will force insurers into insolvency.

They also dismissed constitutional claims that the rule "impairs contractual obligations" and "takes private property for public use because it compels an insurer to dedicate a portion of its assets to insuring risks which it does not wish to insure and...may be construed to preclude insurers from obtaining premium increases in the ordinary course of business."

The judges did not discuss the applicability of the rules to personal lines coverages, except to note proposed changes would exclude personal lines from the regulations.

Allstate Insurance Co. of Northbrook, Ill., decided not to appeal an earlier decision in favor of the department because of Ms. Gluck's support of a proposal to remove personal lines from the rules.

John J. Nangle, assistant vp and assistant general counsel for the NAII, said, "We are very much disappointed" by the latest decision.

"We are considering our options regarding appeal," added Patrick J. O'Brien, the AIA's senior counsel.

However, the judges' unanimous decision makes it more difficult for insurers to seek a review by the state Supreme Court, said Deputy Attorney General John J. Hayden. Ms. Gluck noted that while some insurers are following the rules, there have been a couple of dozen instances of insurers "thumbing their nose" at the regulations, including multiple offenses by a single insurer, she said. The department can levy fines of \$2,000 for the first offense—\$5,000 if it is willful and wanton—and \$3,000 for each subsequent offense, she said.

Meanwhile, insurers and regulators agree that very few new risks are being written in New Jersey.

"Insurers are being very timid about writing new business, and justifiably so," said Mr. O'Brien.

However, insurers are writing

little new business anywhere, Ms. Gluck noted, pointing out that the regulations have preserved coverage for existing policyholders.

Even if the latest ruling is not appealed, the regulations are not expected to remain in their current form for much longer.

Replacement regulations are currently being hammered out with industry representatives. The new rules will eliminate some requirements particularly onerous to insurers, like the requirement that insurers provide equivalent coverage upon renewal, she said.

In another development, Ms. Gluck will resign as insurance commissioner in the spring to head the state's Transportation Department, which is "a much larger department," according to a spokesman for Gov. Thomas Kean.

She will be replaced by Kenneth D. Merin, her predecessor, who left the Insurance Department less than a year ago to direct policy and planning for Gov. Kean. ■

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## Political risk

Continued from page 2

reudiation of contracts resulting from political acts of the host country.

Other widely written forms of political risk insurance include coverage against confiscation, expropriation and nationalization of assets by a foreign government, and currency inconvertibility covers.

Another type of coverage, export credit insurance, protects against the losses from the non-payment of goods after they have been received by foreign buyers.

These coverages are expensive, especially because the client must consider other factors besides premium to calculate the cost for coverage, says David Martin, director of political risk for BankAmerica Insurance Brokers Ltd.

A client, for example, may pay a premium of 3% of insured value for a contract frustration insurance policy, he said. But the client may also be asked to co-insure or self-insure the first 10% of the coverage. Then, the client may have to wait 360 days for claims payment, losing the interest on that money.

"So overall, the insurance may

be costing him 23% of the insured value," says Mr. Martin.

"There would be more business if rating structures were better," says BankAmerica's Mr. Eve. "The price tends to be expensive, and clients feel that they cannot afford it."

The main underwriters in political risk coverage are in Lloyd's of London, American International Group Inc. and the three new markets, sources say.

In addition, government agencies, like the Overseas Private Investment Corp. and Export-Import Bank in the United States, as well as the Export Credit Guarantee Department in the United Kingdom, write political risk coverages.

These underwriters, too, are being very selective about the risks they will underwrite, which may be one reason policyholders feel there is a capacity shortage.

Mr. Svensk says most political risk underwriters only insure about 5% of the submissions they see. Of the 1,000 submissions that TCU has seen since it opened last July, "we'll underwrite a couple."

Adds Mr. Martin of BankAmerica, "There are some very hairy policies in the market at the moment. The world is not a safe place and is generally promoting debt. There are real political risks there."

Mr. Svensk noted that between 1970 and 1983, only 10 countries had to reschedule their debts, but in 1983 alone, 20 nations had to reschedule. "Herein lies the problem, and as an underwriter you have to

be selective," said Mr. Svensk.

But despite the pitfalls, the three new markets for such insurance are now available.

PanFinancial is considered by many brokers in London to be an exciting new market.

"PanFinancial has a good start with good wordings, reinsurance in place, good underwriters and they will be selective," said Simon Scott, director of Britain's leading political risk insurance brokers, Investment Insurance International (Managers) Ltd., a subsidiary of Hogg Robinson Group P.L.C.

PanFinancial is backed by its shareholders, Continental Insurance Corp. in the United States, the Skandia Group in Sweden and Yasuda Fire & Marine in Japan, all of which are the principal reinsurers of PanFinancial. The company has a paid-up capital of 9 million pounds.

Just last month, PanFinancial introduced the first of seven policies it plans to launch.

It's called "contract completion insurance." Although it provides traditional contract frustration coverage, "we thought that the words 'contract frustration' were too negative," said Martin Roberts commercial director of PanFinancial.

"So we thought it would be much more positive to say contract completion because that is what the client is looking for," he said.

The policy, which provides coverage for individual overseas contracts, includes some or all of the following risks: public buyer non-payment, public buyer repudiation,

contract frustration at home and abroad, embargoes and license cancellation at home and abroad, cancellation, transfer delay, war or "financial loss" and other government acts.

Another feature of PanFinancial's policy is that there are very few exclusions.

PanFinancial says it is not liable for any loss arising from physical damage or those arising directly or indirectly from acts or omissions by the insured, including, but not limited to: fraudulent, dishonest or criminal acts; insolvency, bankruptcy or financial default of the policyholder; or failure of the policyholder to comply with any policy warranties or conditions.

"Basically, if it is in the policyholder's control, don't expect us to pick up the bill," said Mr. Roberts.

The policy can be written for three years and typically covers 90% to 95% of the amount at risk, although the policyholder may be asked to accept a larger participation, said PanFinancial.

PanFinancial will not discuss limits, but sources say that the company probably can write between \$4 million and \$5 million per risk, which is comparable to the capacity of a Lloyd's syndicate.

Another of the new political risk underwriters, TCU in New York, is a managing general agent for Aetna Casualty & Surety Co. TCU is managed by Mr. Svensk, who was previously president of AIG Political Risk Inc.

Brokers say TCU is more designed to write large credit and political risks. When it began in July 1985, TCU advertised that it could write \$50 million limits for governments and government agencies that wanted coverage and \$5 million for private companies.

However, Mr. Svensk says these limits for government entities have been scaled down to about \$25 million.

But, of the 1,000 submissions that TCU has seen, "none needed more than \$20 million of coverage anyway," said Mr. Svensk.

Aetna takes half of any risk and the rest is facultatively reinsured, said Mr. Svensk.

And TCU is considering getting into the political risk reinsurance field itself, on a facultative basis.

"If primary underwriters were willing to reinsure each other, there would be more than adequate capacity," said Mr. Svensk. "We are

questioning at the moment whether we should offer facultative reinsurance to primary underwriters—which would solve some underwriters' problems."

TCU offers one basic policy form. The risks include export credit, contract repudiation and note non-payments.

Like PanFinancial, TCU limits its exclusions to the failure of the insured to perform or improper documentation from the policyholder and the failure of the policyholder to show material disclosure and documents. TCU does not exclude war or nuclear risks.

Another newcomer, Trade Indemnity, has not had the kind of welcome it expected.

A leading British credit insurer since 1918, Trade Indemnity moved into political risk insurance in May 1985 to write the gamut of coverages. It hired Jerry Friend from the ECGD to manage its export division, found a quota-share reinsurance treaty led by Lloyd's Merrett Syndicates Ltd., a leading political risk insurer, and began offering political risk coverage.

With ample reinsurance, in fact, Trade Indemnity has no problem offering \$50 million to \$100 million of political risk coverage, Mr. Friend said.

But the Trade Indemnity Export Credit and Political Risks Policy is actually a political risk endorsement to the company's export credit insurance. And, the coverage is for the entire revenues of the company up to 200 million pounds, rather than for individual contracts in individual countries.

The product is not designed for clients who want political risk coverage on \$1 million to \$10 million individual contracts.

Mr. Friend says the coverage "has not been as successful as we would have liked. I talked to brokers 10 months ago to ask them what requirements they would like to see, and they said that we needed political risks coverage, so I got political risk coverage. I found it surprising that it hasn't been more successful."

Last month, Trade Indemnity made three presentations to brokers in London and two other British cities to inform them about what the insurer has to offer.

"Basically, we want to get across to the brokers that we are flexible in the facilities we can produce," said Mr. Friend.

## New syndicates boost IIE's volume

CHICAGO—Newly formed syndicates helped boost the gross premium volume of the Illinois Insurance Exchange to \$79.9 million for calendar year 1985—a fivefold increase over the previous year.

More than half of the premium volume—53.6%—came from business written by seven syndicates formed in 1985.

The 4-year-old exchange reported gross premium volume of \$15.2 million in 1984, \$7 million in 1983 and \$2.4 million in 1982, its first full year of operation.

Premiums written by seven new syndicates on the exchange totaled some \$42.8 million. An eighth syndicate approved late last year by the exchange's board did not begin writing until after Jan. 1.

Of the business written by the new syndicates, Titan Holdings Syndicate Inc., which began underwriting in October, is responsible for \$13.2 million or 30%.

Some \$36.6 million of the gross premiums written are attributable to three syndicates that have been on the exchange for more than a year. Of those, LWB Syndicate Inc., owned by L.W. Biegler Inc. in Chicago, wrote \$33.6 million, more than any other IIE syndicate. LWB wrote \$12.4 million in 1984, which was about 80% of the IIE's gross premium volume that year.

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# Reagan budget

Continued from page 3  
employees and spouses who are between 65 and 69.

The proposed budget also calls for major changes in the Civil Service Retirement System, which covers 4.7 million federal workers, retirees and survivors. Proposed changes to the program, which will pay \$25 billion in benefits this year, up from \$2.8 billion in 1970, include:

- Increasing to 9% from 7% employee contributions toward the cost of their pension benefits.
- This increase is long overdue, the administration says, noting that while government contributions toward the Civil Service Retirement program have increased 2,703% since 1960, employee contributions have increased by only 474%.
- Eliminating next year's cost-

of-living adjustment for retirees' benefits.

After 1987, future COLAs would be limited to the percentage change in the Consumer Price Index, minus two percentage points.

For example, if the CPI rose 5% in 1988, federal retirees' pension benefits would be increased by 3%. Currently, pension benefits are boosted annually to match the full increase in the CPI, while only 3% of private pension programs are fully indexed to the CPI, the administration said.

- Reducing the benefits paid to early retirees by 2% per year for those retiring before age 62. Currently, full retirement benefits are available to federal employees who retire as early as age 55. The average federal employee retires at age 60.

In support of this new early retirement penalty, the administra-

tion noted that in the private sector full retirement benefits generally are not available until age 65.

- Changing the basis for determining pension benefits for future retirees. Pension benefits would be based on a worker's highest five years of salary, instead of the highest three years of salary.

The administration says overhauling the Civil Service pension program by reducing future benefits and increasing employee contributions would reduce the federal budget deficit by \$15.6 billion over the next five years and begin the "long-overdue process of putting the government pension and financial house in order."

Elsewhere, the administration is asking Congress to appropriate \$225 million for the Occupational Safety and Health Administration, up from \$218 million in 1986.

In the administration's proposed

budget, OSHA says it will issue 14 safety and health rules in fiscal 1987, compared with 12 in the current fiscal year.

OSHA inspectors are estimated to make 71,400 worksite inspections in fiscal 1987, virtually unchanged from 71,303 inspections that were performed in fiscal 1985.

The recently reorganized Office of Pension and Welfare Benefit Programs, which helps administer the Employee Retirement Income Security Act, estimates that it will issue 2,892 ERISA-related exemptions, variances, determination letters, interpretations and regulations, down from 3,435 in 1985.

However, the pension office expects to conduct a total of 2,245 plan reviews and investigations, up from 1,675 in fiscal 1985.

A proposed budget for the pension office was not available last week.

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<del>Jan 27</del>	<del>Jan 14</del>
<del>Feb 3</del>	<del>Jan 22</del>
<del>Feb 10</del>	<del>Jan 29</del>
Feb 17	Feb 4
Feb 24	Feb 11
Mar 3	Feb 19
Mar 10	Feb 26
Mar 17	Mar 4
Mar 24	Mar 12
Mar 31	Mar 19
Apr 7	Mar 26
Apr 14	Apr 1
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Apr 28	Apr 15
May 5	Apr 23
May 12	Apr 30
May 19	May 7
May 26	May 13
Jun 2	May 20
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Jun 23	Jun 10
Jun 30	Jun 18
Jul 7	Jun 24
Jul 14	Jul 1
Jul 21	Jul 8
Jul 28	Jul 16
Aug 4	Jul 23
Aug 11	Jul 29
Aug 18	Aug 6
Aug 25	Aug 13
Sep 1	Aug 19
Sep 8	Aug 26
Sep 15	Sep 3
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# Administration urges privatizing OPIC

By JERRY GEISEL

WASHINGTON—The Reagan administration's goal of shifting more federal programs to the private sector could cost companies a primary insurance market for political risk insurance.

The administration is recommending in its proposed budget for fiscal 1987 that the Overseas Private Investment Corp., the federal agency that provides various political risk coverages to U.S. companies investing in less developed countries, be privatized.

Starting this year, an interagency task force will examine various privatization options, the administration said in its budget proposal.

It isn't exactly clear what the administration means by privatization, since the budget proposal doesn't provide full details.

Conceivably, it could mean turning OPIC into a private insurer, free of any connection to the federal government. Or, it might mean the dismantling of OPIC and forcing employers to try to find all their political risk insurance coverages in the private market.

If that were the case, the destruction of OPIC

would leave a vacuum in the political risk insurance market that commercial insurers would be hard-pressed to fill, experts say.

"There is a real question whether private insurers could provide the same breadth of coverage that OPIC offers," said William L. Mather, administrator-risk management at Gillette Co. in Boston, which purchases OPIC coverages to protect its investments in about 10 countries.

While commercial insurers, like OPIC, write coverage for currency inconvertibility and expropriation, OPIC is the only meaningful market for physical damage caused by war, revolution, insurrection and civil strife, said Bill Jasper, a vp in the Los Angeles office of Johnson & Higgins.

In addition, OPIC will extend coverage for up to 20 years on a risk. Political risk insurance written by private insurers, like underwriters at Lloyd's of London and American International Group Inc., rarely will write a policy for more than three years.

Also, no private insurer can match OPIC's capacity of providing up to \$100 million of coverage on a project, said Mr. Jasper.

OPIC also is more likely to offer coverage in countries where the risks are greater than pri-

private insurers (see story, page 3).

Because OPIC provides coverage not available in the commercial market, it really isn't competing with private insurers, said Francis X. Boylan, managing vp of Alexander & Alexander Inc.'s Foreign Credit Division in New York.

But the private market has certain advantages over OPIC.

For example, OPIC only can offer coverage for new investments, a restriction that private insurers do not face.

In addition, OPIC cannot provide coverage for an overseas investment project that would reduce jobs in the United States. Private insurers do not have to consider a project's effect on the U.S. job market in deciding whether to offer coverage.

Experts believe that OPIC and the private market both are necessary to meet employers' political risk insurance needs.

"I'm in favor of the private market playing more of a role, but there still is a role for OPIC to play," said Gillette's Mr. Mather.

In fiscal 1985, OPIC wrote more than \$5 billion in political risk insurance coverages and reported a net income of about \$100 million.

# Cameron-Webb forms consultant

MIAMI—Peter Cameron-Webb, former chairman of now-defunct PCW Underwriting Agencies Ltd. at Lloyd's of London, has resigned as an underwriter for a syndicate on the Insurance Exchange of Americas and is opening a Miami consulting firm, sources confirm.

The firm, called International Consultory Management Services, will provide "insurance underwriting consulting" services, said an employee at Usher Syndicate Ltd. at the IEA.

Mr. Cameron-Webb was employed by Lincoln Underwriting Management Inc., the company that manages the Usher Syndicate. He primarily wrote marine coverages (BI, Sept. 2, 1985).

Mr. Cameron-Webb could not be reached for comment.

The Usher employee said Mr. Cameron-Webb would serve as the new venture's president. She said the company would begin operating Feb. 12 and until phones were installed at the downtown office, Mr. Cameron-Webb could be reached through the syndicate.

While in London, Mr. Cameron-Webb was chairman of PCW, a Lloyd's underwriting agency that managed six syndicates controlled by Minet Holdings P.L.C.

Minet sued Mr. Cameron-Webb and seven others, charging that from 1979-81, losses of as much as 130 million pounds (\$181.4 million at today's exchange rates) incurred by the 1,500 members of the syndicates were the result of misappropriation of reinsurance premiums and under-reserving for claims.

Although Lloyd's has alleged that Mr. Cameron-Webb played a role in the misappropriation, formal charges never were filed against him (BI, Nov. 18, 1985).

# Asbestos decision

Continued from page 2  
bility insurance for Armstrong during that period.

The insurers argued that the exclusion for "asbestosis" meant that coverage for all asbestos-related diseases should be excluded because the insurers and Armstrong intended that the exclusion for "asbestosis" took in the whole asbestos health problem.

Thus, not only asbestosis, which is a scarring of the lungs, but other asbestos-related diseases such as lung cancer and mesothelioma, a cancer of the lining of the lung linked to asbestos exposure, should also be excluded, they argued.

Among Armstrong's arguments, however, was that the court should look to the plain meaning of asbestosis for its decision and that, if anything, only asbestosis should be excluded.

It also argued that if it has more than one meaning, the language is ambiguous, and thus the policy's interpretation should be construed in Armstrong's favor, which would mean the more limited definition.

In his decision, Judge Brown agreed with the insurers.

"The clause . . . which excludes 'all liability resulting from asbestosis' applies to all liability resulting from asbestos-related bodily injury claims, and not simply to the disease known specifically as asbestosis," Judge Brown said.

"The court determines that it was the mutual intent of the parties that this meaning attach to the language used in the asbestosis exclusion," the judge said.

He added that this interpretation also applies to excess umbrella policies incorporating the asbestos exclusion by reference and to the policies that follow form to the policies containing the asbestosis exclusion.

But the court said the asbestosis exclusion does not apply to property damage claims, to which some—but not all—of the insurers argued the exclusion also applied.

An attorney for Armstrong said the company was looking into the possibility of an appeal but had not yet decided if it would do so.

"I was gratified Judge Brown ruled in our favor with respect to property damage and disappointed he did not rule in our favor on the limited meaning of asbestosis," said John Heintz, with the Washington firm of Covington & Burling.

Insurance company attorney Fred Gregory said the decision was very significant for insurers in asbestos litigation.

"This is the first ruling on what the exclusion means," he said, adding that Judge Brown was not swayed by arguments he should abandon rules of contract interpretation on what the parties intended in favor of a forced construction advocated by Armstrong.

Mr. Gregory, with the Los Angeles firm of Gibson, Dunn & Crutcher, represents Aetna Casualty & Surety Co. and Bird & Cos., the name given to certain London market underwriters.

Attorney Jeff Carlisle, who represents National Union, agreed that the decision was important.

"We were very delighted Judge Brown focused on what the intent of the parties were in making the decision," he said.

Mr. Carlisle, with the Los Angeles firm of Lynberg & Nelsen, added that the decision could help insurers as they litigate the interpretation of similar language in other cases and possibly might be an indication of Judge Brown's approach in other phases of the California insurance litigation.

Attorneys said it is too early to tell what impact the decision will have on Armstrong's coverage in asbestos litigation because the trigger of coverage has not been decided.

Judge Brown will decide later whether Armstrong's coverage is triggered by a victim's exposure to asbestos, called the exposure theory; the manifestation of an asbestos-related disease in a victim, or the manifestation theory; or both, including a latency period, known as the "triple trigger" theory.

Because the insurance policies containing the asbestosis exclusion were issued from 1977-1982, a court decision in favor of the exposure theory would probably not have much impact on Armstrong because most victims' exposure took place prior to those years.

However, under the triple-trigger theory, Armstrong could tap the 1977-1982 insurance. It could also exhaust other insurance before that, however.

And with a decision for the manifestation theory, which says coverage is triggered when a disease is manifested in the victim, many cases would fall into the 1977-1982 years.

However, in light of Judge Brown's broader interpretation of the "asbestosis exclusion," coverage would not apply to these bodily injury claims, Mr. Gregory said.

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## Searle ends sale of IUDs

Continued from page 3

filed for protection under Chapter 11 of the Federal Bankruptcy Act because of mounting liability claims against it (BI, Aug. 26, 1985).

However, a Searle spokesman maintains any comparison between the cases is like comparing "apples and pineapples." For example, Searle voluntarily discontinued sales and had the approval of the FDA, he said.

So far, Searle has been named in 775 lawsuits by women who used the CU-7 or TATUM-T. Of those, 305 suits are pending and 470 have been settled or dismissed. One-third of the 470 were dismissed without payment to plaintiffs.

The company says it has won eight of 10 cases that have gone to trial. The two plaintiffs' verdicts against it included one in 1979 for about \$70,000 that was settled for \$60,000 prior to an appeal. In 1983, the company was hit with a \$350,000 verdict, but settled that case for \$250,000, also before an appeal.

In recent months, the company says it has successfully defended the CU-7 in four jury trials, but at a cost of \$1.5 million.

And, many more suits may be brought. One plaintiffs' attorney said that while his firm has only filed about 15 suits, it is evaluating "hundreds" of claims, some of which are ready to be filed.

The suits generally allege the IUDs cause pelvic inflammatory diseases, ectopic pregnancies, perforated uteruses and infertility.

Sales of the IUDs in the United States generated approximately \$11 million in revenues for Searle last year.

The CU-7 is the most frequently prescribed IUD in the United States. It was first marketed in 1974, and along with the TATUM-T has had continuous FDA approval as prescription drugs, the company said.

A spokesman for Searle's Pharmaceutical Group explained the company's decision in a prepared statement:

"The escalating cost of defending unwarranted product litigation makes continuing in the IUD business in the U.S. no longer economically sensible for the company. Searle made this decision because of mounting unjustified litigation in the U.S. that has made future product liability insurance virtually unobtainable."

A plaintiffs' attorney in the CU-7 litigation said she "wasn't surprised," by Searle's decision and speculated that one reason is that plaintiffs are beginning to try successful suits against the company.

Patricia Jo Stone, with the Denver law firm of Stone & Associates, also cited Searle's desire to cap the number of lawsuits against it. She said the 775 cases cited by Searle was probably "very low."

Plaintiffs' attorney Roger Brosnahan of the Minneapolis firm of Robins, Zelle, Larson & Kaplan, said the company is "treating it as an economic and legal problem rather than a health problem."

He said the reason for discontinuing sales also may be based on recent studies showing a higher risk of infertility among those using IUDs, including the Copper-7, the fact that the company's patent runs out next year and that the market for IUDs is dwindling.

Another plaintiffs' attorney, Roger Pardieck, said Searle has considered taking the Copper-7 off the market for several years.

"It's good litigation," said Mr. Pardieck with the Seymour, Ind., firm that bears his name. "These are strong, legitimate cases."

The company said it is notifying doctors and supply houses nationwide of its action and will accept all returned inventory.

Women who are using the CU-7 or the TATUM-T need not have them removed, the company added. But, neither IUD should be used for more than three years following insertion, the company says.

The company also said it is looking into the sale of its non-U.S. IUD business. Currently, the IUDs will continue to be distributed in countries where there are fewer product liability problems.

## Jail coverage

Continued from page 3

stems from the federal Civil Rights Act, which allows inmates to sue their jailers in federal court for alleged civil rights violations. The act has no statute of limitations and no cap on liability.

While law enforcement officials maintain that many of the suits filed by county jail inmates are "frivolous," they acknowledge that others are valid, stemming from overcrowding and prison conditions that do not meet minimum federal requirements.

Richard L. Germond, sheriff of Lenawee County, Mich., and president of the National Sheriff's Assn., says his department paid \$13,000 for \$1 million in liability coverage in 1984. In 1985, the same coverage cost \$49,000, with a \$10,000 deductible. He would not identify the insurer.

That coverage expires June 31, "and I hope they renew us," Sheriff Germond says.

He also notes that in 1984, the department was covered under the county's umbrella liability policy for \$15 million above the \$1 million primary layer. Now, it has just \$1 million in umbrella coverage above the \$1 million primary layer.

"That's not a substantial amount of coverage for the exposure we have," he says.

Many other communities, however, have no coverage at all, Sheriff Germond points out.

Currently, National Casualty can offer limits of up to \$1 million, according to James H. Chapman, vp of Markel Service Inc. in Richmond, Va., the managing general agent for the program.

Imperial Casualty reportedly offers limits of \$300,000. Special Risks Inc. of Virginia Beach, Va., the MGA for Imperial's program, could not be reached for comment.

"Two years ago we probably had 15 or 16 national competitors; now we're down to one," Mr. Chapman said, referring to Imperial Casualty. He added that a couple of small regional insurers write law enforcement policies, but "they offer very narrow coverage."

Mr. Chapman says law enforcement coverage is cost-intensive because the claims involve alleged civil rights violations. He says 80% of the suits are filed in federal court.

This makes claims management very expensive because the defendants in these cases must respond within 20 days, and an attorney must be assigned to every case.

Markel's program has been successful because they are able to

**'We're at the mercy of the carriers. I'm not sure I know what the answer is,' says Sheriff Germond.**

"find and keep competent attorneys" who have experience working with civil rights litigation, Mr. Chapman says.

Markel receives about 400 applications for coverage each week, according to Mr. Chapman, who says the MGA accepts only about 30% to 35% of those submissions.

The two most important reasons why Markel will reject a risk are that a government lacks an up-to-date policies and procedures manual for officers, or it operates a jail without 24-hour supervision.

But many rural communities in the Midwest historically have not had 24-hour supervision for county jails, Mr. Chapman says. Many of these jails were covered under policies written by regional companies that did not require around-the-clock guards.

Mr. Chapman maintains that these regional insurers withdrew from the market because they were hit with major claims stemming from jail incidents.

Factors considered in the pricing of coverage include: the size of the jail; its age; whether the department is accredited by one of the national law enforcement accreditation organizations; the state department of corrections' assessment of the county jail; and whether the department does pre-hiring psychological tests on all personnel.

Mr. Chapman says even the best sheriff's department will be hit with claims. Therefore, he is looking for "quality departments" that will allow the MGA to develop a good defense against claims. Markel also encourages policyholders to implement risk management procedures that will stem claims.

Policy deductibles have "gone way up," Mr. Chapman notes, with the minimum being \$1,000 and the average between \$1,000 and \$10,000, including loss adjustment expenses.

The lack of capacity and high cost of law enforcement liability coverage is forcing many communities to examine alternatives to the commercial insurance market.

This year, Missouri became the second state in which county sheriffs joined together to create a self-insurance pool, following the example set by Florida.

Perry Winget, executive director of the Missouri County Sheriff's Assn., says the association had considered adopting a program similar to Florida's for some time, but "we got real serious" when premiums shot up and several departments could not buy coverage.

The Missouri pool has about 40 members, he said.

And, sheriffs from several other states have approached the Tallahassee, Fla., consulting firm that set up both pools—Hunt Insurance Group Inc.—to inquire about the possibility of setting up their own pools.

Florida's program has been in place for seven years, explains John Hunt Jr., president of Hunt Insurance Group. The pool is designed to give sheriff's departments in the state a "stable market they can depend on year after year," he says, because county sheriffs are "tired of being at the mercy of the insurance industry."

The Florida pool has had just one rate increase in seven years of operation, according to Mr. Hunt. He says the pool, which is operated like a trust fund, does not show a profit, but does have adequate reserves.

The pool has been successful in controlling losses because its membership is responsible for managing it, Mr. Hunt says. Thus, he says, the members can see that they must keep losses down to control premiums.

Currently, Mr. Hunt says, sheriffs in five other states are considering a self-insurance pool as an alternative to commercial insurance.

But Sheriff Germond sees trouble ahead for these programs. He says there simply are not enough departments in most states to develop the kind of reserves that would be needed in the event of a major loss, unless the pool can arrange reinsurance. Currently, neither the Florida nor the Missouri pools have reinsurance in place.

"If you get a million-dollar verdict, it would wipe out your reserves," Sheriff Germond warns.

Even at the national level, a captive is not feasible without reinsurance, Sheriff Germond contends. The National Sheriff's Assn. is considering forming a captive insurer to serve sheriff departments nationwide, but the unavailability of reinsurance has stalled that effort, he said.

Meanwhile, the association can do little but wait for the reinsurance market to improve, says Sheriff Germond. "We're at the mercy of the carriers," he says, adding, "I'm not sure I know what the answer is."

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## Mardi Gras insurance

Continued from page 3

insurance Co. of Pittsburgh, Pa., decided not to renew Zulu's coverage for this year's celebration, and last week other insurers were balking.

"It's because of the coconuts," she said. "They have had extensive claims."

Ms. Getty noted that even those krewes that have coverage are paying more than twice as much in premium this year for about half as much in coverage.

She explained that last year, clubs insured their parades at rates from \$50 to \$65 per float for \$1 million in liability coverage.

"This year, no one could get that," she said, adding that rates are closer to \$125 per float and limits are usually \$500,000.

Most of the insurance she places for the krewes is written by syndicates on the Insurance Exchange of the Americas in Miami, she said. Coverage written by the IEA carries a \$250 per loss deductible and limits of \$500,000.

In addition, she said, four or five of the clubs are insured by ComCo Insurance Co. in Amarillo, Texas. The ComCo coverage has \$500,000 limits and a \$2,000 deductible, according to Ms. Gettys.

Thomas C. Farrell Jr., president of Farrell & Co. in New Orleans, said he found coverage with American International Group Inc. units for three krewes only in mid-January.

AIG, he said, at first notified him that it would not be writing coverage for the parading krewes but changed its mind.

And, premiums for the liability coverage have tripled, he said. For example, the 345-member krewe of

Proteus paid \$1,725 for \$1 million in coverage written by AIG in 1985; this year AIG is billing the carnival club \$4,833 for limits of \$500,000. The deductible on the coverage for the 20-float parade is \$250.

According to Ms. Gettys, carnival floats are valued at around \$3,000 to \$5,000. She explained that many clubs rent their floats from the builder and then purchase an endorsement to the builder's comprehensive general liability policy.

Blaine Kern, known by many in New Orleans as "Mr. Mardi Gras," estimates he builds 90% of the carnival floats.

"I do most of Mardi Gras," he said. "While the floats are inside his 'den' they are protected by his comprehensive general liability policy. But, once in the limelight, many are insured by endorsements added to his coverage."

"It's less expensive for (the krewes) to rent from him," Ms. Gettys explained.

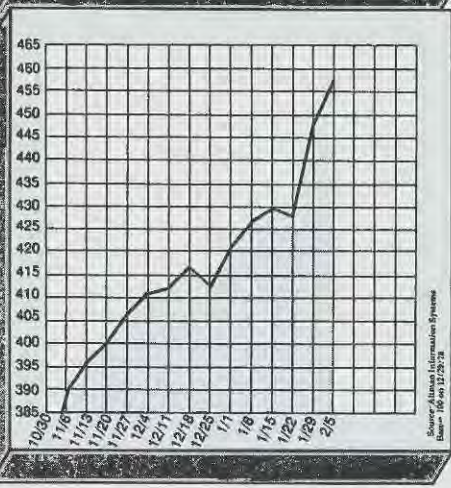
Mr. Kern would not release specifics of the coverage on his float-building operation, Blaine Kern Artists Inc. But, he did say he was able to renew his own liability coverage although his premiums "almost doubled."

He also pointed out that, under Louisiana law, a parading organization cannot be held liable for injuries at a parade unless malicious intent is proven.

"You get out there and people are pushing, laughing, catching doubloons and beads and something is liable to happen," Mr. Kern remarked. "A horse is liable to step on your foot. You go at your own risk."

However, Ms. Gettys said that krewes, like the Zulu, generally pay small injury claims rather than take the case to court to claim immunity under the state law. ■

**BI Insurance Index**



**Insurers boost reserves**

Continued from page 1  
badly the industry is under-reserved.  
In addition, USF&G Corp. announced last week that it had boosted its reserves by \$100 million in the fourth quarter. The insurer had already added \$142.6 million to reserves during the first three quarters of 1985.

It's not known what effect the charge will have on USF&G's year-end earnings because a dispute between the insurer and its accountant has delayed release of the earnings (see related story).

The added reserves are for 1984 and prior years, says a USF&G spokesman, who could not comment on the lines for which the reserve additions are earmarked.

Thomas Rosencrants, research director at Conning & Co. in Hartford, Conn., says CIGNA's and Continental's actions show that losses throughout the industry are understated and therefore, "earnings are overstated." Price increases will continue to be quite large as a result, he says.

Referring specifically to the CIGNA reserve boost, Frederick V. Hill, a principal at Derby Securities in New York says, "It may raise questions about a lot of other companies who weren't in a strong financial position to take such a dramatic move."

Myron M. Picoult, senior vp and senior insurance analyst at Oppenheimer & Co. in New York, adds: "It would be fallacious to believe this would be unique. . .Others out there need this and the sooner they recognize this, the better."

"The business isn't as healthy as they have been telling everyone. Rates will have to be moved up higher and sustained longer than anyone has expected," Mr. Picoult says.

"In general, I think the industry is still under-reserved, but is catching up," noted David Seiffer, a New York-based vp with First Boston Corp. "I think they're better off than a year ago as far as reserves are concerned," though he adds, "I think there's more catching up to do."

Gavin Arton, CIGNA's director of financial relations, says that of the \$1.2 billion to be added to the insurer's reserves, \$220 million will go toward reserves for professional liability losses, \$120 million is earmarked for asbestos losses, \$80 million for reinsurance losses and \$50 million for losses in the excess/surplus lines area.

The remaining \$770 million, he says, will go toward CIGNA's "regular lines," including close to \$300 million for the liability portion of its commercial package policies.

Other lines in this category include monoline general liability business, workers compensation and commercial auto. Some of the reserves will also go toward bonding, marine and personal lines business, including personal automobile and umbrella coverages.

A total of \$200 million of the \$1.2 billion added to reserves is for pre-1978 business,

**'We feel this reserve strengthening indicates higher-than-expected levels of payouts in future months,' says Mr. Puccia.**

most of which is asbestos-related.

Mr. Arton says CIGNA judges its reserves on an ongoing basis, but a thorough analysis can only be conducted at year-end, when it compares its accident year and calendar year development.

At the end of 1984, he says, CIGNA discovered a "small aberration" in its data that led to a \$225 million reserve boost. At the end of 1985, it realized the aberration was actually a trend, which led to the \$1.2 billion charge.

A company spokesman notes that \$1.2 billion is only 4% of the approximately \$30 billion in premium outstanding. "It's not a lot when you're trying to predict the future."

But Mark Puccia, assistant vp at Standard & Poor's, says S&P views the \$1.2 billion reserve boost negatively. His company has placed CIGNA on its CreditWatch list, indicating it is under "special surveillance."

A decision on lowering CIGNA's ratings will be made within two weeks, says Mr. Puccia.

The move by CIGNA "lowers our assessment of projected earnings. We don't think this is good," he says, describing the reserve strengthening as an "expression of past and future problems."

"We feel this reserve strengthening indicates higher-than-expected levels of payouts in future months," says Mr. Puccia. This will mean a cutback in the funds CIGNA can invest and, in turn, in its investment earnings, he says.

The move also hurts CIGNA's credibility, he says. "It tends to make you think about whether there are any adverse future developments down the road," he says.

Mr. Arton says CIGNA had anticipated its credit ratings would be re-evaluated as a result of the \$1.2 billion charge. But he disagreed it would hurt future earnings.

"This isn't going to be paid out tomorrow," he says, noting that the \$1.2 billion will be spent over several years. "If anything, it will be slightly beneficial to us" because it strengthens CIGNA's ability to pay claims and adds to its investment resources.

Mr. Arton also disputes that the move hurts CIGNA's credibility. While "nobody's perfect in predicting the future," the company currently feels the \$1.2 billion charge "fully addresses the problem," he says.

Securities analysts were more positive than S&P about the CIGNA move.

"I think they've bitten the bullet about the adverse development of past business, and it

means that the '86 and '87 earnings will be free and clear of any problems in past business, so we're very bullish about it," says Derby Securities' Mr. Hill.

"I think CIGNA's very courageous and upfront in doing what they did," he adds.

"I view it positively," says Gloria L. Vogel, a New York-based vp with Legg Mason Wood Walker Inc. "I think that this clears the deck, as management has said, on a lot of the reserve deficiencies that obviously had been in play. It should enhance future earnings."

David O'Leary, director of research at Fox-Pitt, Kelton in Hartford, says he was surprised by the move. "I think it was a very conservative action on their part."

A Continental spokesman said Continental will add \$220 million to reserves for its property/casualty reinsurance and specialty lines for 1984 and previous years.

In addition, the company is also making a provision for doubtful reinsurance recoverables, the spokesman says.

The largest single factor leading to Continental's reserve boost was an increase in the size of claims on individual and commercial auto policies. Another factor, according to the company, was large tort awards.

The spokesman notes while the reserve addition will mean an operating loss for both the fourth quarter and 1985, the company will report a net gain because of investment gains, including a stock issue (BI, Aug. 26, 1985).

The spokesman says the company is confident its reserves are now adequate, although reserve levels are "constantly monitored."

Conning's Mr. Rosencrants says the Continental reserve boost was unexpected, but adds that "it's prudent they understand that the additional liability exists" and recognize it.

In addition to CIGNA and Continental, a spokesman for The Home Group Inc. last week said the company added \$30 million to its reserves for reinsurance recoverables in the fourth quarter, in addition to \$10 million added for that purpose during the third quarter.

The company added about \$233 million to its statutory loss reserves throughout the year, including \$170 million during the first quarter, says the spokesman.

The Home reported a \$197 million operating loss for 1985, compared with a \$61 million loss for 1984.

Despite analysts' view that the industry is still under-reserved, several insurers say they are not contemplating additions to their reserves.

A spokesman for the Hartford Insurance Group said last week Hartford is adequately reserved. "There is nothing in our current evaluation to indicate the need for any major adjustments," the spokesman says.

Hartford boosted its reserves by 10% last year to \$4.3 billion.

Similarly, a spokesman for Aetna Life & Casualty Co. says, "We continue to feel we are adequately reserved." The insurer has increased its reserves by about \$401 million in the first three quarters of 1985. This increase reflects business growth as well as additions to reserves, he said.

The Business Insurance stock index surged to a record high during the most-recent trading period. The BI index of insurance industry stocks closed at 456.4 points on Feb. 5, up 9.9 points from 446.5 on Jan. 29 and up 28.4 points from 428.0 points on Jan. 22. A total of 45 stocks posted gains, 11 recorded losses and three were unchanged during the period. The top gainers were Kemper Corp., which leaped 17.8%; Torchmark Corp., up 9.4%; Farmers Group Inc., up 8%; Ohio Casualty Corp., up 7.4%; and Provident Life & Accident Insurance Co. and Statesman Group Inc., each up 7.1%. The biggest losses were recorded by Frank B. Hall & Co. Inc., which plunged 11.4%; USF&G Corp., down 5.3%; Durham Corp., down 3.8%; Nobel Insurance Ltd., down 3.8%; and American General Corp., down 2.6%. The Business Insurance stock index rose 2.2% during the trading period, outperforming two of the major market indicators and tying with the third: The New York Stock Exchange composite climbed 1.2%, the Standard & Poor's 500 rose 1.3% and the Dow Jones 30 Industrials rose 2.2% for the same period.

**British Issues**

4 Feb Companies	Price	P/E	Div.	Yield	High-Low
	pence		pence	%	pence/pence
Commi Union	244	NAM	16.9	6.9	244-236
Genl Accident	733	33.3	31.4	4.3	733-720
Gdn Royal Exch	755	66.7	38.6	5.1	760-753
Royal	788	49.3	35.0	4.4	800-785
Sun Alliance	591	98.5	23.6	4.0	591-580

Brokers	Price	P/E	Div.	Yield	High-Low
	pence		pence	%	pence/pence
CE Heath	685	8.9	37.5	5.4	688-683
Hogg Robinson	307	12.5	13.4	4.4	311-298
JH Minot	267	12.1	11.4	4.3	268-262
Sedg Grp	388	16.9	17.1	4.4	388-373
Stew Wrightson	770	14.8	32.8	4.3	773-763
Willis Faber	453	23.2	23.6	2.6	470-453

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

**BI Industry Stock Report**

February 5, 1986 1/30/86 thru 2/5/86

Brokers	Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol.(000)
Alexander & Alexander Svcs	NYSE 35.50	2.5	0.0	1.00	2.8	36.13*	34.75	799.6
Baldwin & Lyons Inc	OTC 76.00	1.3	16.8	0.80	1.1	81.00*	72.00	2.3
Corroon & Black Corp	NYSE 62.50	0.6	84.5	1.00	1.6	62.50*	60.75	82.0
Crump E H Cos Inc	OTC 24.50	-2.0	23.3	0.25	1.0	24.63	24.00	149.3
Emett & Chandler Cos Inc	OTC 17.75	0.0	30.6	0.00	0.0	17.75	17.75	38.1
Gallagher Arthur J & Co	OTC 53.25	-0.9	24.2	0.28	0.5	53.25	52.75	23.5
Hall Frank B & Co Inc	NYSE 19.50	-11.4	0.0	0.00	0.0	21.75	19.00*	580.6
Marsh & McLennan Cos Inc	NYSE 97.25	6.6	21.8	2.70	2.8	97.25*	91.25	269.1
Poe & Assoc Inc	OTC 14.50	1.8	0.0	0.80	5.5	14.50*	14.50	1.3
AGENTS/BROKERS	AVERAGE		133.1		1.7			
Conglomerates & Holding Cos.								
American Express(Fireman's Fd)	NYSE 60.00	3.4	16.9	1.36	2.3	60.00*	56.25	4,440.1
Anderson Clayton(Ranger/PanAm)	NYSE 53.50	-2.1	37.2	1.32	2.5	54.88	53.50	81.7
Arco Inc	NYSE 9.88	-4.8	0.0	0.00	0.0	10.63	9.88	600.4
Berkley & R Corp	OTC 42.00	5.0	131.3	0.32	0.8	42.00*	39.00	224.0
CIGNA Corp	NYSE 69.00	-1.3	33.5	2.60	3.8	69.00	65.38	4,754.0
CNA Finl Corp (CNA)	NYSE 69.25	4.7	21.6	0.00	0.0	69.50*	66.63	355.3
General Re Corp	NYSE 117.25	4.9	34.7	1.56	1.3	117.25*	111.25	750.2
ITT (Hartford Group)	NYSE 40.13	4.2	12.6	1.00	2.5	40.13*	38.63	3,555.9
Sears Roebuck & Co. (Allstate)	NYSE 39.25	0.6	11.0	1.76	4.5	40.13	39.00	4,500.3
Teledyne Inc (Argonaut)	NYSE 330.00	2.7	7.1	0.00	0.0	330.00	320.75	120.9
Transamerica Corp (Occidental & Fred S. James)	NYSE 36.38	6.2	16.9	1.68	4.6	36.38*	34.25	925.7
CONGLOMERATES/HOLDING COS.	AVERAGE		12.7		1.3			
Insurers								
Aetna Life & Cas Co	NYSE 56.50	-0.7	21.2	2.64	4.7	56.88	55.88	3,248.0
American General Corp	NYSE 37.00	-2.6	11.2	1.00	2.7	37.25	36.75	1,748.3
Ameri Heritage Life Invnt Co	NYSE 39.50	1.6	14.8	1.20	3.0	39.75	39.13	3.1
American Indty Finl Corp	OTC 22.13	2.9	0.0	1.12	5.1	22.13	21.50	49.4
American Intl Group Inc	NYSE 121.00	3.0	30.2	0.44	0.4	122.25	115.50	925.4
Aneco Reins Ltd	OTC 0.88	0.0	0.0	0.00	0.0	0.88	0.88	10.5
Avenco Corp	NYSE 39.00	0.6	15.4	0.60	1.5	39.00*	38.00	15.3
Business Reins Assurn Co Amer	OTC 29.50	0.0	8.3	1.04	3.5	29.50	29.00	65.6
Chubb Corp	NYSE 63.75	0.8	0.0	1.56	2.4	63.75*	61.25	776.1
Combined Intl Corp	NYSE 53.50	0.9	9.7	2.16	4.0	54.00*	53.25	460.4
Continental Corp	NYSE 49.50	3.9	24.5	2.60	5.3	50.00*	47.25	1,077.6
Crown Life Ins Co	OTC 270.00	6.3	16.3	0.00	0.0	270.00*	254.00	3.6
Durham Corp	OTC 43.75	-3.8	8.1	1.28	2.9	44.75	43.00	16.0
Farmers Group Inc	OTC 77.75	8.0	13.1	1.76	2.3	77.75*	71.88	696.1
Fireman Fd Corp	NYSE 37.63	3.1	0.0	0.30	0.8	37.63*	36.50	1,246.9
Fremont Gen Corp	OTC 29.25	0.9	0.0	0.48	1.6	29.50*	29.25	461.5
Great West Life Assurn Co	OTC 500.00	2.0	5.0	18.00	3.6	500.00*	490.00	0.1
Home Group Inc	AREX 61.25	4.3	63.8	0.56	0.9	61.25*	59.00	76.0
Hanover Ins Co	OTC 61.25	0.4	63.8	0.56	0.9	61.25*	59.00	76.0
Hartford Steam Boiler Insnptn	OTC 72.00	5.1	13.3	2.00	2.8	72.00*	69.75	53.8
Kans City Life Ins	OTC 29.75	1.7	11.7	0.87	2.9	30.00	29.50	4.7
Kepper Corp	OTC 95.00	17.8	20.6	1.80	1.9	95.00*	80.25	882.6
Liberty Corp S C	NYSE 34.50	1.5	14.9	0.72	2.1	35.00	34.13	13.2
Lincoln Natl Corp Ind	NYSE 58.63	1.1	13.8	2.00	3.4	59.13*	57.13	387.2
Mission Ins Group Inc	OTC 2.75	0.0	0.0	0.00	0.0	2.75	2.75	630.5
Monumental Corp	OTC 35.50	1.1	12.0	1.60	3.9	35.63	35.13	14.7
Nac Re Corp	OTC 36.25	1.4	28.8	0.00	0.0	36.25*	35.50	19.5
Nobel Ins Ltd	OTC 15.75	-3.8	20.7	0.25	1.6	16.25	15.75	93.5
Northwestern Natl Life Ins	OTC 27.50	-0.5	7.2	0.80	2.9	27.63	27.25	299.3
Ohio Cas Corp	OTC 80.00	7.4	23.5	2.80	3.5	80.00*	75.00	604.4
Old Rep Intl Corp	OTC 38.88	1.3	10.5	0.74	1.9	38.88	38.13	79.8
Orion Cap Corp	NYSE 32.00	1.2	0.0	0.76	2.4	32.00	31.50	167.4
Protective Corp	OTC 22.50	2.3	8.4	0.66	2.9	23.00	21.75	47.2
Provident Life & Acc Ins Co	OTC 28.13	7.1	7.6	0.76	2.7	28.13	26.38	176.0
St Paul Cos Inc	OTC 93.00	6.9	41.2	3.00	3.2	93.00*	89.00	1,124.5
SAFECO Corp	OTC 53.63	3.4	16.3	1.60	3.0	53.88*	52.75	747.5
SPI Corp	OTC 17.63	3.7	587.5	0.80	4.5	18.00	17.50	65.0
Seibels Bruce Group Inc	OTC 20.00	2.6	4.1	0.80	4.0	20.00	19.25	85.6
Statesman Group Inc	OTC 5.63	7.1	0.0	0.05	0.9	5.75	5.25	122.3
Tokio Marine & Fire Ins Co	OTC 222.00	2.8	41.8	1.05	0.5	226.25	216.00	5.0
Torchmark Corp	NYSE 24.75	9.4	11.4	0.60	2.4	24.75	21.25	1,699.8
Travelers Corp	NYSE 48.63	-2.3	12.2	2.16	4.4	49.00	48.38	3,390.3
United Fire & Cas Co	OTC 32.75	0.0	15.3	1.20	3.7	32.75	32.25	2.2
United States Fid & Gty Co	NYSE 40.25	-5.3	0.0	2.20	5.5	40.75	40.25	2,266.2
UsLife Corp	NYSE 39.13	6.5	8.8	1.12	2.9	39.38	37.13	278.9
Washington Natl Corp	NYSE 27.50	3.3	9.5	1.08	3.9	27.50	26.63	110.7
Zenith Natl Corp	OTC 29.38	3.1	0.0	0.68	2.3	29.38*	27.50	692.1
INSURANCE COMPANIES	AVERAGE		14.1		2.4			

**Disagreement delays USF&G earnings report**

BALTIMORE—USF&G Corp. is delaying reporting its year-end results because of "unresolved issues" with its accounting firm, Coopers & Lybrand, over how its investment income should be reported.

The disagreement also means USF&G's operating and net results for 1983, 1984 and the first three quarters of 1985 will almost certainly be restated, according to a USF&G spokesman.

The changes involve reclassifying investment income as capital gains and restating realized capital gains or losses as unrealized capital gains or losses, says the spokesman. He could not say whether the changes will mean an upward or downward adjustment in results.

Some of USF&G's investment strategies in recent years have been criticized by analysts for their "creativity," but the USF&G spokesman says the accounting changes "involve the entire portfolio

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