WEEK OF FEBRUARY 22, 1982

business insurance®

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update:

Synanon suit demands $42 million from ABC

SAN FRANCISCO—More underwriters than those at Lloyd's of London are watching the trial of Synanon Foundation's slander suit against American Broadcasting Cos. now under way.

The potential $6 million tab for defending ABC pales in comparison with the $42 million Synanon is asking in special, general

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A.H. Robins, Aetna debating coverage for Dalkon Shield suits

By RHONDA L. RUNDLE

RICHMOND, Va.—Dalkon Shield maker A.H. Robins Co. Inc. and Aetna Casualty & Surety Co. will meet in court in May to argue how a decade of primary and excess liability insurance should pay claims against the IUD manufacturer.

A.H. Robins maintains that Aetna is obligated to defend and pay valid bodily injury and wrongful death claims arising out of claimants' use of the Dalkon Shield intrauterine contraceptive device during one or several policy periods.

Aetna has declined to defend or indemnify Robins for cases in which a claimant's injuries were medically diagnosed or discovered after the last day of the last policy period. Aetna provided continuous primary and excess liability coverage to Robins from March 1968 to February 1977.

The disputed coverage lawsuit pits exposure to the Dalkon Shield against manifestation of bodily injury as competing theories of liability for IUD-related losses. This is the same issue heard by other courts asked to decide insurance available to manufacturers of products with long-latent disease potential, including asbestos and DES, the anti-miscarriage drug.

Despite different sets of facts in individual cases, the courts have consistently ruled for the product manufacturer (*BI*, Jan. 25; June 29, Aug. 31, 1981; Nov. 3, 1980). The law in many states requires coverage be construed to favor the policyholder when a policy is ambiguous.

Although trial is set for May in the Circuit Court of the City of Richmond, unconfirmed rumors hint of a major out-of-court settlement among the parties. Counsel for Aetna and Robins declined comment except to say that settlement negotiations are not uncommon during the course of litigation.

There are about 2,500 lawsuits pending against A.H. Robins for IUD-related injuries that seek more than $500 million in compensatory and $2.3 billion in punitive damages. About 4,000 claims and cases have been disposed of, says William Forrest, Robins' general counsel.

Fifteen cases have been tried in court—resulting in nine defense verdicts, five plaintiff verdicts and one hung jury. The largest verdict, which is on appeal in Denver, Colo., awarded $600,000 in com-

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ODECO insured lost rig, but liability issues linger

By STEVE SHERWOOD

The oil industry's group captive and London and U.S. insurers will pay $86.5 million toward ODECO's property loss on the Ocean Ranger drilling rig, but who will pay liability claims is yet unknown.

Liability in the loss of the semi-submersible rig that capsized 165 miles east of St. John's, Newfoundland, killing all 84 people aboard, is yet to be determined.

The Feb. 15 sinking of one of the world's largest semi-submersible drillings rigs in the icy waters of the North Atlantic during a storm packing 100-mph winds and 50-foot swells was the first loss of a semi-submersible rig.

Survivors of the 15 Americans on board probably will sue under admiralty law or the Jones Act, which sets no limits on compensation for deaths of workers on vessels, including semi-submersible rigs.

Survivors of the other 69 workers killed probably will be able to sue in the United States under admiralty laws.

Estimates of the loss range from $50 million for liability, on top of the $86.5 million property loss, to $200 million for the total loss.

The Ocean Ranger's owner, Ocean Drilling & Exploration Co. of New Orleans, which had 46 employees on board, and the rig lessor, Mobil Oil Canada Ltd. of Calgary, agree liability for the accident is far from clear-cut.

"With the number of employees and third parties on the rig when it capsized, there is no telling about liabilities," said Charles S. Howe, senior vp of insurance for ODECO. "It is too early to pin down."

Map: Amy Palmer

The Ocean Ranger capsized in the Atlantic off Newfoundland.

Of the $86.5 million in property insurance on the rig, whose value is said to be $127 million, the first $1 million was underwritten by ODECO's Bermuda-based captive insurance company, Mentor Insurance Co. Ltd.

ODECO also must bear the $40 million difference between the insured value of the rig and its replacement cost.

The largest portion of excess insurance, $60 million, is insured by Bermuda-based Oil Insurance Ltd., a mutual insurance company owned by 37 petroleum companies. One of the OIL shareholders is Murphy Oil Corp., based in El Dorado, Ark., the majority owner of ODECO.

The remaining $25.5 million of coverage is underwritten by London and U.S. markets, with London insuring $16.5 million and U.S. companies insuring $8 million, a source at Lloyd's of London said.

AIG Energy Inc. is among the U.S. insurers, but for well under $1 million, a spokesman said.

With so much of the risk held by the oil industry captive, there is speculation that the loss will not affect the cheap rates in the rig market.

OIL has hired Houston insurance adjuster Matthews-Daniel Co. to adjust the property insurance claim for the lost Ocean Ranger, but the adjuster is not involved

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Truck rim award may cost Goodyear $1.8 million

By LEN STRAZEWSKI

GREAT FALLS, Mont.—The first of a new series of product liability trials over multipiece truck wheel rims has labeled the Goodyear Tire & Rubber Co. version of the product "defectively designed and unreasonably dangerous."

A state district court jury in Great Falls awarded Dennis Kuiper more than $1.8 million in compensatory and punitive damages for injuries sustained in August 1979 while he attempted to put a tire mounted on the Goodyear K-type split rim on a truck.

About 40 multipiece rim suits consolidated for pre-trial discovery in Kansas City soon will be sent back to home districts for trial, and the Goodyear judgment could be the precedent that will decide these cases, says plaintiff's attorney John C. Risjord.

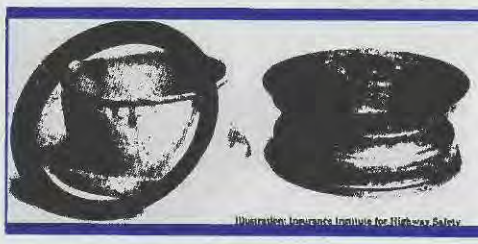

Illustration: Insurance Institute for Highway Safety

'This case will certainly set a precedent and the more detail Goodyear presents in the appeal, the worse it will be for them,' says plaintiff's attorney John Risjord.

In the Kuiper vs. Goodyear case, the side ring that holds the tire and rim assembly together separated under pressure and flew into Mr. Kuiper's face.

Goodyear, which manufactured multipiece wheel rims for more than 40 years, maintained during the trial that Mr. Kuiper was at fault in the accident and that the rim had been mishandled and damaged.

The manufacturer will appeal the decision to the Montana Supreme Court, according to Ken Betzler, a Goodyear attorney.

If the appeal fails, Goodyear will pay the $350,000 compensatory damages and $1.5 million punitive damages from a combination of excess insurance and a self-insured retention, he said.

Although Goodyear would not discuss further details of its insurance program, attorneys involved in the case said the manufacturer had a self-insured retention of about $750,000. The Travelers Insurance Cos. confirms that it provides at least $1 million in excess coverage.

Neither Travelers nor Goodyear, however, would say whether the policy covers punitive damages.

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NEWSPAPER

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National Rifle Assn. to appeal $2 million award
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Commissioner wants network to help track troubled METs
Page 3

County workers in Minnesota get dental plan

Government employees in St. Louis County, Minn., now have a dental plan that provides them with preventive, restorative and prosthetic dental services with no deductible.

The benefit, underwritten by Delta Dental Plan of Minnesota, a prepaid dental services firm in Minneapolis, pays 100% of all reasonable and customary charges for diagnostic and preventive work and 80% of all reasonable and customary charges for restorative work.

The plan also pays 50% of all charges for prosthetic work—the artificial replacement of missing teeth.

The county pays the premium for employees, and dependent coverage is provided at an additional charge through payroll deduction.

benefit beat

Dependent children are covered up to age 19. Full-time students are covered up to age 23.

The plan has an individual annual maximum coverage limit of $750. The estimated annual cost of the benefit, county officials say, is $96,000.

ESOP sought

Unions at the New York Daily News have authorized the creation of a trust to purchase the beleaguered newspaper's stock in case its owner, Chicago-based Tribune Co., can't find a qualified buyer.

George E. McDonald, president of the Allied Printing Trades Council, a coalition of unions at the Daily News, has announced that it has hired an adviser to create an Employee Stock Ownership Plan to buy some or all of the stock of New York News Inc.

The adviser, Ted Kheel, a New York lawyer, is seeking a funding source and an accounting firm to handle the arrangement. Oppenheimer & Co. has been retained as an investment banker.

The trust, Mr. McDonald said, would seek to purchase the paper only if there is no other buyer acceptable to Tribune Co. that is committed to the survival of the Daily News or if a potential buyer wishes to act jointly with the trust.

The trust, Mr. Kheel said, would offer significant tax advantages to Tribune Co. or any other owner.

Under the plan, the trust would seek funding from banks or other institutions to pay for the stock it purchases. Tribune Co. or any other owner would make interest and principal payments on the loan, channeling the payments through the trust for a tax credit on the principal as well as the interest.

Shares of the trust would be held by Daily News employees. They would not necessarily have to provide any capital of their own. They would not gain managerial control of the newspaper.

The troubled newspaper reportedly lost $11 million last year and is projected to lose another $20 million this year. The Daily News, late last year, stopped publishing its evening edition to reduce some of its losses.

If closed, the Daily News would become the fourth major city daily to fold within the past 12 months, following The Washington Star, the Philadelphia Journal and the Philadelphia Bulletin.

Tribune Co. officials said they are pleased at the unions' action to save the struggling newspaper.

Stanton R. Cook, the company's president and chief executive officer, said, "We are gratified by the unions' statement calling for the establishment of an employee stock ownership trust. We haven't seen the details, but the cooperative attitude and the strong employee loyalty to the Daily News can be helpful in our effort to find a qualified buyer for the newspaper."

Retirement savings

Crum & Forster is changing its retirement program so that employees can make larger contributions and faster and easier withdrawals.

The New York-based insurer has chosen to change its current plan rather than establish an Individual Retirement Account program for employees because the company says the retirement plan offers employees more flexibility and a better return on investment than any IRA it could offer.

"For the majority of our employees this is a better plan," explains Richard McGinnis, vp of personnel operations for Crum & Forster Corp., a management services subsidiary.

The current plan's provisions, Mr. McGinnis explains, also make it easily adaptable to a cash or deferred (salary reduction) retirement savings plan. The company is studying the possibility, but so far hasn't decided to convert to such a plan.

Under the Internal Revenue Code, Crum & Forster's current savings plan qualifies as a profit-sharing plan. Company contributions are paid only from annual profits or retained earnings.

To fatten the current plan, Crum & Forster has boosted the maximum contribution limit to allow employees to make contributions of up to 12% of their salaries, with the company matching contributions—50 cents for every $1—on the first 6% of employee contributions, the same contribution level the company previously made.

Employees previously were limited to a maximum 10% contribution.

To allow easier and faster withdrawals, Crum & Forster is reducing the processing time, allowing employees to withdraw funds within 30 days compared with the previous 60-day waiting period.

It also has eased the former rule that suspended both employee and company contributions for several months after an employee makes a withdrawal. Now only company contributions are suspended. The length of suspension varies from five to 11 months depending upon the type of withdrawal made.

Under the changes, employees withdrawing money only from their own accumulated contributions will have company contributions suspended for five months. Company contributions will be suspended for eight months if the withdrawal dips into the interest earned on personal contributions. Company contributions will cease for 11 months if a withdrawal also includes company funds.

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Made any recent benefit changes? Write James Lawson, Associate Editor, Business Insurance, 220 E. 42nd St., New York, N.Y. 10017; 212-210-0143.

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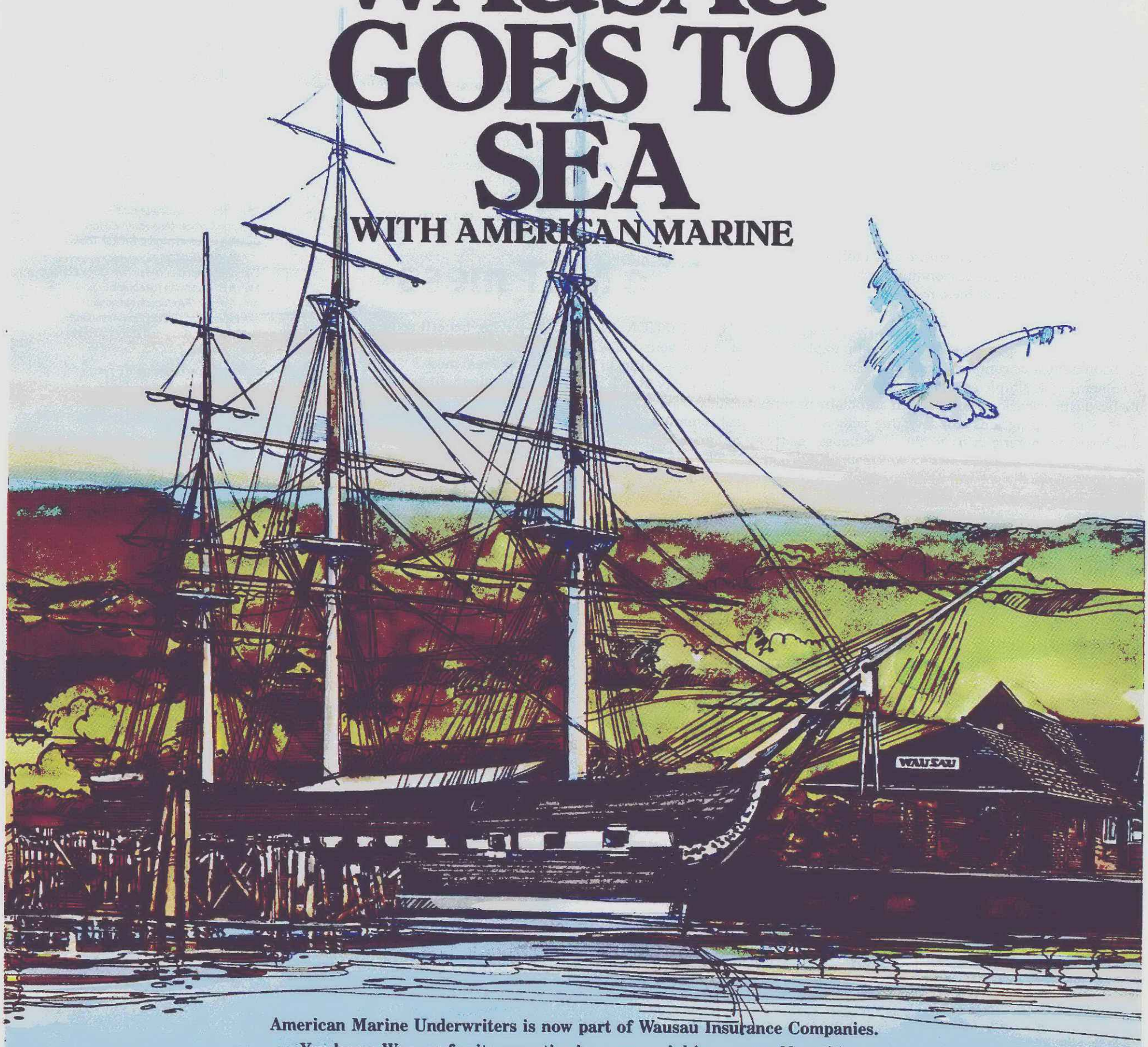

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editorial opinions

Easing the blow

WHAT DOES YOUR company do when one of your employees is killed on the job?

Is there any personal contact with the grieving family? Do you try to make it easier on them, or do you simply send out forms, forms and more forms and let them fend for themselves?

These questions, asked recently by Aminoil USA's Chris Cristadoro (see story, page 3), are important questions for every company. Mr. Cristadoro's approach at Aminoil is a humane and caring response.

Every company should institute and a follow a policy similar to Aminoil's for responding to the needs of families whose loved ones have been killed on the job.

We agree with Mr. Cristadoro that it is important to talk to the spouse as soon as possible after the accident —in person. The spouse needs someone to explain the forms that must be completed to obtain benefits.

Something as simple as explaining how many copies of the death certificate are needed to obtain benefits under various programs will save that person multiple and heart-wrenching trips to the courthouse seeking the documents. Sending a person to explain all the benefit programs to the spouse, walking the shaken person through the detailed descriptions so carefully written in your benefits booklet, will be comforting.

And the workers compensation program, understood by few workers and even fewer spouses, will take a lot of explaining. We especially like Mr. Cristadoro's candid approach to discussing the various compensation systems when the widow or widower may be asked to select the compensation program under which to seek benefits. If the company doesn't explain it, you can bet someone else will and it may be a lawyer who won't be doing it for charity.

If you can, make some promises on when money will be paid under at least one program, to ease at least the anxiety about paying the bills that arrive with the loss of a breadwinner.

Mr. Cristadoro apologized for sounding trite when he said, "If people are your greatest assets, treat them as such."

That's a trite statement only if you don't believe it and don't show it. Begin showing it with a personal response to employee deaths that incorporates compassion for the surviving spouse. Other employees will hear about your program and appreciate it, too.

The MET mess

ATTENTION CHICAGO—AREA benefit experts: Use your knowledge and your clout as employee benefit specialists to help clean up a real mess.

Go testify March 5 at the hearing that will be held in Chicago by the House Labor Management Relations subcommittee on self-funded multiple employer trusts, as announced in last week's issue.

The misuse of the self-insurance mechanism by many of these trusts—too much money spent on administration and too little on losses—is well known to the readers of our magazine. You know how it happened: Neither the federal nor state officials have taken much action to regulate the solvency of these trusts.

Go demand the regulatory changes needed to protect the easy prey of the unscrupulous trust managers. Especially vulnerable are small businesses, whose owners often are less than sophisticated when it comes to buying group health insurance, and their employees.

Demand procedures that will require the federal government and the states to cooperate on the regulation of these plans so no more of them operate themselves into insolvency. Make them listen.

letters

Article on leases misses the mark

To the editor: In Clause 18 of the second part of Howard Alper's Perspective article (*BI*, Feb. 8), his suggestions with regards to rental abatement appear to seriously overlook several concepts:

- A commercial lease may last 20 years or more. What options would be available should the insured not carry business interruption coverage at some future date? Where rent used to abate, it would not continue—uninsured.
- The possibility of relocation may be faster and more attractive to the tenant at the time of a loss than a promise of prompt action by the landlord to rebuild.
- Most important, the limit of liability for business interruption belongs to the insured. If payments are not required for rent, the unused portion of the limit may be used to offset lost profits or other expenses in the case of an extended loss.

The availability of rental abatement under the lease seems more favorable than landlord's promises, particularly when Mr. Alper includes his "in no event. . .shall the landlord have to expend. . .more than the net proceeds collected." This leaves the tenant exposed to serious problems should the landlord underinsure the building.

In summary, Mr. Alper's article clearly favors the landlord, not the tenant, and should be stated that way.

Mark Nordenberg
Vp
The Rockwood Co.
Chicago, Ill.

■ *Mr. Alper's responds:*

- *The assumption is that business interruption insurance will continue to be carried. If not, rental insurance could be purchased. Assuming that the tenant is "giving" a benefit, he will "get" a benefit (lower rent, better terms) in return. The rent abatement clause would be deleted "in consideration for an obligation to rebuild." Therefore, there would be no uninsured exposure to the tenant.*
- *If it is anticipated that relocation is a possibility, then such a clause need not be included in the lease. The point made was that "you could consider deleting the rent abatement clause. . ." In any case, even if a relocation decision was made after the loss, the tenant could possibly negotiate with the landlord to cancel the lease or a sublease might be negotiated.*
- *The formula used to determine the amount of business interruption insurance to be carried requires an amount of insurance greatly in excess of any realistic anticipation of loss. In the case of an extended loss, many expenses substantially diminish or abate completely. The amount of rent in relation to the amount of insurance is usually a very minor fraction. If there is concern that the amount of insurance carried may not be adequate to cover the loss (with or without the rental value), then the amount can be increased and a higher coinsurance clause used, at minor additional cost.*

Obviously, the clauses outlined in the article are merely suggestions to be considered by both parties and negotiated. There can be overriding reasons why a clause should or should not be included. The article is merely intended to be a guide to consider points to include in the proper preparation of leases.

Flexible group life

To the editor: The letter to the editor in the Feb. 8 edition of *Business Insurance* on the tax regulations concerning flexible group life coverage draws a false conclusion.

The "group sales specialist" says "unless the IRS revises Regulation 1.79, it is going to be more and more advantageous to purchase larger amounts of term insurance individually rather than through a group plar.."

The whole argument was predicated on an example of a 40-year-old man and a volume of group life insurance of $150,000. An amount of $50,000 is tax-exempt under Internal Revenue Code Section 79.

Assuming no employee contribution to the plan, the amount of life insurance in excess of $50,000 is taxable as per Table I (Reg. 1.79-3(d)(2)). The $276 that is derived from Table I is not the tax but rather the taxable value assigned to the $100,000.

The actual tax would be dependent on the individual's tax bracket.

Further, the author of the letter does not take into consideration the guaranteed-issue aspects of such a group-sponsored plan, the increasing cost of individual renewable term insurance, higher individual premiums if a mode other than annual payment is selected and that the individual policy is bought with after-tax dollars.

Gregory M. Hare
Employee benefit specialist
John L. Wortham & Son Insurance
Houston

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Judge issues secrecy order in Hyatt case

By BILL DENSMORE

KANSAS CITY, Mo.—A federal judge, abiding by the wishes of insurer-hired attorneys, is forbidding the disclosure of documents in the Hyatt Regency Hotel skywalk collapse case except by court approval and wants all pre-trial depositions taken in secret.

Lawyers hired by insurers for Hyatt Corp., Hallmark Cards Inc. and Hallmark's subsidiary, Crown Center Redevelopment Corp., joined attorneys for two other defendants in seeking to prevent public disclosure of potentially damaging testimony or documents prior to trial.

Meanwhile, the Hyatt and Hallmark lawyers say they are continuing to rebuff offers from victims to negotiate damage claims out of court because of fears the defendants will not get "credit" for settlement amounts in any future class-action jury award (*BI*, Feb. 15).

U.S. District Judge Scott O. Wright issued the secrecy order Feb. 11, two days before receiving a letter from the Reporters Committee for Freedom of the Press opposing any such restrictions on First Amendment grounds. The letter cited "significant public interest" in the hotel disaster that killed 113.

"...We urge you to provide sufficient notice and opportunity to be

heard to the public and the press should you consider imposing any protective orders at any stage of these proceedings," said the letter, signed by Jack C. Landau, executive director of the non-profit group based in Washington.

Hyatt, the hotel operator, and Hallmark/Crown Center, the owners, are among the defendants in a class-action suit in U.S. District Court in Kansas City stemming from the July 17 collapse of two suspended skywalks into the lobby of the newly opened hotel during an afternoon tea dance. At least 200 people, many of them hotel guests, were injured.

In a Feb. 10 memo to Judge Wright, the defendants argue that without secrecy provisions their right to a fair trial on civil damages might be jeopardized by prejudicial pre-trial publicity. They argue that opposing attorneys are threatening to make public damaging internal Hyatt or Hallmark documents produced in preparation for trial.

To permit such disclosures could subject any jury's findings to successful appeal on fair-trial grounds, the defendants warn.

"It is our position as a matter of principle that there should be no confidentiality," Irving Younger of the Washington law firm of Williams & Connolly told Judge Wright at a Feb. 5 pre-trial conference. Mr. Younger, a prominent lecturer, former New York judge and professor, is lead attorney for the victims' class action.

He said news accounts of the progress of the Hyatt suits have been marked by the reporting of rumors thus far and it would be better to have the stories based on public documents.

The Feb. 10 defendants' memo supporting secrecy moves was signed by four people, including Robert L. Driscoll of the law firm of Stinson, Mag & Fizell. Mr. Driscoll's firm has been hired by Northbrook Excess & Surplus Insurance Co. to defend Hallmark/Crown Center.

Although Northbrook is an excess insurer for Hyatt Corp., it has recognized Hallmark/Crown Center as additional insureds. Michael E. Waldeck, a lawyer at Niewald, Risjord & Waldeck, a second law firm hired by Northbrook to defend Hyatt, also signed the Feb. 10 memo urging secrecy.

"This matter, although it received a great deal of national publicity," Mr. Driscoll told Judge Wright in Feb. 5 oral argument, "is basically a local matter.... If we engage in piecemeal presentation of the evidence...judged by the standard of whether it makes a story, we run a grave risk (of injustice)."

By agreement of the parties, more than 20,000 documents produced so far are being stored in a rented depository at a downtown Kansas City building.

"I don't think it would be of great benefit to this community to see on the evening news every night excerpts of the day's depositions," said John M. Townsend of the New York law firm of Huges, Hubbard & Reed, one of Hallmark's principal lawyers.

"We would urge the court seriously to entertain a protective order with respect to depositions," said Joseph A. Sherman of Jackson & Sherman in Kansas City, lawyer for Havens Steel Co., one of the defendants. Mr. Sherman also signed the Feb. 10 memo to Judge Wright urging secrecy.

The fourth signer was Thomas J. Leittem, an attorney for Patty Berkebile Nelson Duncan Monroe Lefebvre Architects Planners Inc., the hotel architects.

Protective orders are issued by judges to protect a party in a legal case against some perceived harm that would otherwise occur without the order. In practice, such orders are often sought by corporate defendants in major litigation to limit or bar disclosure of what they consider to be sensitive documents or testimony.

"Do you really want to shroud this in secrecy?" Judge Wright asked at the Feb. 5 hearing. "There's always going to be a lot of speculation. Don't you run the risk that the speculation will be worse than the documents themselves?"

In his order, signed Feb. 11, Judge Wright ordered that "no disclosure of documents or depositions will be permitted except by application to this court." He also ordered that depositions are to be taken in camera.

Under federal court rules, depositions are required to be filed with a court clerk—where they are automatically available to the public—unless a presiding judge specifically orders either that they be filed under seal or that their filing be delayed until just before the start of the trial.

News organizations argue that either procedure inhibits their ability to cover complex litigation, which often is settled before it ever reaches the trial stage.

"If I understand the rules, I could just enter an order that they not be filed with the clerk's office," Judge Wright said concerning the depositions. He said he would consider the question. His Feb. 11 order does not address the question directly, but says pre-trial proceedings will be governed by the Federal Rules of Civil Procedure.

Under those rules, depositions must be filed with the clerk of the court 30 days after they are taken and corrections made in transcription errors by the deponent. They then become public record unless a party specifically asks for a secrecy order.

The Reporters Committee said the case should be handled in public because the Kansas City community is interested in the significant questions of construction standards, safety inspections and other government activities.

"We're frustrated now and have been frustrated all along about the amount of secrecy in this case," said R. Scott Whiteside, general counsel for The Kansas City Star Co., publisher of the city's two major daily newspapers, the Star and Times. "We were disappointed in the narrowness of (Judge Wright's) order."

However, Mr. Whiteside said the publisher planned no action to oppose the order. ■

Structured settlement ends benzene suit

By STEPHEN TARNOFF

PORT ARTHUR, Texas—Four days after the start of a $20 million product liability suit involving benzene used in shipyards, about 40 primary defendants settled the case with structured settlements valued at $4.3 million.

The present cash value of the settlement is estimated at $2 million to $3 million.

Two former shipyard workers and the surviving families of two deceased workers had charged that the various product manufacturers, refineries and shipping companies were liable for damages because the workers contracted leukemia after being exposed to benzene while working in the Gulfport Shipyards in Port Arthur.

Their suit, filed 18 months ago in U.S. District Court for the Eastern District of Texas, was brought under various tort theories including strict liability and negligence. Violations of admiralty law also were alleged.

The men were employed at the shipyards between 13 and 24 years.

Under the terms of the Jan. 8 out-of-court settlement, each family was paid $225,000 in cash and will receive $1,600 per month per family for 25 years, according to Walter Umphrey, of the Port Arthur law firm of Provost, Umphrey, Doyle & McPherson.

Mr. Umphrey will receive $166,000 each year for eight years.

An annuity was to be purchased from CNA Insurance Co. to help pay the structured settlement.

Walter Conrad, lead counsel for the defendants, said all of the primary defendants and many third party defendants contributed to the settlement, which had a cash value of $2 million to $3 million.

The contributions by the 40 primary defendants were not equal, said Mr. Conrad of the Houston firm of Baker & Botts, but he said he was precluded by the settlement agreement from indicating how much the companies contributed.

He speculated that most if not all the contributions were paid by the companies' insurers. However, many of the defendants are large companies known to have large self-insured retentions.

In part, the plaintiffs' case alleged the companies failed to warn the workers that some of the chemicals they were working with contained benzene, the plaintiffs' lawyer said.

The defendants' argued some of the companies had provided warnings about benzene to the shipyard and those working on the vessels, the defendant's lawyer said. In addition, they argued that U.S. Department of Labor regulations required certain work practices be followed by the shipyard and that if they weren't followed, the responsibilities for injuries and illnesses belong to the shipyard, he added.

Herschel Hobson, one of two consulting industrial hygienists retained by the plaintiffs, said all the plaintiffs "had substantial exposure to benzene at one point or another."

The men worked with a number of chemicals that have benzene as a contaminant or constituent, including gasoline and crude oil, he said.

Two of the men worked inside barges cleaning them out, one was a supervisor of the crew and the fourth a shipfitter who repaired the barges.

As late as the 1970s, it was the procedure for such workers to wash their work clothes and tools in benzene, he added.

There is a well-known connection between a certain strain of leukemia and exposure to benzene, Mr. Hobson said. Two of the workers, however, developed other strains of leukemia.

The plaintiffs argued their cases confirmed the connection between benzene and the other types of leukemia.

Defense attorney Mr. Conrad questioned whether the supervisor and shipfitter were substantially exposed to benzene and also had "serious questions" about whether clothes and tools were washed with the chemical.

He also argued there was not much scientific evidence linking benzene with the strains of leukemia that two of the men contracted.

Primary defendants settling the case included Ashland Oil Co., Arco Polymers, E.I. duPont de Nemours & Co., Atlantic-Richfield Co., Mobil Chemical Corp., Conoco Inc., Mobil Oil Corp., Monsanto Co., Dow Chemical Co., Mobil Exploration & Producing Services, Texaco Inc., Gulf Oil Corp., Gulf Oil Chemicals Division, Union Oil of California, Exxon Corp., Warrent Petroleum, Pure Oil Co., Pure Oil Corp./Amsco, Port Arthur Towing Co, Southern Towing Co., Higman Towing Co., Coastal Towing Co., Sabine Towing & Transportation Co., Arthur Smith Corp., Hollywood Marine Inc., Anderson Petroleum Transportation Co., Ohio Barge Lines, Union Mechling Corp., Union Barge Lines, Chemical Barge Lines, Chemical Towing Service, Cardinal Carriers Inc., Canal Barge Co., Georgia Transporters Inc., Howell-Whitaker Co., Delta Towing, Thomas Petroleum Co., Chotin Transportation Co. Union-Carbide Co., Dixie Carriers Inc., American Commercial Barge Lines Co., Alamo Barge Lines, National Marine Services. ■

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"The Annuity Settlement Experts"

Social Security commission ready to meet

By JERRY GEISEL

washington

WASHINGTON—The new National Commission on Social Security is finally rolling.

First, Robert Myers, a former Social Security official who helped design the program in 1934, was appointed as executive director of the bipartisan panel, which is supposed to come up with solutions to ease Social Security's financing ills by December (*BI*, Feb. 8).

Now the commission has set its first public meeting for Feb. 27 at the Sheraton-Carlton Hotel in Washington. The organizational meeting begins at 10 a.m.

President Reagan called for the creation of the commission to "put aside partisan considerations" after his own proposals to shore up Social Security came under heavy attack last year.

Commission members include: Alan Greenspan, the former chief economist in the Ford administration; Robert Beck, chairman of Prudential Insurance Co. of America; Sen. Robert Dole, R-Kan., chairman of the Senate Finance Committee; and Lane Kirkland, president of the AFL-CIO.

An interesting footnote to history: The commission's headquarters are in an ornate 18th-century townhouse at 736 Jackson Place in Washington. The building, which is across the street from the White House, also housed a presidential pension commission appointed by Jimmy Carter.

Tort reform hearings

This year's first congressional hearings on proposed federal product liability legislation are now set for March 9 and March 12. The Senate Commerce Committee will focus on draft legislation proposed by Sen. Bob Kasten, R-Wis., that would pre-empt state tort laws in favor of federal product liability standards.

The Kasten legislation, which is now being revised, would make it tougher for an injured consumer to recover damages in accidents caused by older products.

The measure also would require plaintiffs to identify the specific manufacturer of an injury-causing product and strengthen a manufacturer's defense against liability if his products were altered or modified without his consent.

The second draft of the Kasten legislation is expected to be published later this month.

The hearings are expected to begin at 9:30 a.m. in Room 235 of the Russell Senate Office Building.

Pension benefits

Employees can now receive higher pension benefits, the Internal Revenue Service says.

A participant in a defined benefit pension plan can now receive a maximum annual benefit of $136,425, up from the old limit of $124,500.

In addition, employers sponsoring defined contribution or profit-sharing plans may now annually contribute up to $45,475 per participant to the plan. The old maximum was $41,500.

Administrators of defined benefit or contribution plans that have received favorable determination letters should not request new determination letters solely because of yearly adjustments in maximum plan limitations, the IRS said.

Electronics safety

The Occupational Safety and Health Administration and the American Electronics Assn. will work together to design job safety and health programs to serve the U.S. electronics industry, which employs more than a million workers.

"This agreement exemplifies the cooperative approach to improving worker protection," said OSHA chief Thorne Auchter. "What we are providing is know-how. The AEA will produce, administer and pay for implementation materials that are developed."

The joint project will focus on the control of potential hazards in the electronics industry, including fire protection, electrical hazards and chemical exposures.

The project is set to begin on April 1.

Budget cuts' effect

Reagan administration budget cuts may be hurting the nation's premier accident investigation authority, the federal National Transportation Safety Board.

Due to an unexpected loss of $2 million in operating funds, the NTSB has laid off nine railroad safety investigators and several aviation accident data specialists.

In addition, training that required traveling has been eliminated.

For example, the NTSB had to turn down an offer from Boeing Co. for free instruction on the complexities of its next generation of jetliners, the 757 and 767, because there was no travel money.

Social Security

Although the Social Security program needs every dollar it can get, millions are being wasted, says Rep. John Erlenborn, R-Ill.

Auditors at the Department of Health and Human Services have discovered that 8,500 people who had died still were receiving Social Security checks amounting to $20 million a year, he said.

A similar probe also found the names of dead people receiving black lung disability benefits.

Accountability, Rep. Erlenborn said, has become a loose term in Washington over the years. ■

Court says oil stolen from Salem not insured

By STACY SHAPIRO

london line

LONDON—Lloyd's of London will not have to pay 24 million pounds ($44.9 million) in claims to Shell International Petroleum Co. Ltd. for oil stolen off the tanker Salem in 1979, a Court of Appeal has ruled.

The 180,000 tons of crude oil, which were pumped off the Salem at Durban, South Africa, and sold to the South African government by seven men who commandeered the vessel, were not covered under the "takings at sea" clause in the marine insurance policy, the judgment said.

"I do not think that the taking of this oil was a taking at sea," the judgment said. "It was a taking in port."

Shell, therefore, cannot claim repayment from Lloyd's, the court ruled, overturning a lower court ruling.

Insurers will, however, have to pay Shell for the 15,000 tons of crude oil that was on the Salem when it was scuttled to make it appear the ship sank, the ruling said. This oil, which may be worth around $5 million, was lost through "perils at sea," which is insured.

Shell International probably will appeal the decision to the House of Lords, a Lloyd's spokesman said.

Lost ships increase

The number of ships declared lost by insurers is increasing again, according to Institute of London Underwriters' 1981 annual report.

Some 249 ships were named actual or constructive total losses in 1981 because of weather, abandonment, collision, fire and other perils. After a record 278 ships lost in 1979, losses dropped to 227 in 1980.

Total marine tonnage lost, however, is decreasing, falling to 1.71 million tons last year, from 1.78 million in 1980 and 2.2 million in 1979.

"Constructive total loss settlement accounted for 52.61% of the losses by number of ships (in 1981) and 61.84% by tonnage," said the ILU's annual report.

"The largest ship to be recorded as a total loss during the year was the Liberian tanker Energy Endurance (97,005 gross tons), which was severely damaged by being struck by a freak wave and subsequently sold for breaking up."

But while lost tonnage continues to decrease, the insured costs of marine losses continue to skyrocket.

Losses in 1980 topped $900 million, compared with $750 million in 1979, more than $500 million in 1978 and only $200 million in 1972. Although statistics for 1981 have not yet been released, the costs could exceed 1980's record.

The ILU's statistics are compiled from the statistical table of the Lloyd's Register of Shipping and other sources.

Continued competition between hull and cargo insurers for business may keep premium rates low while costs continue to rise, said ILU Chairman W. Alan Storey.

"The argument is that the turnover is so high that it justifies an exceptionally low rate, but does that make sense?" he asked. "The insurance content is minimal for such shipments, since, for example, a machine worth 10,000 pounds (approximately $18,700) shipped from Britain to New York might have a freight charge of 500 pounds ($935), but only 25 pounds ($46.75) in marine insurance.

"The climate for cargo insurance has worsened considerably and we have been exposed to competition which in the long term can only be detrimental," he said at the association's annual meeting on Feb. 15. "Perhaps it is that underwriters with a high proportion of hull business in their portfolios have tried to redress the balance so that accounts have changed hands to rates that must inevitably lead to losses.

"Even where there is no change of underwriter, it has the effect of forcing uneconomic rating levels. Values of cargos continue to increase in relation to hull values, so that when general average is declared on claims, the cargo side's contribution is that much higher," Mr. Storey said.

He called for pressure against delays in hull premium payments and for a sustained attack on international maritime fraud.

The Liverpool Underwriters' Assn.'s casualty returns for ships of more than 500 tons, which provide a general reflection of accident trends, reported total losses of 1.71 million tons last year, representing 249 vessels lost, compared with 1.78 million tons in 1980, representing 227 vessels lost.

No liability limit

There is no limit to the liability insurance coverage for the ill-fated tanker Victory, which broke in two earlier this year, killing all but 16 of its 31 crew.

But negligence on the part of the shipowner must be proven before the victims' families can collect compensation from the West of England Shipowners Mutual Protection & Indemnity Assn, a spokesman says.

"There is no limit to the P&I cover," said Stanley D. Dekker, the P&I club's manager. "Whatever the liability is, the P&I club will pay, though there are legal limits that the shipowner is not supposed to go higher than.

"But in England, and I think America, you must prove negligence," he continued. "No proof, no liability."

The Victory, owned by Pam Shipping Co. of Greece, was split in two on its way from Palm Beach, Fla., to Liverpool, England, by rough seas. Sixty-foot waves and gale-force winds rocked the vessel, which was carrying molasses.

Mr. Dekker said that storms are acts of God and may not be an insured peril. "These things do happen, especially on the seas; then the plaintiff must prove negligence."

Most of the crew were Greek and may receive some compensation under Greek law, Mr. Dekker said.

The hull of the 22-year-old, 21,032-ton vessel was insured for $2.5 million, a Lloyd's of London-spokesman said. The hull insurance is 40% insured in the Lloyd's and London markets.

Lloyd's bill

The House of Commons may discuss the Lloyd's of London self-regulation bill through the night on Feb. 22 in an open-ended debate.

A group of Conservative members of Parliament who are opposed to the bill may be able to express their dislike for divestment of brokers from their underwriting agencies and the immunity from liability clause through the night until 2 p.m. the next day.

Once the debate ends, the House of Commons must vote on the bill, which will then be sent to the House of Lords.

The upper chamber must hear any further argument about the bill before it goes back to Commons for a final vote.

However, the bill must clear Parliament by a July deadline or it may die without enactment.

The measure's opponents want the pending legislation withdrawn from Parliament and a new bill introduced that does not contain the controversial divestment and immunity clauses. But Lloyd's Chairman Peter Green said the bill will not be withdrawn. ■

M&M starts merger and acquisition group

Marsh & McLennan Inc. is forming a new group to assist corporations in identifying and quantifying insurance-related risks of mergers and acquisitions.

While M&M has been performing these services for some time, M&M Vp Evelyn Wolovnick says the new mergers and acquisitions group acts as a "team leader" in focusing in-house expertise on areas of concern during such ventures.

The group looks first to identify important risks and then to quantify them in terms of their actual cost.

"We feel that over the long run this could be the most positive identification M&M or the insurance industry could make in the area of mergers and acquisitions," Vp Charles Young adds.

M&M is trying to obtain "identification" in the marketplace as having those skills that are directly appropriate to mergers and acquisitions, he says.

Some of the group's activities include:

- Evaluation of reserves for outstanding product liability or occupational disease claims.
- Determination whether past and present insurance limits are sufficient.
- Evaluation of compliance with government regulations from the Environmental Protection Agency, the Occuaptional Health and Safety Administration and other governmental bodies.

The M&M departments that will aid the group will vary from case to case, Mr. Young says.

If the takeover target is a coal company, for example, the broker could determine the present value of all black lung cases up to the year 2000. M&M might also check if the company's facilities are in compliance with state and federal regulations.

In another situation, a M&M division might inspect a company's factory to determine the cost of bringing the plant up to highly protected risk standards for fire insurance.

And for a third client, M&M might study the pension liabilities of a possible acquisition target.

Mr. Young says these services are particularily important since quantifing such liabilities in dollars-and-cents terms can often affect the purchase price.

In its traditional role as insurance broker, M&M also can secure insurance to cover merger and acquisition problems. These include:

- Retroactive liability insurance for instances where a company has been uninsured or underinsured.
- Tender offer contingency insurance for companies that regularly invest in other companies. This protects the acquiring company if its takeover target experiences an uninsured loss during the tender offer period.
- Tender offer defense expense insurance, which offers companies up to $5 million in indemnification against the costs of resisting an unfriendly tender offer. It covers charges by lawyers, public relations firms, accountants and investment bankers.

Benefit services

Security Pacific National Bank has formed a new subsidiary, Security Pacific Employee Benefit Services Inc., to design and administer pension, profit-sharing and thrift plans.

The company can meet a company's needs in three basic areas:

- Set up a new plan to meet retirement or savings objectives.
- Administer either an existing company plan or one set up by Security Pacific.
- Process payments for retirees.

In addition to handling large

markets

plans, the company also will work with small businesses that are starting plans for the first time.

Employee Benefit Services is located in Pasadena, Calif., with representatives in Glendale, Newport and San Francisco.

Joint venture

Towers, Perrin, Forster & Crosby has established a joint venture partnership in Australia with Palmer Trahair Owen & Whittle, an independent actuarial and consulting firm located there.

The new company is known as PTOW/TPF&C. It will operate offices in Sydney, Melbourne and Brisbane.

PTOW Managing Partner John Graham will serve as managing partner of the new firm. Richard V. Bevan, a TPF&C principal formerly based in London, is manager of the firm's human resources counseling division.

Actuarial partnership

A.S. Hansen Inc.'s holding company for all its non-U.S. operations, Hansen International Ltd., is now associated with consulting actuaries Clay & Partners in London.

This move allows U.S.-based multinational corporations operating in the United Kingdom to use the combined actuarial and consulting resources of both organizations.

Acquisitions

Insurance specialists **Tanenbaum-Harber Co.** and **Morton D. Weiner & Co.**, a Florida-based insurance agency, have consolidated their Florida offices.

Tanenbaum-Harber's Florida business will be serviced by Weiner & Co. ■

Fehling named benefit manager at Schlitz

comings & goings: buyers

Steven F. Fehling, 35, was promoted to director of compensation and benefits at Jos. Schlitz Brewing Co. in Milwaukee. In his new position Mr. Fehling will handle all employee benefit plans, a position formerly held by **Charles Mazza,** now an employee benefits consultant with Meidinger Inc. He will report to Robert Creviston, vp of personnel. Mr. Fehling has been associated with Schlitz for 11 years as director of industrial relations for the container division and as manager of industrial relations for the company's Milwaukee brewery. He received a bachelor's degree in industrial management from Purdue University and an master of business administration from Indiana University.

* * *

Paul E. Morrison, 33, has been promoted to property/casualty insurance manager at G.D. Searle & Co. in Skokie, Ill. Mr. Morrison handles all primary property/casualty insurance and administers property claims. He had been insurance manager since he joined the company in 1979. Mr. Morrison received a bachelor of science degree in economics from Ball State University and a master of business administration degree from Indiana University. He has also earned the CPCU designation. Mr. Morrison, who reports to Eugene W. Bader, director of risk management and benefits funding, replaces **John F. Roskopf,** who is now with the company's domestic treasury department.

* * *

Paul A. Knuti, 40, has been appointed to the new position of vp of human resources at Rollins Burdick Hunter Co. in Chicago. He will be responsible for in-house compensation and benefits, as well as other departmental functions. Mr. Knuti formerly specialized in human resources management with Booz Allen & Hamilton, a management consulting firm. He received a bachelor's degree in psychology from Elmhurst College in Illinois and a master's in experimental psychology from DePaul University. Mr. Knuti will report to Charles R. Hall, chairman and chief executive officer.

* * *

Merryrose Wurtz, CPCU, ARM, is the new director of insurance at Allied Products Corp. in Chicago. Formerly manager of insurance, Ms. Wurtz also held analyst positions at Allied, where she has been employed since 1977. In this newly created position, Ms. Wurtz will handle insurance renewal negotiations and the administration of Allied's self-insured property/casualty claims. She will report to Eugene G. Van Cata, vp of risk management and personnel.

* * *

Welch Foods Inc. in Westfield, N.Y., has appointed **Stephen W. Roberts** to the new position of manager of risk and insurance. He will be responsible for corporate risk and insurance, loss prevention and safety and will report to company Treasurer D.E. Riederer. Mr. Roberts, 32, received a bachelor's degree in international affairs from Lafayette College in Easton, Pa., and has earned the ARM designation. He was previously employed with Clark Equipment Co. in Buchanan, Mich., as manager of general insurance.

* * *

Niagara Frontier Services Inc. in Buffalo, N.Y., has promoted **Michael A. Goetz,** 39, to the new position of director of insurance. His responsibilities, which incorporate those of his former position, insurance risk manager, include purchasing and administering all self-insured and insured property/casualty programs, purchasing employee benefits and corporate safety. Before joining NFS in 1977, Mr. Goetz was safety director for Spaulding Fibre. He received a bachelor's degree in business management from State University of New York at Buffalo and an associate degree from Erie Community College. Mr. Goetz continues to report to company Treasurer Felix Granza.

* * *

Anna M. Bruns has been promoted to international insurance administrator at NCR Corp. in Dayton, Ohio. She had been senior claims analyst. She will be responsible for the administration of worldwide claims, as well as property evaluation. Ms. Bruns, 35, is an 18-year employee of NCR and previously held claims and finance positions. She will report to Daniel W. Houston, manager of risk management and insurance.

* * *

Robert Bieber, 42, has left Westchester County, N.Y., where he had been director of risk management to join Ebasco Risk Management Consultants Inc. in New York as director of client services in the public utility and government area. No replacement has been named for Mr. Bieber, who had been the county's risk manager for the past eight years.

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We'd like to report on staff changes in your risk management or employee benefits department. Contact Sallie Drury, Editorial Assistant, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611, or call 312-649-5398.

IU official Lundy killed

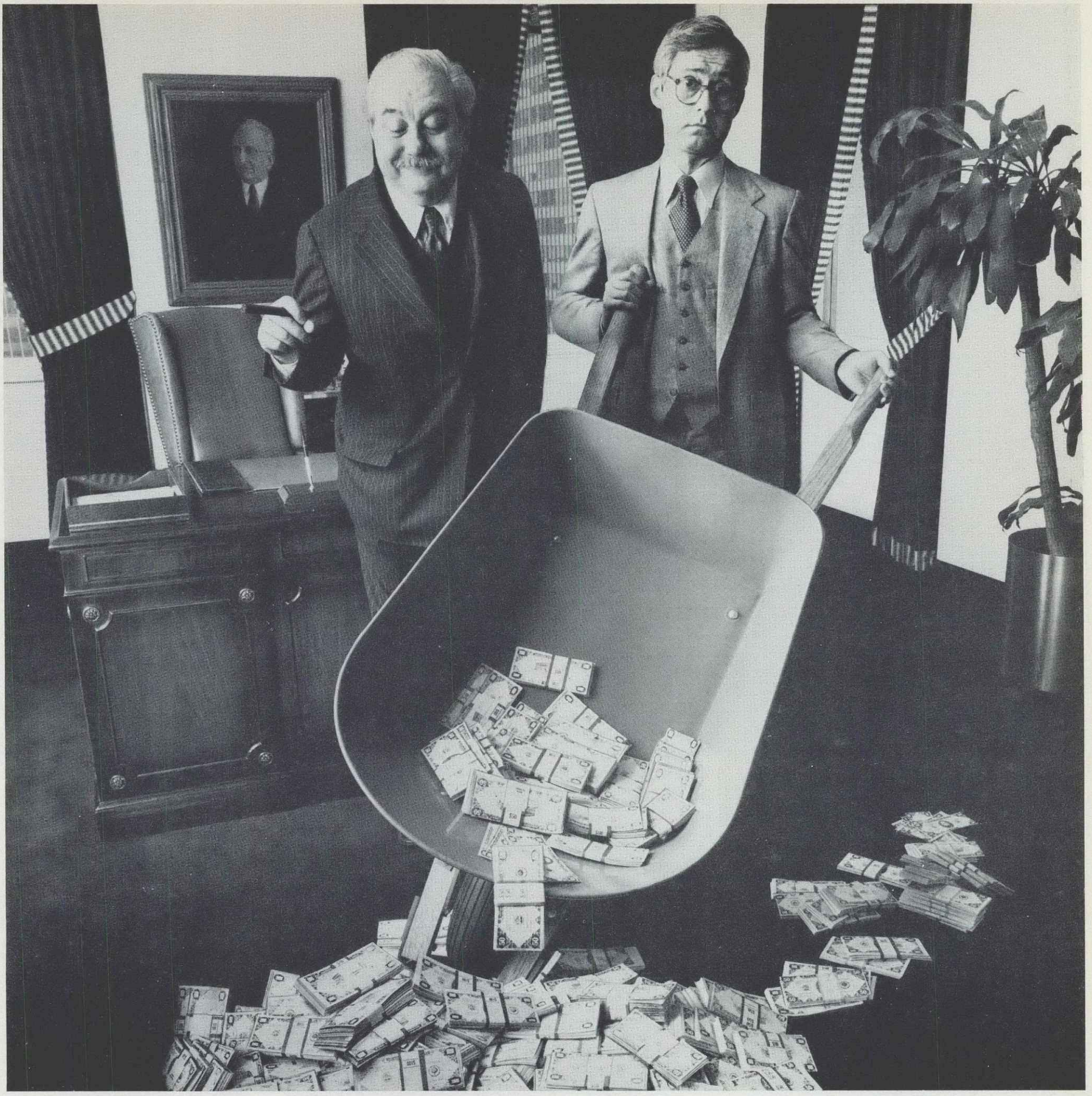
BLOOMINGTON, Ind.—Eugene Lundy, director of the property/casualty insurance department at Indiana University, was killed in an automobile accident on Jan. 28.

Mr. Lundy, 55, was responsible for all property/casualty insurance matters on the university's eight campuses and was acting supervisor for workers compensation.

A 1950 graduate of the university, he served as president of the Indiana Chapter of the Risk & Insurance Management Society and was also active in several area civic organizations.

Before joining Indiana University in August 1976, he held adjuster positions with the General Adjustment Bureaus of Chicago, Cleveland and Hammond and Bloomington, Ind., for 22 years. He is survived by his wife, Patricia, and three sons.

Harold A. Long, director of operational services, university physical facilities, has assumed Mr. Lundy's duties until a replacement is named.



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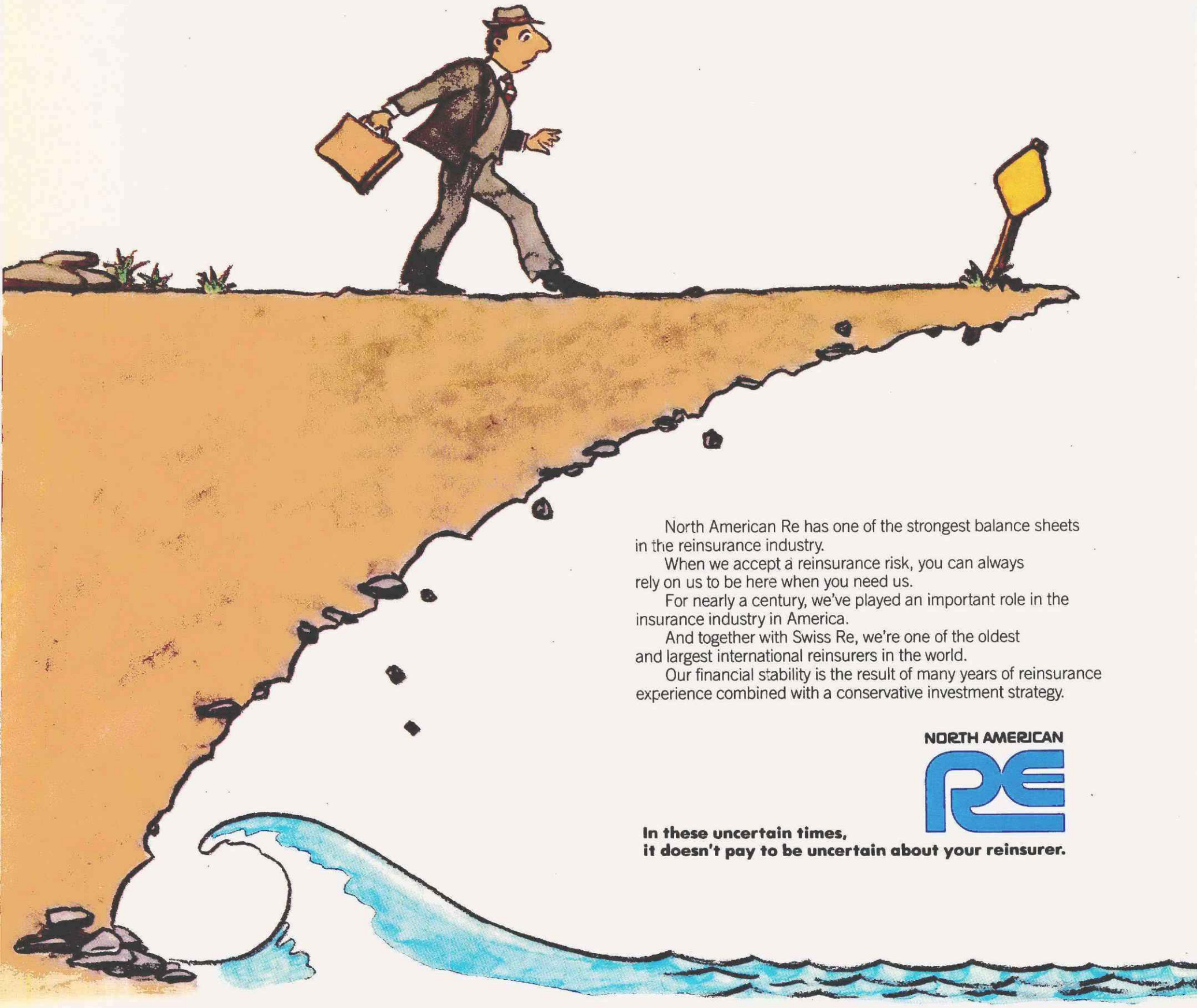

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perspective

A changing industry?

Convergence, bank involvement stir debate

By Harold H. Hines Jr.

Harold H. Hines Jr. is president of Chicago-based Ryan Insurance Group Inc., whose subsidiaries include brokers and insurance companies. Mr. Hines delivered this address earlier this month to the National Assn. of Casualty & Surety Agents' Legislative Committee in Washington, D.C.

INSURANCE LEADERS are debating the related issues of industry convergence and bank involvement in insurance functions. Diverse opinions about the merits of both are beginning to collide in individual company and trade association strategic planning meetings aimed at preparing organizations for the future. Top managers are determining their positions with regard to inevitable change, considering whether to support or to oppose this irreversible change.

Even inevitable change invites opposition. Proponents of the status quo resist advances they believe threaten their competitive advantage, while advocates of new directions act to gain a competitive edge. Because key property/casualty insurance executives see convergence and bank involvement as both threat and opportunity, an appraisal of forces at work and likely results are being discussed by those who wonder who will own the future. This paper explores forces and results, as it looks at factions of support and opposition.

What happens has public policy and insurance industry significance. The ways the dynamics of convergence and the possibilities of bank involvement affect the industry will define insurance economics and the structure of insurance competition for decades.

No segment of the industry is more sensitive to potential difficulties of the future than the American agency system, which continues to lose market share to direct writers and large brokers. Failure rates are the highest in history, as agents struggle with reduced premium growth, lower commissions, increased competition and climbing expenses.

Studies of antidotes of agents' declines reveal few remedies except some form of convergence, independent agent firms joining insurers, larger brokers or franchise operators. Agents' calls for involvement and assistance from the insurers they represent can lead to affiliations or ownership; however, the most useful interactions require the commitment and control that come from insurance company equity positions.

While agents have been merging into national brokerage firms since the late 1950s, they have only recently been willing to sell to insurance companies with whom they have important, but not exclusive, relationships. Informal associations of agents in business and image pursuits grew up in the 1960s, but they have never contained the commitment or harmony needed to achieve buying or selling efficiencies.

Today's experiments with franchise relationships are testing the ability of independent agents to combine their market positions in loose federations designed to improve efficiency, security and profits. All current developments confirm agent recognition of the need to adapt to the realities of a future much more forbidding than the present.

In spite of the problems agents face and movements toward convergence, there will always be a place for small, independent operators to flourish in the insurance business. Concentrations like other industries have will not eliminate the chances for efficient agencies to survive and grow.

And national brokers are equally aware of the need to adjust in order to survive and grow in the complex, fast-changing financial marketplace where they do business. As broker risk placement functions, rewarded historically by fixed commissions, are replaced by negotiated fee-for-service arrangements directed to a wide range of risk management functions, brokers will be compelled to decide if they wish to integrate backward to offer insurance service support, risk-bearing and reinsurance capabilities, or if they prefer to move forward to become full financial consultants.

To date, brokers have chosen both paths to success by offering analytical studies and plan design, plus service support and underwriting management. These functions encroach on the prerogatives of underwriters and on the advice accountants, bankers and management consultants give to the clients they have in common with brokers. This has provoked competition from insurers, and it is likely to stimulate consultants outside the insurance industry to offer services currently in the purview of brokers.

These developments will push major brokers to alliances with underwriters or consulting groups. After they seek more acquisitions of smaller firms and mergers with competitor national organizations, the majority of the national brokers will become part of major insurance companies in order to offer customers more cost-effective, integrated risk bearing, service support and distribution capabilities. Some big brokers will elect to limit their insurance functions to consulting activities to avoid risk bearing and to gain higher profit margins, and these exceptions will probably acquire broader-based consulting firms or be acquired by future consulting giants.

Because they are affected by the adversity of agents and the innovation of national brokers, insurance companies will be forced to protect their revenue sources by acquisition and exclusive contractual affiliations with their distribution system associates. Incipient responses to the twin specters of agent deterioration and major broker competition have already prompted insurers to buy local agents and shares of large brokerage concerns.

As insurers achieve distribution system ownership or control, they will establish authority over their revenue bases and hedges against the high cost of commercial account churning, which erodes their profits. Decisions in favor of ownership and control will position underwriters to meet buyer demands for efficiency.

Insurance companies are finding that efficiencies are better delivered by larger organizations. In a mature industry, like insurance, which does not produce technological change, there is a proclivity toward concentration in very large companies that spread well-monitored costs over many product lines. Success belongs to those that offer products and services that emphasize line rather than staff functions, keep personnel costs low and use minimal internal management systems except for cost monitoring.

As more insurers crystallize these success factors into action plans that produce what buyers want, the number of insurers in competitive equilibrium will begin to shrink. Those with the most asset and management superiority will absorb the less-effective, particularly if insurance industry growth slows.

Periods of rapid expansion tolerate less effective producers; periods of stagnant demand favor firms able to implement economies of scale. And economies of scale will be achieved by the best-managed, largest enterprises and by merger of smaller companies to create bigger ones. The aim of the search for optimal size will be more efficiency in risk retention, in the spread of service costs over larger, more stable revenues and in the development of new cost-sensitive electronic data processing information and communication systems. Productivity improvement will be the goal achieved by elimination of multilevel, separate distribution and underwriting chains where each link is loaded with overhead costs and frictional inefficiencies.

The current convergence wave involving agents, brokers and insurers has thrust questions of antitrust policy back into the mainstream of insurance industry discourse. Not since the Factory Mutual organization merger was repudiated by federal authority has concern about concentration of economic power received so much attention.

Enemies of convergence object to emerging horizontal and vertical insurance industry integration, because they believe consolidated underwriting-distribution organizations will be created with unfair advantages over their competitors and with unbridled influence over buyers. Examination of present and potential market-share concentrations denies any possibility of lawless competition, and familiarity with the mechanics of the insurance marketplace repudiates any notion that convergence will do anything destructive to the interests of buyers.

Understanding how diffuse property/casualty insurance economic power is starts with a look at current market shares the largest enterprises have developed. When viewed by line of coverage, geographic segmentation or industry classification, dominance by any underwriter or broker cannot be detected; in fact, revenue dispersion is very wide in regulated and unregulated product lines.

A look at history shows that brief periods of market dominance were quickly corrected by the energy of the marketplace. In the mid-1970s, for example, large commercial buyers confronted temporary underwriting concentrations in their placements of excess and product liability coverage caused by rapid movements from inadequate to excessive prices. Without regulation or government interference, the market rapidly re-established buyer opportunities for competitive responses. The interim concentration, which provided needed protection during price transition, operated more efficiently than any governmental force and dissipated the transient concentration of economic power by processes inherent in the way insurance markets function.

Many insurance leaders agree that concentration is created by government policies but that concentration dissolves under the beneficial effects of competition were it not for federal or state intervention. Others say free competition among firms will eventually lead to the survival of the fittest—huge organizations that might operate as a shared monopoly motivated to protect the profitability of the insurance industry as a whole rather than the interests of society. This paper argues that the decision-making powers of regulators cannot be substituted for the benefits of the marketplace. The marketplace has protected the public interest without the regulators' capacity for error and indifference to the burdensome costs intrusion fosters.

Continued on next page

perspective

Convergence, bank involvement stir debate

Continued from previous page

Another illustration confirms how market processes worked to correct brief distribution system inequities where concentrations of economic power in certain cities or industries developed as brokers merged or developed new products or expertise in new industries. Such dominance was quickly eliminated by competitors who discovered how to create competitive products, for there was no way to deprive the free insurance market from duplicating the innovation, the knowledge or the market position that assembles a sporadic advantage.

The insurance market consistently invents competition to destroy market concentrations by bringing many distributors and many underwriters together in random combinations strong enough to offer any favored insurer or broker viable competition. It is the random interaction of numerous brokers with numerous underwriters that organizes capacity and encourages sales acumen in resurgent constellations adroit enough to prevent any aggregation of economic power from doing damage.

Still, opponents of convergence believe that future combinations of brokers and underwriters will upset the intricate balance that preserves insurance industry competition. Arguments against convergence focus on concerns about conflicts of interest that might subvert the integrity of the underwriting process or the professionalism of broker objectivity. Nothing in the long, successful experience of direct writers suggests that these dire predictions will materialize. On the contrary, it is likely that new combinations of broker-insurer talents will enrich the organizations they serve together, as converged entities find new ways to deliver what customers want.

If logic in support of convergence is as persuasive as this paper intends, any horizontal or vertical insurance industry merger presented correctly should win approval. Contemporary antitrust opinion is summarized by the current administration's value judgments recognizing that bigness does not necessarily mean badness or that success should not automatically be suspect. The current chief of the Justice Departments's antitrust division suggests that there is unlikely to be a vertical problem such as a merger involving underwriting and distribution facets of insurance activity. While the government may approve horizontal mergers that produce productivity advances, there is no question about its commitment to vigorously prosecute anti-competitive behavior. Insurance industry convergence combinations should not require any fundamental reinterpretation of laws in order to win acceptance.

What is occurring in the insurance industry is part of the long, inexorable quest of all segments of American business for better performance. The opponents of convergence are the intellectual heirs of those who have had strong reservations about concentration of economic power; advocates of convergence relate to those who believe too much concern about concentration reduces performance. Opponents who study insurance industry data will conclude, as this paper has endeavored to contend, that potential consolidated broker-underwriters will not weaken "head-on" competition due to continued wide dispersion of market shares. Horizontal and vertical mergers will foster appropriate competitive collisions, and they should be able to stand the test of the Justice Department's revised guidelines of enforcement soon to be issued. Indications are anticipated revisions will allow significantly more freedom and mergers, producing somewhat higher levels of market concentration, will be permitted.

These interruptions will not be dramatic changes from the past, but continuations of long-term antitrust policy that has recognized the value of economies of scale and economies of integration needed to enhance productivity for the benefit of customers and, therefore, society.

Because of the ease with which new competitors enter and grow in the insurance industry, it is unlikely that agents, brokers or insurers will take legal action to prevent convergence. Opposition will be rhetorical, full of warnings and writhings, more directed to preserving present superiority than to the essential need to improve industry performance. Some will cite the probable split of Lloyd's brokers and underwriters as an argument against convergence, but the London market situation is too different to have relevance to what is happening in the United States. Concentrations of interacting power are much stronger there than here, and the possibilities of abuse, while very remote, are also greater there than here. It will, in fact, be contrary to the best interests of the customers of Lloyd's, just as it would be to American consumers, if insurers are prohibited from owning brokers and vice versa.

Insurance industry convergence has gone too far to return to simpler days when underwiting and distribution were separate; in fact, strategies of "coming together" are being influenced by broad-based financial service companies and life insurance companies that are now in the property/casualty business. The largest financial service companies have important property/casualty insurer components and life companies have expanded their involvement beyond personal lines underwriting. Given the way those enormous financial companies have been invading areas once the domain of commercial banks, it is inevitable that banks will take initiatives to compete on the same terms and in the same businesses as their new aggressive competitors. Should future bank initiatives to become more involved in insurance be resisted?

Opposition to bank invovement in insurance is stronger among agents and brokers than it is among insurance companies. Agents and brokers fear the control banking institutions have over credit transactions, which are the heart of our economic process. They worry that bank leverage may provide an unjustifiable amount of power to sell insurance in conjunction with extensions of credit. Concerns are not mitigated by knowledge that banks are becoming increasingly aware that all services they sell must produce acceptable profit margins. Anxieties focus on the unfair competitive advantages banks might have if their special relationships produce sales at less comparative cost than the relatively high cost of agent and broker sales. Some troubled observers believe bank relationships could be used to make sales at a fraction of the cost agents and brokers incur when they create new customers.

Major brokers are apprehensive about banks' growing interest in risk management consulting, services that banks can now provide without violating existing regulations. Since risk management consulting is so closely related to general financial planning, an activity banks are expanding, alarm is real, particularly when banks' search for fee income to bolster narrower profit margins is considered. While agents would not be particularly affected by consulting service developments, they have misgivings about solutions retail banks will find to the problem those banks are having with their unprofitable branch networks. There is a concern that bank strategies to develop viable branches will include insurance sales to individuals and to local businesses, sales that are the "life blood" of agents.

If possible extensions of retail bank functions are not enough to cause consternation in the insurance distribution system, the competitive prospect of large wholesale banks, so adept at making big deals, stimulates nervous reactions among national brokers, for these powerful banking enterprises are adept at spreading their services nationally. Application of big money-center banks' geographic reach might overcome the comparative superiority brokers have in their service appeal to large customers.

Insurance companies are much less concerned about banks as competitors, for insurers understand that the ability to compete as an underwriter depends on the availability of capital—money that belongs to shareholders, not money that is borrowed. Because banks are generally undercapitalized, they are unlikely to devote their capital base to support risk transfer transactions where the ratio of premiums to capital averages only 2-to-1. Bank asset to equity ratios of more than 25-to-1 tell insurers that banks will not divert their resources from essential lending missions that have less relative risk and are complementary to the functions that bank customers want.

Some insurance companies may regard banks as desirable distribution outlets for their products and services. They see banks as alternative mechanisms to access personal and commercial buyers who may be more difficult to reach when direct writers, life insurers and insurance distribution system convergence shrink insurers' traditional market shares. Alliances between property/casualty companies and banks could promote strong new constellations of underwriting and sales power to intensify future competitive struggles.

The likelihood of bank involvement in insurance is enhanced by the initiatives banks are taking to neutralize the impact they feel from forces completely outside their industry, forces that are totally free from the constraints under which banks operate. Bankers want to be able to maintain deposit-taking activities throughout the country while they provide a full range of financial services. The current administration's declared objective to create a "level field" where banks have the same opportunities as their new competitors to offer the widest range of financial services could extend prerogatives to insurance sales and underwriting. Nothing in the language of the proposed Bank Holding Company Deregulation Act suggests prohibitions against comprehensive insurance activities. Language of the preliminary bill contains far-reaching implications, including a definition of financial services as the group of activities engaged in by "other firms which offer financial services" to which banks could bring competition. Current wording also states that, at a minimum, financial services "may include insurance."

Although some deregulation of the banking industry is virtually certain, it is improbable that initial legislation will allow banks prerogatives to enter the insurance industry as sellers or underwriters. The forces resisting such change, so potentially ominous to agents and brokers, will mobilize to contain too broad an invasion. Insurance interest groups will muster political pressures in concert with other special interest groups to thwart anything but gradual modifications of current restrictions.

Banks will yield to these expressions of opposition, because they want to win their primary battles for money market fund, stock brokerage and security underwriting opportunities. The war for these more critical prerogatives will be fought in Congress, in the courts and in the marketplace. Banks are not likely to diminish their chances of success by opening a "second front" for the right to full involvement in insurance.

So the perspectives advanced in this paper about one who owns the future come full circle to a reiteration that forces now working for convergence and bank involvement will have predictable outcomes. Convergence will happen steadily to realize opportunities, because convergence is in response to the demand of buyers for more efficient, low-cost insurance that leaves plenty of room for large and small independent, non-integrated businesses to grow and prosper. Bank involvement will occur very slowly because it threatens the victory banks hope to achieve in their quest for more profitable and relevant prerogatives. Opponents of convergence will yield to customer concern; opponents of bank involvement will prevail until larger financial service issues are resolved.

The role of insurance leaders in discussion and action on these issues will determine the pace and character of change. Top management's obligation is to promote the public good as it asserts the interests of its individual companies. What executives assert must transcend parochial advantage and look to the productive service all professional members of the insurance industry strive to provide. Insurance leaders will do their best when they remember that whole industries, like specific companies, change so they may endure, endure with a sense of purpose and dedication.

A real sense of purpose and dedication is what differentiates endurance from mere survival. Such an assertion of leadership will leave the insurance industry and those the insurance industry serves with a vision of what ought to be. ■

action line

Is coverage for pregnancy required for all dependents?

Action Line: I have just read your article "Pregnancy law hikes short-term disability costs" (*BI*, Feb. 8), which discusses this problem in great depth and is very enlightening.

There is, however, one problem that is not treated in your article. Reference is made to the cost of coverage for employees and/or spouses. At no point, however, do you discuss pregnancy benefits for non-spouse dependents.

Does the Pregnancy Discrimination Act also require that employers must offer pregnancy benefits to non-spouse dependents in their group health insurance plans?

I would appreciate your views in this matter as we have a problem.

B.B. Bromberg
Treasurer
Lil' Champ Food Stores Inc.
Jacksonville, Fla.

Mr. Bromberg: According to the Equal Employment Opportunity Commission, the federal agency in charge of enforcing the Pregnancy Discrimination Act of 1978, employers do not have to offer pregnancy benefits in their group health insurance plans to employees' children so long as the exclusion is applied equally to non-spouse dependents of male and female employees.

For example, an employer could not offer pregnancy benefits to children of male employees but exclude pregnancy coverage for female employees' children. Benefits must be excluded on an equal basis.

The EEOC's official guideline on this issue was published in the April 20, 1979, issue of the Federal Register:

"The (employer's) insurance does not have to cover the pregnancy-related conditions of non-spouse dependents as long as it excludes the pregnancy-related conditions of such non-spouse dependents of male and female employees equally," the EEOC said.

We are sending you copies of two *Business Insurance* articles (*BI*, March 19, 1979, April 30, 1979) that analyze the EEOC guideline on this and other pregnancy benefit issues.

Tax interruption cover

Action Line: We would like to find out more about an insurance policy entitled "municipal tax interruption insurance."

Frank Cowan Co. Ltd.
Princeton, Ontario

Municipal tax interruption insurance is marketed by NAS Ltd., a Chicago-based excess and surplus lines broker, to cover a municipality's loss of sales tax and or real estate tax due to the physical destruction of property and loss of business in the community by a normally insured peril.

The destruction of a shopping mall by fire, for example, would cost a municipality sales tax and real estate tax. The policy would cover this loss. The policy does not, however, cover the tax revenue loss related to a business that decides to just pack up and leave the community.

The policy was first introduced by NAS in 1978 with Admiral Insurance Co. as the underwriter (*BI*, Sept. 18, 1978). Admiral, through NAS, is still the only market for the policy, NAS President Thomas Cath says.

The premiums are now more competitive than the original estimate of 1% of insured limits, Mr. Cath says, because a loss history has been established. The minimum premium for insuring $250,000 in tax income, for example, is $1,000. The minimum deductible is $2,500. The largest deductible taken so far is $50,000.

The maximum coverage available under the Admiral policy is $5 million, but NAS can tap the excess market for additional limits.

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Do you have a question regarding insurance, employee benefits or your profession? Write Action line, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611.

Employer pension coverage will double by 2004: Report

WASHINGTON—The percent of persons covered by employer-sponsored pension plans is expected to double within the next 35 years, according to a report released this week.

By the year 2004, 70% of individuals over 65 are expected to be eligible for an employer provided pension, up from 33%, the Employee Benefit Research Institute estimates.

During the same 35-year period, the percent of married couples over 65 eligible for an employer pension will climb to 88% from 53%.

This expansion of private pension coverage will occur because of the continuation of these trends:

- Greater liberalization of vesting schedules as required under the Employee Retirement Income Security Act.
- Significant increases in the number of two-worker families. This increases the likelihood that at least one, and often two, family members will receive pensions.
- Expanded election of joint and survivor options. This option allows a surviving spouse to receive a percent of the worker's vested pension.

In addition, the chances of a person working for a company or organization that offers a pension plan will rise as more and more employers in the years ahead add pension plans to their employee benefit packages.

For example, in 1980 more than 69,342 defined benefit and contribution plans were established, more than double the 28,124 plans set up in 1976 when employers still were unclear of the implications of ERISA.

The number of pension plans will continue to rise, especially among smaller firms, as more workers will want another retirement income option as the future of Social Security remains uncertain, said Sylvester J. Schieber, EBRI research director.

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Copies of "Retirement Income Opportunities in an Aging America: Income Levels and Adequacy," are available from EBRI Publications, 1920 N St. N.W., Washington, D.C. 20036; 202-659-0670. EBRI will pay shipping and handling costs when prepayment is received.

Johnson & Higgins selects four new board members

Four new members have been added to the board of directors of Johnson & Higgins in New York.

The new members are **Richard A. Nielson,** president of a subsidiary, Johnson & Higgins of Delaware Inc.; **Thomas G. Patzau,** co-manager of the employee benefit plan department in the New York office; **J. Kenneth Seward,** administrator of overseas subsidiaries, New York international department; and **George H. Shattuck Jr.,** New York executive office.

Other agent/broker changes:

John L. Procope, named chairman of the board of E. G. Bowman Co. Inc. in New York. **Herm M. Wille** was elected vp of marketing and director of sales for the brokerage.

Richard A. Riley named assistant director of the Southern region of Corroon & Black Corp. Mr. Riley will continue as president and chief executive officer of Corroon & Black of the Carolinas.

Charles S. Brooks promoted to president and **S. Wylie Milligan** promoted to chairman of Corroon & Black of Greenville, Tenn.

Emett & Chandler Inc. of New York promoted **Robert F. Walker** to senior vp and **Lewis T. Musillo** to vp.

William A. Mizell named executive vp and chief operating officer for Bayly, Martin & Fay International Inc. in Newport Beach, Calif. Mr. Mizell, who formerly was a senior vp, will be responsible for all field operations and corporate support functions.

Bayly, Martin & Fay has also added five regional vps to the corporate staff: **Beach M. Clark,** Atlanta; **Edward M. Fitch,** Los Angeles; **Edward McManus,** Hartford, Conn.; **Andrew W. Potash,** New York; and **Larmon R. Salmon,** Houston.

Susan K. Hunt named vp of Woodruff-Sawyer & Co. in San Francisco. Woodruff-Sawyer is an insurance brokerage and benefits consulting firm.

Insurers

Edward H. Budd, 48, president and chief executive officer of The Travelers Corp. in Hartford, Conn., named chairman of the board, replacing **Morrison H. Beach,** 65, who retired Feb. 12. He had been chairman for nearly 10 years. Mr. Beach began his career with The Travelers in 1939. He was elected a member of the board of directors in 1970, president in 1971, chief executive officer in 1973 and chairman in 1974. Mr. Budd joined The Travelers in 1955. Before his election as president in 1976, he was senior vp responsible for casualty/property commercial lines.

comings & goings: industry

Jon A. Roeder named president and chief operating officer of St. Paul Risk Services Inc. Mr. Roeder previously was senior marketing officer for The St. Paul. He replaces **E. Warren Bessler,** who was named president of the new medical services division of St. Paul Fire & Marine Insurance Co. The division will market insurance products and services to the health care field (*BI*, Feb. 8).

Thomas J. Joyce elected executive vp of Life Insurance Co. of North America, a subsidiary of INA Corp. Mr. Joyce is responsible for LINA group operations, which include sales, underwriting, administration, actuarial and benefits services. Mr. Joyce was most recently senior vp of LINA and head of all group underwriting departments.

Albert E. Indermill named group life insurance manager for Celina Group in Celina, Ohio.

Charles L. Norman named chairman of Harbor Insurance Co. and Pacific Insurance Co. in Los Angeles. Mr. Norman was most recently president of property/casualty insurance operations for both companies. He is succeeded by **Edwin V. Hughes,** who was named president and chief executive officer for property/casualty operations for Harbor and Pacific. Mr. Hughes was previously an executive vp in charge of administration for Harbor Insurance Co.

James R. Ridley named president and chief operating officer of Integon Corp. in Winston-Salem, N.C. Mr. Ridley was previously president of life insurance operations for Integon Life Insurance Corp. Integon is a subsidiary of Ashland Oil Inc.

J.L. Pirtle promoted to vp of Maryland Casualty Co. in Baltimore, responsible for claims administration. Mr. Pirtle was previously a vp in charge of claims for the American General Fire & Casualty Co., a subsidiary of Maryland Casualty Co.

John J. McGovern appointed vp of the Seattle division for Great American Insurance Cos. He will continue to be responsible for underwriting and marketing operations in Washington, Oregon, Alaska, Montana and northern Idaho. Mr. McGovern was most recently Seattle division manager.

Excess/surplus

Frank T. Glynn joined Appleton & Cox Inc., an affiliate of Swett & Crawford, as senior vp. Mr. Glynn was most recently Pacific Coast regional property manager for Voight Walker Inc.

Walter L. Falk Jr. and **C. Russell Sweet Jr.** named senior vps at L.W. Biegler Inc. Mr. Falk was previously vp of the property department and will continue to be responsible for property underwriting and production. Mr. Sweet was named vp in 1978 and continues to manage casualty and professional liability underwriting services.

Other suppliers

Two promotions were announced at Kwasha Lipton, the employee benefit consulting firm in Fort Lee, N.J. **Harry Gross** and **Gary Leventhal** have been made partners of the firm. Before joining Kwasha Lipton in 1980, Mr. Gross was an assistant vp at Johnson & Higgins. Mr. Leventhal was most recently a consulting actuary with at Kwasha Lipton. ■

Coverage for blowouts a must: Broker

By KATHRYN J. McINTYRE

HOUSTON—Investors in oil and gas well drilling could start suing well operators who suffer a blowout loss and don't have insurance to cover it, a broker predicts.

There aren't any known suits yet, says Douglas B. Owen, vp and general counsel of Arthur L. Owen Inc. in Dallas, but he thinks there could be.

The average cost of controlling and redrilling a well that has blown out is about three times the original drilling cost, notes Mr. Owen, whose company specializes in insurance and risk management programs for oil, gas and petrochemical companies.

And that multiple doesn't include any pollution liability costs, which are very difficult to estimate.

Mr. Owen

The cost of well control, redrilling and pollution is generally accepted under contract to be the responsibility of the well operator, not the drilling contractor, Mr. Owen explained.

The common law duty of a well operator to the investors in that well, called non-operators, is not high in most states, Mr. Owen said during a speech at the Petroleum Insurance Conference in Houston. In most instances, the operator can be held liable for damages to the non-operator only for gross negligence and/or willful misconduct.

"However, it is conceivable that the failure of the operator to properly insure or contractually transfer the blowout exposure could, under the proper circumstances, be held to violate the operator's legal duty of care to the non-operator," Mr. Owen warned.

There are seven insurance markets in the United States and more abroad, including Lloyd's of London, that will underwrite what is commonly called well control insurance, or coverage provided under the operator's extra expense indemnity policy.

There are few standard forms for this coverage, Mr. Owen noted. To explain the coverage, however, he cited the policy provisions of the Lloyd's of London 1978 OEE form, which covers:

- The costs of regaining control of a well that has blown out, including costs incurred after the flow has been controlled at the surface of the ground if control measures taken are at the direction of regulatory authorities. This includes the costs to drill relief wells.
- The costs incurred in extinguishing an oil or gas well fire, as opposed to a blowout.
- The costs of redrilling a well that has been lost or damaged as a result of a blowout, crater or fire back down to the depth at the time of loss, not to exceed the original cost of the well. (This provision, however, can be amended to provide coverage for unlimited drill costs or various multiples of the original drilling cost.)
- The costs and expenses resulting from seepage, pollution or contamination, including liability for damage to or loss of use of property or bodily injury and the costs of removing, nullifying or cleaning up seeping, polluting or contaminating substances emanating from property or wells insured.
- Damage to or destruction of the insured's property.

Contractual obligations among the various parties in a well drilling venture must be analyzed to structure the OEE policy correctly, Mr. Owen stressed.

These parties include the operator, who, with the help of a geologist, conducts the search for the hydrocarbons and purchases the mineral rights or obtains a lease to drill. The non-operators are those investors in the project who obtain a working or percentage interest in the well but do not exert control over the operator's actual search.

The operator hires a drilling contractor to perform the actual drilling of the well. The operator and drilling contractor also hire various subcontractors.

The operating agreement between the operator and non-operators, the drilling contract between the operator and drilling contractor and the master service contract between the operator or driller and subcontractors solidify the relationships and apportion the responsibilities and liabilities for injuries, deaths and damages.

Mr. Owen considers the International Assn. of Drilling Contractors' U.S. Revised 1979 Day Work contract to be "the finest contract I've ever seen. It allocates responsibility so you don't need to run to the lawyers." The allocation of liability under the contract also is "a blueprint for a good risk management program," he said.

Under that contract, the operators are liable for the cost of regaining control of any wild well and for the cost of removal of any debris. Although the contractor is liable for pollution originating above the surface of the land or water from spills of pollutants that is a minimal exposure and the real pollution danger from all other causes, including blowouts, is the operator's risk.

The costs associated with a blowout include time, expenses and damages. The time it takes to redrill a well can be costly because of fluctuating interest rates and inflation.

The expenses related to a blowout include those of: legal defense; firefighting specialists and their control equipment and personnel; pollution cleanup; removing a wrecked rig, platform and debris; drilling any needed relief wells; redrilling costs back to the original depth; controlling a blowout of the relief well, if that occurs; evacuation; and marking, lighting and surveillance.

Actual damages can be to: the property of the insured, like the platform; the property of others in the care, custody and control of the operator, like service contractors' equipment; pollution legal liability and legal liability to third parties, like damage to an adjacent well not owned by the policyholder.

The needed well control insurance limits will depend upon a number of factors. Among those listed by Mr. Owen were the average cost to drill a well in particular depths and areas; the access to the well; the availability of control specialists, rigs and other equipment; the depths and pressures of the insured wells; the risk factor of the territory where the wells are drilled; the experience of the contractor and the crew; the rig's capability; and the worst case blowout.

Although three times the original cost of drilling is one rule of thumb for selecting well control insurance limits, others say certain areas may require six times or higher the original drilling cost, Mr. Owen noted. And this does not include the pollution liability limits.

In dollars and cents, a recent loss in the Anadarko Basin cost as much as $21 million to control and redrill, he noted.

Mr. Owen refused to discuss rates for well control insurance, saying that the market "is very confused, with some very competitive and some very conservative." There is no general trend in pricing, he said.

When rating a policy, the underwriter considers the coverage desired, the number and type of wells drilled and producing wells, the depth of the wells, the territories, the limits and deductibles and the policyholder's working interest in the well.

The policyholder's working interest is important because under the well control policy, the insurer's limit of liability is reduced proportionately to the policyholder's percentage interest in the well, as is the premium due. This feature, however, requires the limits of liability purchased approach the maximum loss at 100%, Mr. Owen stressed.

"This is a big errors and omissions exposure for the broker who doesn't explain it well to a client," he added.

U.S. insurers that offer well control insurance, as identified by Mr. Owen, are AIG Oil Rig, All American Marine Slip, American Offshore Syndicate, Harbor Insurance Co., Lexington Insurance Co., Mutual Marine Office and U.S. Fire.

Surplus lines brokers or wholesalers he identified, with the notation that this is a partial list, include Bila Rigg, Burt Daniels, Crump-Davis Inc., J.H. Blades & Co., Cravens Dargen, Global Special Risks, Highlands Special Risks, Hull & Co., R.L. Jarrett, N.B.A., Resource Insurance Inc., Southern Marine, Swett & Crawford and Wetzel Co. ■

Oil industry officials talk insurance

HOUSTON—The Third Annual Petroleum Insurance Conference, held in Houston Feb. 8 and 9, was sponsored by the Professional Development Institute of North Texas State University and RIMCO Risk Management Inc., Dallas-based risk management consultants.

About 300 petroleum industry insurance specialists, about half of them risk managers and insurance buyers, attended the two-day program to discuss petroleum insurance and loss-control issues. Also attending were brokers specializing in drilling risks, insurance underwriters and representatives of service organizations specializing in drilling. The *Business Insurance* report continues through page 24.

Information on next year's meeting, to be held in either February or March in Houston or New Orleans, will be available by summer from RIMCO, 10300 N. Central Expressway, Building 5, Suite 350, Dallas, Texas 75231.

Scrutinize retro plans, insurer says

HOUSTON—When analyzing a paid-loss retro plan, be sure you know what it will cost to terminate it, advises an insurance company executive.

Some paid-loss retro plans are underwritten to convert to an incurred-loss retro plan when they terminate and some convert to an incurred-loss retro after five years, explains Charles L. Ruoff, senior vp of The Continental Corp. in New York.

The difference between the paid-loss retro and the incurred-loss or conventional retro plan is who holds the reserves. Under most paid-loss retros, the policyholder in effect holds the reserves because he pays into the claim escrow account when losses must be paid. Under the incurred-loss retro, the policyholder owes the insurer for losses as they are incurred instead of when they are paid.

The provision that a paid-loss retro converts to an incurred-loss retro upon termination can tie a policyholder to an insurer because the policyholder won't want to pay the reserves to the insurer.

The recently merged Dart & Kraft Inc., for example, decided to place all its primary liability risks with Ideal Mutual Insurance Co., Kraft's long-time liability insurer, rather than Continental Corp., Dart's insurer, because Dart & Kraft would have owed Ideal Mutual more in reserves than it owed Continental to sever the underwriting ties, Mr. Ruoff noted.

Ideal Mutual won the primary liability account, worth about $20 million annually in losses and expenses, at the Jan. 1 renewal (*BI*, Jan. 4).

Mr. Ruoff, who reviewed cash-flow plans during a seminar at the Petroleum Insurance Conference in Houston, offered other suggestions not commonly mentioned as points to consider when analyzing the application of various cash-flow plans to corporate risks:

- Compare the premium tax with the sales tax owed on services purchased separately from an insurance contract when deciding whether to unbundle insurer services from the insurance policy.
- Consider that the advantage of a compensating balance cash-flow plan lasts only as long as the corporation sustains a compensating balance requirement with a bank. This requires the risk manager look ahead at the corporation's financial planning before instituting a compensating balance cash-flow program.

Under a compensating balance program, the policyholder pays the insurer the standard retro premium. The insurer then deposits the reserves for losses with the bank at which the policyholder has a compensating balance requirement to satisfy that requirement, thus freeing up corporate funds for other uses.

Runaway wells, toxic gases pose big risks in the oil field

Continued from page 3

Hydrogen sulfide is a highly toxic, explosive and corrosive gas present in large quantities under the earth's surface, which damages the sense of smell and attacks the human body through the eyes, nose and mucous membrane, Mr. Fields said.

Workers with perforated eardrums, hypertension, eye and neurological problems and other conditions are particularly susceptible to hydrogen sulfide and should be restricted from sites suspected to contain the gas.

Hydrogen sulfide is explosive in air concentrations varying from 4.3% to 43%, he said. It is so corrosive that it can eat away steel drilling pipe under certain conditions.

Those visiting drilling sites should be made aware of hydrogen sulfide's dangers and be trained in the use of emergency air masks, gas detectors and resuscitators, he said. In addition, the rig should be equipped with a warning system and blowers to clear the immediate atmosphere.

"This is a commonly encountered problem that needs immediate attention and prior planning to make sure rigs and people are safe," he explained.

The general public presents a threat that transcends equipment and employee losses by introducing the chance of third-party injury to the oil field.

> 'Catastrophes always happen where and when they shouldn't. People should be keyed in so you don't shock or surprise them,' Mr. Fields explains.

"The public can have a lot of effect on your operations," he said. Catastrophes involving the public can be summed up in three words: unknown, unexpected and undesirable.

"They always happen where and when they shouldn't," Mr. Fields explained. "People should be keyed in so you don't shock or surprise them."

The operator should coordinate actions with local emergency personnel and neighbors, he said. They should also be informed of anticipated operations and problems like noise, dust, hydrogen sulfide and equipment movement.

Local police and fire officials and ambulance services should be notified of possible hazards and be included in emergency training, he said. Civil defense agencies can help with major problems requiring relocation, evacuation or rescue.

Underground installations should be mapped, identified and protected from corrosion and physical damage, he said.

"All facilities accessible to the public should be posted and marked with warnings of dangers," Mr. Fields said. Extensive fencing may be necessary.

Water impoundment may be a problem, he said. People may swim in disposal ponds and animals may drink from them, possibly resulting in pollution liability.

"We had one operator come in who had buried some corrosive material on his site," Mr. Fields said. "Years later it rained hard and the material flowed up. A horse drank it and died and there was a claim."

When it comes to farm animals, operators should remember one key point, Mr. Fields explained: No ordinary cow or horse ever dies in incidents involving oil well machinery or property.

"It is always a show cow or a prize-winning horse." ■

Risk managers need to plug all the holes in oil drilling policies

By STEVE SHERWOOD

HOUSTON—When buying liability insurance to cover oil production, drilling and well service operations, risk managers should remember one word: Endorsement.

This is particularly true when dealing with the comprehensive general liability policy, says Keith Kakacek, president of RIMCO Risk Management Inc. in Dallas.

"When insurers say comprehensive, they mean the policy is more comprehensive than its 1966 policy form," Mr. Kakacek told risk managers and others attending the Petroleum Insurance Conference earlier this month. "It has a bunch of holes in it. Don't believe what you read because you will need a lot of add-ons."

The average well service contractor has practically no coverage at all under the CGL unless he buys it back in the form of endorsements, the consultant said. "The CGL is very scary. It gives you a sense of security you shouldn't have."

Both Mr. Kakacek and fellow speaker John R. Flautt, vp at Marsh & McLennan of Midland, Texas, pointed out specific exclusions that risk managers should be concerned about and how they can close some of the coverage gaps.

Mr. Flautt said the most crucial and misunderstood element in the general liability policy is coverage—or lack of it— for underground resources and equipment.

General liability policies usually exclude coverage for property in a policyholder's care, custody or control, Mr. Kakacek said. "Look out for this. It takes away significant coverage you might think you have."

The broad-form property damages endorsement limits the care, custody or control exclusion to property the policyholder is in physical contact with, he said. This is important for all those working in an oil patch since they operate around other companies' equipment and people.

But this critical coverage can also be purchased as part of a package called the broad-form comprehensive general liability endorsement for a premium averaging about 10% of that paid for property insurance, Mr. Kakacek said. The endorsement includes liability coverages for non-owned watercraft, advertising, contractual agreements, host liquor and incidental medical malpractice, all of which can be applied to the oil industry.

In addition to either of these endorsements, he recommends that drillers, service contractors and owner/operators of gas and oil wells consider adding coverage for:

- Damage to another party's underground resources.
- Blowout and cratering property damage (which does not cover the cost of well control).
- Explosion, collapse and underground property damages.

Prudent policy limits are $250,000 per occurrence and $500,000 aggregate for bodily injury, Mr. Kakacek said. For property damages, $100,000 should be enough for both single occurrences and aggregate.

Over this, a company should purchase excess or umbrella liability coverage of at least $2 million, he said. "If you have anything to lose at all, you need $5 million, and any publicly held company had better have at least $50 million of coverage."

The umbrella liability policy is the key to any company insurance program, he said. "This is your catastrophic coverage, so don't bet the farm by trying to save a few dollars in premium here."

One endorsement that should be attached states that the umbrella will cover all risks covered by the underlying general liability policy, he said. This "liberalization endorsement" helps prevent gray areas that could result in denied coverage.

Coverage for losses to underground resources and equipment is not something a drilling contractor can buy off the shelf, said Marsh & McLennan's Mr. Flautt.

"In Texas, well service and drilling contractors are rated by the state insurance department," he said. "For this class (of businesses), a letter 'D' appears on the policy, meaning it doesn't have the coverage."

Although the language of the endorsement that can be added seems to be a catch-all, it is not.

"It says it covers oil and gas in the hole, the well-hole formation, casing, pipe and tools below the surface," Mr. Flautt said. "You would think that if this is on your policy and you are paying the premium, you should be covered, but the care, custody or control exclusion applies and this is not widely understood."

Insurers interpret the underground resources and equipment coverage to be for adjacent holes, not the one a driller or well service contractor is working on, he said.

In other words, if the driller accidentally penetrated another company's formation and caused the loss of oil reserves, it would be covered. But if his actions caused damage to the well he was drilling, the damage would not be covered by this provision.

"Generally, it is not construed to provide cover on the hole you're working on," Mr. Flautt said.

Those involved in oil and gas drilling must also review their contracts to determine which company has primary responsibility for blowout and cratering damages, he said. (See related story.)

Another risk that drillers and contractors must be aware of is saline contamination, he said. A driller may penetrate a water, oil or gas formation, causing saline damage to reserves or even a city's water reservoir.

The general liability policy exludes saline contamination losses, but they can be covered under an endorsement, he said. Incidents are rare, but "I saw one claim under this and it was catastrophic," he said.

U.S. businesses need plans to fight terrorism: Beckwith

By STEVE SHERWOOD

'It's nice to say you have a plan, but if you haven't exercised it through simulation, you don't know if it will be effective,' Charles Beckwith says.

HOUSTON—There are 370 terrorist organizations operating in 60 countries and nearly every one sees U.S. business as a lucrative target, warns Charles Beckwith, a nationally known expert on terrorism.

Risk managers should take steps to protect their people and property from terrorists through crisis-management plans and tighter security, he says.

Formerly the Special Forces colonel in charge of an elite U.S. military anti-terrorist group known as Delta Force, Mr. Beckwith commanded the ground forces during the ill-fated attempt to rescue the 52 American hostages in Iran on April 24, 1980.

Mr. Beckwith, now president of Security Assistance Service of Texas, a private security consulting firm based in Austin, spoke to the Petroleum Insurance Conference in Houston earlier this month.

"U.S. enterprise is a lucrative target for terrorists," he said. "It is a a good place for terrorists to go to fund their activities, through theft or ransom."

Large or small, no company is immune from attack, he said. "The Bank of America, General Electric, General Motors, Gulf Oil, Texaco, Exxon—all of these companies have had problems with terrorism."

Quoting from FBI statistics, Mr. Beckwith told the group that terrorists bombings killed 34 people, injured 160 and caused $12.6 million in property damage in the United States in 1980.

Worldwide, from 1978-80, there were 6,714 international terrorist incidents, of which 2,864 or 43% were directed against U.S. citizens or property, he said.

And it's getting worse. In 1978, seven U.S. business employees were kidnapped overseas, four of whom were killed, he said. Within the first three months of 1981, 24 U.S. employees were killed by terrorists.

"Local, state and federal agencies enjoy only limited effectiveness against terrorists," he said. "No one can guarantee freedom from attack, but there are preventive measures that can be taken. The problem is most companies are unwilling to take them. They don't want to pay $15 for a lock to secure something that is precious to them."

Business facilities, executives and their families are tempting targets for terrorists, he said. By recognizing this and prudently implementing security measures, business can reduce the appearance of vulnerability and thus reduce the chance of a direct attack.

One of the first steps a corporation should take is to create a crisis-management plan.

"Who is in charge when a disaster occurs?" Mr. Beckwith asked. "When a top executive is taken prisoner or an oil well catches fire, who is in charge and what is the leadership going to do?"

To control a crisis, information about it must be collected and passed up to the decision makers, he said.

"The flow of information up to the executive level so decisions can be made is vital," he said. "I'm talking about the three C's: command, control and communicatons. Whatever is necessary to get the information to the appropriate people must be done."

Someone should also be designated to deal with the press, he said. "When there is a disaster, you can't stonewall the press, so you might as well prepare for a reaction to them ahead of time."

It is also important that local law enforcement officials be apprised of the plan and be allowed to offer their input so they will know how to react in a crisis.

"It's nice to say you have a plan, but if you haven't exercised it through simulation, you don't know if it will be effective," Mr. Beckwith said. "Through simulation you may identify those individuals who cannot handle stress. This may help in selecting people to manage a crisis situation."

Companies should develop crisis-management plans that are reality-oriented, then review and update them constantly, he indicated.

The selection of employees is important to security, particularly in overseas or sensitive domestic operations, he said. "It is very important, based on your own style, to develop a matrix of what you're looking for. You may also want to seal off some parts of the operation, making information available on a need-to-know basis."

He illustrated how valuable planning can be with a description of Israel's security plan.

"I was in Israel four years ago and had the chance to see how they come to grips with security problems," Mr. Beckwith said. "They said they had to sit down and develop a list of everything that was precious to them—what they wanted to protect.

"Then they made a second list of the resources they could gather to protect them," he said. By comparing the first list with the second, the Israelis determined what they could and could not protect.

"At least this way they know where they are vulnerable and where they are likely to be hit," he said.

Business can approach the problem the same way, he said. ■

Cost of controlling runaway wells fuels debate

HOUSTON—Capping blowouts and snuffing runaway well fires often cost more and take longer than necessary, says a competitor of the oil industry's two leading troubleshooters, Red Adair and Boots & Coots.

Fresh from an offshore job near Angola, which may cost insurers more than $100 million (*BI*, Feb. 15), Joe Bowden, president of Wild Well Control Inc. of Spring, Texas, says contingency planning for such catastrophes and greater awareness of the true costs of well control could save insurers millions of dollars a year.

Such planning and knowledge is now thinly spread, he indicates.

"I can take you to any oil company and ask for their contingency plan and I'm certain they would look at me like I was an idiot," he says, adding that many producers never plan what they will do until after a blowout.

But a spokesman for Boots & Coots Inc. of Houston takes issue, saying most major oil companies have contingency plans. He doubts that well control can be done more quickly or that after-the-fact costs can be reduced substantially.

"The biggest mullets in the oil field are insurance companies and adjusters," contended Mr. Bowden, speaking at the Petroleum Insurance Conference in Houston. "They are being taken to the cleaners every day because they don't know what's happening."

When a blowout occurs, too many oil and gas production companies run straight to Red Adair, the well-known blowout expert with Oil Well Fires & Blowouts Control Co. of Houston, or Boots & Coots. "You don't have the guts to call Wild Well Control," Mr. Bowden said. "You are content to sit back and let the big boys handle it, then if it takes two weeks or two years (to control), you still say you have the best in the business."

Mr. Bowden

Begun in 1975, Wild Well Control is called to about 35 fires or blowouts a year in nearly all parts of the world, he said.

Mr. Bowden is the lead expert in "killing" blowouts without damaging production, according to a promotional film shown at the conference. He claims to have been the first runaway-well fighter to begin salvaging mud pumps, pipes and other drilling equipment from damaged rigs in an effort to cut down on overall control costs.

He also gets the job done quickly, he said. "Speed is the whole secret. In many cases, the rig already has been destroyed, but every hour of lost production costs just that much more."

Although he admitted that difficult blowouts, particularly offshore, can take weeks or months to stop, the run-of-the-mill land blowout in Oklahoma or Texas should take no more than three or four days, he says. Shallow wells of the 6,000 to 8,000 feet in depth should cost $60,000 to $100,000 to control, excluding the cost of replacing equipment or production losses.

He said the Angola blowout occurred in May 1981 and was just capped this month. "You underwriters are fixing to pay more than $80 million on that blowout," Mr. Bowden said. "That's what I'm talking about. It's a waste."

Blowouts generally occur when there is an imbalance of pressure in a well, one source explained. Drillers use mud for lubricating their drill bits and to maintain enough hydrostatic weight on the oil or gas to keep it from flowing up the hole. Anytime the mud's weight is lss than the upward pressure of the oil or gas, there is the potential for a blowout.

Although representatives from Boots & Coots and Red Adair's company were not at the conference, Asger "Boots" Hansen, cofounder and vp of Boots & Coots, has a different view on contingency planning and well control.

He disagreed with Mr. Bowden's contention that few major oil companies have contingency plans for blowouts.

"We've been involved in quite a few plans," he said. "We also have a booklet we pass out to the smaller guys that shows them how to set up a plan and what to do. The general idea is to help them organize."

He discounted any comparison of fees between well control firms, although Mr. Bowden pointed out at the conference that his fee is one-fourth to one-half the fee charged by Boots & Coots or Red Adair's firm. "The last thing in the world anyone puts out is the amount of money they charge," Mr. Hansen said.

Boots & Coots' fees, however, have not changed since 1978, when Mr. Hansen and his partner E.O. "Coots" Matthews left Red Adair's outfit to start their own, Mr. Hansen said. Recently he has been trying to persuade Mr. Matthews that the firm should raise commissions to cover rising costs.

"We've never had any complaints about our prices—never," he said. "I've been doing this a long time, for 31 years. When I was with Red (Adair), I never heard complaints about what was charged."

The cost of controlling a runaway well varies depending on location, how long it takes, how much equipment is needed and how dangerous it is, Mr. Hansen said. "Every one of these things is different. There is no way you can go anywhere and get people organized right away."

Boots & Coots was called to control 64 fires and blowouts in 1980, another 48 in 1981 and eight so far this year, including four at the same time, he said. The work takes its seven well control people to Africa, Europe, South America and all over North America.

Mr. Hansen said the best way to cut costs is to prevent blowouts and fires in the first place, but explained this has been difficult recently because of the large number of rigs operating and the shortage of good, experienced workers.

About 97% of all well control incidents are caused by the human element, he said. "If you could take that out, you could impact the number of incidents and the cost. I think things might slow down in the next couple of years as exploration slackens off and people become more experienced." ■

Consultant says large losses can be forecast

HOUSTON—Your loss statistics, a modern hand calculator and a distribution formula can help you forecast large losses that you might think are totally unpredictable.

John Cozzolino, a Ph.D. and an associate professor on leave from the Wharton School to run his own West Berlin, N.J., consulting business, Cozzolino Associates Inc., offers a method for creating credibility for the prediction of large losses.

Mr. Cozzolino

Predicting and insuring against large losses are the big challenges facing risk managers, Mr. Cozzolino says. Small, frequent losses are predictable and, therefore, can be funded by a corporation, he notes. Large losses, however, occur infrequently and so the risk manager often thinks that loss statistics have little value.

Mr. Cozzolino contends, however, that one can trend even small amounts of data on large losses to predict such losses and choose insurance limits accordingly.

His system relies on the use of what is called a Pareto distribution, a statistical formula developed by the famous economist. Mr. Cozzolino has applied the distribution to large property, general liability and workers compensation losses and found it "works pretty well."

Mr. Cozzolino detailed the use of his system for a group of seminar attendees at the Petroleum Insurance Conference in Houston.

Basically, use of the Pareto distribution for trending large losses is based on the observation that when losses are organized according to intervals of loss size, as the loss size interval doubles, the number of losses is cut in half.

For example, the loss experience over three years for a large, integrated oil company is organized into a "data histogram" by loss intervals expressed in millions (see data histogram chart).

Starting with the $50,000 to $100,000 interval, where the loss history is smaller, and looking at the number of larger losses, the observation holds true. Therefore, although no losses occurred in the $1 million to $2.5 million range during the three-year period, one can subjectively decide to attribute a 0.5 loss in the total column for that category.

PREDICTING LARGE LOSSES

	INTERVAL	MIDPOINT	COUNT	INTERVAL WIDTH	COUNT ÷ WIDTH
1	0 to .01	.005	668	.01 - 0 = .01	66800.
2	.01 to .05	.030	38	.05 - .01 = .04	950.
3	.05 to .10	.075	7	.1 - .05 = .05	140.
4	.10 to .25	.175	4	.25 - .1 = .15	26.667
5	.25 to .50	.375	2	.5 - .25 = .25	8.0
6	.50 to 1.0	.750	1	1. - .5 = .50	2.0
7	1.0 to 2.5	1.750	.59	2.5 - 1. = 1.50	.394
8	2.5 to 5.0	3.750	.23	5 - 2.5 = 2.5	.093

It is possible to manipulate these numbers using log-log graph paper. However, Mr. Cozzolino says one needs only a calculator that is preprogrammed for trend analysis and does logarithms instantaneously.

To begin the process, one takes the available loss data and organizes it according to intervals as desired, perhaps to correspond with deductible intervals (see chart "predicting large losses").

The answers noted in the squares shaded in gray are the answers unknown until this procedure is performed.

One calculates the midpoint of each interval, notes the number of losses in each interval (the count), calculates the interval width and divides the count by the width.

In this case, the first interval will not be used because there are so many losses. The first two or three intervals wouldn't be used if there were many losses in them.

"A more general suggestion is to consider loss intervals above $50,000. Small losses tend not to fit the same pattern," Mr. Cozzolino explains.

Now, using any hand calculator or computer that does a linear trend (regression) analysis, one can trend the losses to fill in the gray shaded squares. The logarithm of the relative likelihood function is related to the logarithm of loss size by the linear regression analysis.

Today's business calculators, which are equipped to do linear trend analysis and also have a logarithm function, are ideal for this kind of analysis. The instruction booklet with the business calculator explains how to do the linear regression analysis. The only new thing is to use the logarithm key to transform the data as you enter it.

The predicted losses produced by this procedure, carried out for those intervals in which the actual numbers of losses are known, are very close to the actual numbers. Interval two comes out 34.37 compared with an actual 38; interval three comes out 7.6 compared with an actual 7, interval four comes out 4.59 compared with an actual 4, interval five comes out 1.81 compared with an actual 2, interval six comes out 0.98 compared with an actual 1.

For the gray-shaded squares in which there were no reported losses, the analysis suggests there would be a 0.59 loss in the $1 million to $2.5 million range and 0.23 loss in the $2.5 million to $5 million range.

"There is no such thing as a 0.23 loss," Mr. Cozzolino admitted, but the results suggests a loss of that magnitude could happen.

"Such losses might have a frequency of less than once a year—maybe every three or five years," he observed.

Mr. Cozzolino also admits that in using this system, the risk manager is "taking the leap of faith that this is the right distribution." The leap of faith is based on believing "there is a relationship between the relative liklihood of loss and loss size."

Mr. Cozzolino runs 2½-day seminars to explain his system. ■

A DATA HISTOGRAM

	SIZE INTERVALS (MILLIONS) FROM	TO	1975	1976	1977	TOTAL	PROB.
1	0	.010	229	221	218	668	.9271
2	.010	.050	14	17	7	38	.0527
3	.050	.100	3	3	1	7	.0097
4	.100	.250	0	2	2	4	.0056
5	.250	.500	1	1	0	2	.0028
6	.500	1.000	0	1	0	1	.0014
7	1.000	2.500	0	0	0	.5	.0007
	TOTALS		247	245	228	720.5	1.0000

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About the Speaker

Dr. Kenneth R. Oppenheimer, President of Decision and Risk Analysis, Inc., of Palo Alto, California, specializes in executive education and the application of decision and risk analysis to corporate decisions in the insurance, fire protection, banking, wood and paper products, data processing, cattle feeding, and oil and gas drilling industries. Prior to founding Decision and Risk Analysis, Inc., he spent five years with the Decision Analysis Group at S.R.I. International (formerly Stanford Research Institute). His academic background includes a B.S. in mathematics from Tufts University, and a M.S. and Ph.D. in Engineering-Economic Systems from Stanford University. While at Stanford, he was a member of the Decision Analysis Group at Xerox Corporation.

Seminar Dates

May 17	New York	St. Regis-Sheraton
May 19	Chicago	The Ritz Carlton
May 24	San Francisco	The Fairmont
June 14	New York	St. Regis-Sheraton
June 16	Chicago	The Ritz Carlton
June 21	San Francisco	The Fairmont

Agenda

1. Introduction to decision and risk analysis
2. A risk management decision (case study)
3. Assessing the probabilities of loss
4. Assessing the corporate attitude toward risk
5. Analyzing risk transfer alternatives (case study)
6. Analyzing risk control alternatives (case study)
7. Conclusion

Electronics firms are not ignoring pollution exposures

Continued from page 3
tains an environmental division within its corporate medical and safety department. The company also uses consultants to be sure that new installations are pollution-proof.

Fairchild declined to discuss its insurance available to pay possible claims for gradual pollution arising out of the San Jose well contamination. But other semiconductor companies in the Santa Clara Valley say they have purchased coverage.

Advanced Micro Devices carries coverage for environmental impairment liability. So does Intel Corp., a manufacturer of integrated circuits, but risk manager Gary Toms thinks it's unusual in the Silicon Valley.

"It's impossible to get rid of all the waste," Mr. Toms says. "What you generate is what you're going to live in and there's no way you're going to get away from it. Somehow you have to break it down and make it non-toxic, non-dangerous—to clean your own nest before you send it out."

Intel's program, called "zero effluent," is designed to do just that. "The mentality around here is we can't spare the cost, we have to get (effluents) down to zero," Mr. Toms adds.

Intel has hired an environmental specialist and has set up a number of support activities for its "Mr. Environment" program. Other specialists participate in the company's "Mr. Earthquake" program in California and "Mr. Volcano" program in Oregon.

Mr. Toms believes that the toxic waste exposures of the semiconductor industry are less severe than in many other industries that handle chemicals.

The aerospace industry, for example, uses more of what he calls "one-step" and "two-step" materials—the kind that stops you dead in one or two steps after one or two sniffs.

"These are nasty materials. Aerospace has used more copious quantities than semiconductors," he points out.

Memorex Corp., a Sunnyvale, Calif., manufacturer of computer peripherals and magnetic tape, is considering adding environmental impairment coverage. Noting that the engineering survey can be costly, risk manager Hildy Fleischer observes that "it may in the long run be cost-effective because it would reduce the premium. The underwriters would really have a good understanding of our risks."

Memorex already has hired a full-time environmental protection specialist who is advising the company on handling these risks. Recently, he inspected the company's Wisconsin plant and recommended posting a bond. Other measures taken include establishment of a solvent recovery system and improving storage of waste materials and moving them farther away from work areas, Ms. Fleischer notes.

Silicon chip manufacturers are not considered hazardous waste treatment, storage and disposal facilities, local risk managers point out.

"We make a product whose byproduct is toxic; we don't make a toxic product," says Wayne Wickham, director of corporate insurance for National Semiconductor Corp. in Santa Clara, Calif. The company's responsibility is to see that the waste is properly stored while awaiting transport by a licensed carrier to a licensed dump site.

"The risk is there, but compared with some of the big chemical companies, we really feel we have a limited exposure," says Mr. Wickham.

National Semiconductor has a full-time person working on environmental affairs and someone in its safety group oversees transport and disposal of chemical wastes.

"We're very aware of the problem, and we're trying to stay a step ahead of the whole situation," he adds. He declined to discuss environmental impairment insurance.

Although semiconductor companies are not considered waste depots, "If you are a waste generator, even though you consign the wastes to a trucker, you are responsible for the waste," explains Mr. Despot at Frank B. Hall.

The chemical companies are under the gun, but how this will affect semiconductor companies is unknown, he says. Noting that there are only about a half-dozen insurance companies in the country with engineering staffs that can assess pollution potential, Mr. Despot calls environmental impairment insurance "a newborn babe."

Federal requirements concerning environmental impairment insurance have been postponed until April (*BI*, Oct. 5, 1981), and local semiconductor companies are split over whether to acquire the insurance that would cover the occurrence of gradual pollution. Coverage for a sudden spill is typically included in a comprehensive liability package.

Environmental impairment insurance was mainly available through Lloyd's of London until last year when about a half-dozen markets opened up, says Rob Babcock, casualty manager for broker Rollins Burdick Hunter of Northern California. "The coverage is becoming broader and the engineering requirement to get the coverage has been reduced," he adds.

Just last week, The Hartford Insurance Cos. announced it will offer pollution liability insurance on the heels of a new market at The Travelers. Previously, seven other markets announced availability of pollution liability coverage.

Premiums for environmental impairment insurance range from about 1% to 5% of the coverage limits (or at least $50,000 for $5 million), says Mr. Despot. The engineering surveys required before issuance also can be very costly. These fees, which are borne by the insured, may be reimbursed, he notes.

Quebec asbestos firm trying to escape judgments in U.S.

Continued from page 2
Johns-Manville Corp. in Denver. A frequent defendant in asbestos-related cases, Johns-Manville sought to intervene in the Bell case to oppose the declaratory judgment action but was refused.

"A company could take advantage of a particular market and not have parallel responsibilities when placing goods in the stream of commerce if people are injured," Mr. Brown said. "It gives foreign manufacturers an unfair advantage."

More than just the law pertaining to asbestos or toxic substances but the whole body of product liability law is involved, Mr. Brown said.

Johns-Manville is appealing the Quebec court's denial of its request to intervene. A hearing on the appeal is scheduled for March 4, but it could be several months before a decision is reached.

Among Johns-Manville's contentions are that it has the right to intervene in the declaratory judgment action by Bell in Quebec, that a declaratory judgment action is not appropriate in this case and that Bell is subject to U.S. jurisdiction, according to Mr. Brown.

Bell's suit in Quebec, which may not be heard until summer, is considered unique by some because the company has not yet been hit with any judgments in the United States. In effect, it is asking the court to rule on an issue where no legal question has been presented yet.

"What is unique is the application (of a declaratory judgment action) in this situation," said H. Patrick Glenn, a international law professor at McGill University in Montreal. "I'm not aware of a single other instance" where it has been used.

"There is nothing in the jurisprudence that says a Quebec court will determine whether a U.S. court has jurisdiction before a judgment is issued," he pointed out.

In effect, the Quebec court would be giving legal advice to Bell— something courts traditionally have sought to avoid, Mr. Glenn said.

If the Quebec court says U.S. courts have no jurisdiction, then the company would not have to defend in the United States because the judgments would not be enforced in Canada, he added.

But if it says jurisdiction is proper in U.S. courts, it would be telling Bell it should defend in the United States because such judgments there will be enforced in Quebec.

Benoit Cartier, corporate secretary to Societe Nationale de l'Amiante, however, said that Bell is not seeking an advisory opinion from the court.

"We feel the problem is real right now," he said. "It is a real problem right now because we have to prepare defenses in the U.S. even though the judgments are potential."

Mr. Cartier said that it really was a "conflicts-of-law" problem in which Canadian law should be applied.

Moreover, Mr. Cartier said that the company is not seeking to avoid liability for damages but just to change the site of the trial to Quebec where it belongs.

Plaintiffs can still come to Quebec and sue there, he said. "If we are liable, they can come and sue us in the proper jurisdiction."

Mr. Cartier acknowledged, however, that the product liability laws in Canada and the Quebec courts often are not as liberal in awarding damages as are U.S. courts.

In Canada, product liability cases are not tried before juries, strict liability is not as entrenched as in the United States and liability must generally be tied to fault, Mr. Cartier added.

He said plaintiffs would not be injured by Bell's jurisdiction request because there are other defendants in the U.S. suits that could pick up the burden.

It is just such a shifting of the burden that Mr. Brown of Johns-Manville objects to. Several courts have said that companies named as defendants in a suit must share the burden of the damages, he said.

To the extent Canadian companies or those only with assets in Quebec remain there and refuse to participate in the judgment, the burden of paying would fall on those companies under U.S. jurisdiction, he added.

In addition, laws in the United States and Canada have traditionally made companies that put goods in the stream of commerce amenable to the jurisdiction of the court where the consumer who is injured resides, according to Mr. Brown.

Bell is subject to the jurisdiction because it sold the goods with the knowledge that U.S. companies purchased them and they were destined for U.S. commerce, he said.

Mr. Brown added that a favorable ruling for Bell could force plaintiffs to go to Quebec and possibly try the case all over again. ■

Court to hear IUD coverage dispute

Continued from page 1
pensatory and $6.2 million in punitive damages to the plaintiff.

Aetna has denied coverage for about 100 claims it argues are not covered by any of its insurance policies, according to court documents filed in August 1980. The insurer has "erroneously and arbitrarily charged each Dalkon Shield indemnity payment made by it against the insurance policy that embraces the date of manifestation," says Robins.

"The insurance policies require that losses on account of exposure to the Dalkon Shield be insured under each of the insurance policies during the policy period of which the claimant used the Dalkon Shield, and that losses be allocated among those insurance policies. . ." the IUD manufacturer argues in court documents.

This language suggests that Robins is seeking a very broad interpretation of the exposure rule by claiming coverage from the date of a Dalkon Shield insertion until its removal. Counsel for the parties would not elaborate on the complaint.

Robins also is asking the court to rule on responsibility for defense costs and asks Aetna for an account of all defense costs charged against the limits of its insurance policies.

Aetna erroneously has charged its costs of defending Dalkon Shield suits and claims against the limits of the excess insurance policies and against self-insured excess layers retained by Robins, the company argues.

Although Robins will not discuss the limits of its liability insurance, an attorney who represents more than 30 Dalkon Shield plaintiffs calculates that the company has more than $325 million in coverage from 1970 through 1977.

Robins has been self-insured for Dalkon Shield losses since March 1977 and carries no excess or stop-loss coverage, Mr. Forrest confirmed.

A.H. Robins has paid out $76 million through insurance, notes Bradley Post, lead counsel in the multiple district litigation pending before a federal court in Wichita, Kan. Nearly 40% of that sum has gone to pay attorney fees, he adds.

"So if Robins wins its suit against Aetna and defense costs are not included in insurance, we figure Robins has nearly $280 million left in insurance. To date the company has paid only one $75,000 claim for punitive damages, which are not insured," he said.

Robins manufactured the intrauterine contraceptive device known as the Dalkon Shield from 1971 through mid-1974. Injuries claimed by users include uterine perforation, pregnancy, spontaneous abortion, fetal injuries and hysterectomies. ■

Goodyear truck rim case may set precedent

Continued from page 1
"They are fools if they appeal," Mr. Risjord explained to *Business Insurance*. "This case will certainly set a precedent and the more detail Goodyear presents in the appeal, the worse it will be for them."

Mr. Risjord, a member of the Kansas City, Mo., law firm of Niewald, Risjord & Waldeck, has represented plaintiffs in more than 20 multipiece rim suits, including six cases against Goodyear that were settled out of court. He expects more cases to come to trial.

The Goodyear suit is similar to the hundreds of cases filed in the past 10 years involving the multipiece rim products manufactured by Goodyear, Firestone Tire & Rubber Co., Kelsey-Hayes Co. and Budd Co., a subsidiary of Thysen A.G., a West German corporation (*BI*, April 6, 1981).

Firestone is defending or has settled more than 150 cases seeking hundreds of millions of dollars for which insurance coverage is still undecided (*BI*, April 6, 1981).

Two-piece multipiece rim products consist of a rim base and a side ring. Another related design, a three-piece rim, consists of a side ring or flange and a locking ring.

If the components become misaligned, reducing support for the air pressure in the tire, the device can explode.

At least 100 people have been killed and 300 injured by these products, according to the Insurance Institute for Highway Safety, a Washington research group funded by the insurance industry.

Another study conducted by the Failure Analysis Associates, a consulting firm in Palo Alto, Calif., for the National Wheel & Rim Assn. reports that there has been one maintenance-related accident for every 1.06 million rings serviced.

But some 76% of the accidents could have been avoided if Occupational Safety and Health Administration regulations on rim servicing had been followed, the consultants say. ■

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Rhode Island comp rate hike could be smaller than expected

around the states

PROVIDENCE, R.I.—State employers may soon be hit with increased workers compensation rates, but the hike may not be as painful as once thought.

The state's director of business regulation is expected to decide—possibly this week—if he will approve a 60% increase in workers compensation rates that the National Council on Compensation Insurance is seeking on behalf of insurers.

But Director Thomas J. Caldarone, who has sole authority in the matter and isn't talking until he makes a decision on the rate increase, may have been influenced by the recent testimony given by a actuarial consultant hired by the state attorney general.

E. James Stergiou, an actuary for Woodward & Fondiller in New York, recently testified that the proposed average 59.6% rate increase could be reduced to between 28% and 35%—if income from invested loss reserves is reflected in the rate structure.

Even without the investment income offset, Mr. Stergiou said the rate increase being sought by the National Council on Compensation Insurance should be lowered to 53.2%.

Woodward & Fondiller's findings "are that you can have an underwriting loss of 5% to 10% and still have a good return on equity," Mr. Stergiou said.

Rhode Island employer and consumer groups also have been trying to rewrite workers compensation legislation, which they planned to have introduced in the state legislature this month.

According to Lane W. Newquist, president of the Rhode Island Committee for Progress (RICOMP), there are three basic problems with Rhode Island's workers compensation system:

- The administration of the system is inefficient.
- The rehabilitation system for injured workers is weak—with little incentive for injured workers to return to a productive job rather than stay home.
- The system is not set up to encourage workers who are partially disabled to return to work in a lesser capacity.

Lump-sum settlements, RICOMP believes, should be eliminated because one large sum of money discourages workers from returning to their jobs.

Rhode Island is one of the three highest loss states in the nation, according to the NCCI, which says that workers compensation insurers have not made an underwriting profit in the state for four to five years.

Fire safety

NASHVILLE, Tenn.—The state House and Senate Government Operations Committee is considering new laws designed to cut the risk of fire in high-rise buildings, large places of assembly and certain other structures.

State Insurance Comissioner John C. Neff has held two public hearings on the proposed rules, which would require the Insurance Department's division of fire prevention to review the certain building plans before construction.

The division already reviews plans for most educational buildings. If approved, the new rules would also mandate the division to inspect plans for detention and correctional facilities and all other state buildings.

Begining Jan. 1, the division would inspect plans for business and residential buildings more than two stories and for places of assembly with a capacity of 300 or more people.

The rules would also establish minimum standards for fire safety.

The state's four major cities already conduct their own plan reviews.

Local governments that have the personnel and resources would be able to conduct most of the required reviews after receiving permission from the state fire marshal's office. However, local governments could not adopt or enforce ordinances less stringent than state codes. ■

products & services

Aetna program combines HMO, traditional health plan features

Aetna Life & Casualty Co. through its subsidiary, Aetna Healthcare Systems Inc., is introducing a new program called CHOICE, which combines features of health maintenance organizations and traditional health insurance plans.

The CHOICE program allows participants to use their own physician for non-emergency care, similar to services provided by prepaid group practice HMOs. However, the primary care physician need not be affiliated with the CHOICE plan.

For specialty care, the patient will be required to use hospitals that are members of the CHOICE program. Dr. Leslie Levy, president of Aetna Healthcare Systems, says this is an advantage for patients, who will be able to select physicians and hospitals they would not normally have access to through their own doctors.

"CHOICE provides an opportunity for physicians and hospitals working with Aetna to demonstrate that excellent medical care can be less costly than average care, said Aetna President William O. Bailey.

Evanston Hopsital in Evanston, Ill., will be the first hospital to use CHOICE, pending state regulatory approval.

Aetna expects the program to be in full swing in Evanston later this year. The insurer also plans to introduce the CHOICE program in other cities over the next several years.

Information on premiums and program costs have not been finalized, but Aetna says both employees and employers will share the savings realized in the CHOICE program.

Security consultant

Security Consulting Services is a new security firm based in Cheyenne, Wyo., that provides a multifaceted approach to security for plants, onshore or offshore oil rigs, refineries and other hydrocarbon processing locations.

The company gathers data on the area to be protected, analyzes the material, surveys existing security measures, finds solutions to security problems and advises which solution is best for that particular situation. Finally, it evaluates how well the solution is working.

The consulting firm charges an initial fee of $1,000 per day per team. This initial fee varies according to the number and locations of facilities, the size of each operation and the number of teams used. The initial fee can be rebated to the total project fee, which also varies.

For more information contact Frank Spranza, President, Security Consulting Services, Box 308, Cheyenne, Wyo. 82001; 307-637-8756. ■

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Insurance Management: vps, directors, managers of insurance, risk, benefits, compensation, safety, security, etc.	5,791
Government, Associations, Unions, Educational Institutions	1,001
Commercial Consumers Sub-total	**23,000**
Insurance Agents & Brokers	9,741
Insurance Cos.	4,735
Financial Institutions	303
Actuaries, Attorneys, Adjusters, Appraisers & Consultants	2,208
Others allied to the field	776
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*Source: Business Occupationa breakdown of qualified circulation Nov. 2, 1981 issue as submitted to BPA for December 1981 BPA Publisher's Statement

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Liability questions linger in oil rig deaths

Continued from page 1
in liability questions, a spokesman said.

The liability for the loss could be apportioned by terms of the contracts among the parties, which have not been disclosed.

"No matter how you think you stand when you start out, it may all change in court," observed ODECO's Mr. Howe, declining to discuss any indemnification agreements among ODECO as the drilling contractor and rig owner, Mobil as the operator and the other subcontractors.

Thomas Fulbright, manager of administration and finance for Mobil Oil Canada, echoed these sentiments. "Liability is not sorted out among ODECO and the other companies."

Although not privy to the contracts in this operation, one Houston marine broker commented, "Operators will probably be pretty much out of the liability picture if the normal indemnity pattern holds true. Drilling contractors are generally responsible for equipment and personnel; major oil companies can fairly well command that all contractors maintain certain levels of insurance and assume liability."

Total liability claims from Ocean Ranger's sinking will likely top $50 million and take at least three years to resolve, he predicted.

"A number thrown out around New Orleans is that we are looking at a $200 million-plus loss," said J. William Sherar, president of Sherar Cook & Gardner brokerage of New Orleans, which specializes in offshore and marine insurance. "It looks awfully tough."

Movable oil rigs like the Ocean Ranger are considered vessels under U.S. admiralty laws and under the Jones Act (the Federal Employer Liability Act of 1920), which allows U.S. seamen to sue for negligence if ships are proven unseaworthy, he explained.

By the mere fact the rig went down, there is a 99% chance it will be found unseaworthy, he said.

Although the Jones Act sets maximum death benefits in accidents on offshore platforms, it does not limit payments to survivors of workers killed on vessels, which include semi-submersible movable rigs.

"Maritime liability is, in effect, third-party liability. There are zero limitations," Mr. Sherar said.

Compensation for death or injury of employees aboard rigs is normally structured under contract to make each company responsible for its own people, but this can vary.

Ideally, there is no subrogation when it comes to employee death or injury and each company holds the others harmless, said Keith Kakacek, president of RIMCO Risk Management Inc. of Dallas, a risk management consulting firm involved in the energy industry.

"But individual estates are not a party to the contract, since companies cannot bind their employees to the agreement, and survivors of sailors can sue whomever they want," he said. In this case, before third parties can sue, liability must be established.

"With 50-foot waves and 100-mph winds, it could be found to be an act of God, with no negligence," he said. "Liability in a situation like this could be hard to nail down."

ODECO staffed the rig with laborers, roughnecks, marine crews and service contractors, a Mobil spokesman said.

Of the 84 crew members killed on the rig, 46 were ODECO employees, three worked for Mobil and the other 35 worked for 13 well service, catering and other companies, a Mobil Oil Canada spokesman said.

New York Life Insurance Co. officials say their company insured ODECO employees for group life and health benefits, but declined to detail the coverage.

ODECO's liability insurance, which includes coverage for benefits paid under the Jones Act and admiralty law, is adequate to cover potential liability, Mr. Howe said. "We are fully insured for all aspects of the loss."

ODECO retains $150,000 in the first layer of undisclosed limits of liability insurance that is spread throughout the London and U.S. markets, he said.

One New York broker said he understands that ODECO has $200 million of liability insurance, but neither Mr. Howe nor the company's broker, Marsh & McLennan of New Orleans, will confirm this.

Mobil Oil Canada's Mr. Fulbright said its liability risk is partially self-funded, partially insured by commercial insurers and partially insured by Mobil's Bermuda-based captive insurance company, Bluefield Insurance Ltd.

Mobil's insurance is brokered by Marsh & McLennan in New York.

Investigations of the accident are being conducted by the Canadian government, the U.S. Coast Guard and the U.S. National Transportation Safety Board's marine accident division.

The U.S. investigators hope to issue a report on the cause of the accident within six months.

The U.S. Coast Guard reported that the Ocean Ranger's last safety certification, which must be renewed every two years, was in December 1979. The rig owner is required to notify the Coast Guard when the inspection is due, which ODECO did on Feb. 4. An inspector was on his way to inspect the rig when it went down.

Sharing in ownership of the prospective well being drilled by the Ocean Ranger are Mobil with 28.12% ownership; Chevron Standard Ltd., a subsidiary of Standard Oil Co. of California, with 16.4%; Gulf Canada Resources Ltd., a subsidiary of Gulf Canada Ltd., with 25%; Petro-Canada with 25%; and Columbia Gas Development of Canada Ltd., a unit of Columbia Gas Systems Inc. of Wilmington, Del.; with 5.47%.

"The other companies pay their share of the costs and, if the well produces, stand to share in production as well," explained a spokesman for Mobil Oil Corp. of New York, parent company of the Canadian rig operator. He would not comment on whether they also share proportionately in potential liability.

The Ocean Ranger was one of the largest semi-submersible drilling rigs, if not the largest, in operation, a Mobil spokesman said. The rig was 398 feet long, 262 feet wide and 337 feet high, and capable of operating in depths as deep as 1,500 feet. Now, authorities believe, it lies in 750 feet of water in the Hibernia field where it was drilling.

"We are not really clear on what happened yet," he said. "There was wind, high seas and blowing snow. The rig is not there anymore. Eighty-four men were aboard and are presumed dead."

Mobil received a call at 1 a.m. Feb. 15 that the rig was being battered by severe winds and waves, he said. "The Coast Guard was called immediately. About 1:30 a.m. we received a call that the crew had taken to lifeboats. Our understanding is that she was listing, but I don't know to what degree."

Other sources say the Ocean Ranger had a 15-degree list when abandoned.

In an "isolated incident" during the previous week, drill water was accidentally let into a pontoon ballast chamber and caused the rig to list, he said. "This was corrected immediately and has no connection to the incident."

W.D. Moore, director of membership affairs for the International Assn. of Drilling Contractors, called the Ocean Ranger sinking "unique within drilling history."

"Never before has a big semi-submersible drilling rig gone down," Mr. Moore said. "It was built specifically to withstand the environment it was in, including 115-mph winds, 100-foot waves and a three-knot current simultaneously."

A North Sea production platform, the Alexander Kielland, capsized in March 1980, killing 123 people. The Ocean Ranger catastrophe is believed to be the second-worst loss of lives in ocean drilling history.

"If it was a collision with an iceberg or submarine, it is a straightforward risk," Mr. Moore said. "If it was from weather alone, we will know more about weather than we did before. I can assure you our safety committee will be on top of it."

ODECO's only other rig loss was the jack-up, Ocean Express, in April 1976, which sank in a storm while being moved in the Gulf of Mexico. Thirteen people died in that accident.

Of an estimated 530 drilling rigs operating worldwide last year, 119 were semi-submersible, including 15 owned by ODECO, sources say. They range in value from $50 million to $125 million. ■

Regulators want system to detect problem METs

Continued from page 3
Income Security Act of 1974, which pre-empts state regulation.

In order for the Labor Department to recognize a self-funded MET as a employee benefit plan under ERISA, the MET must prove it is controlled by participating employers, rather than by a third-party administrator. Few self-funded METs meet this test.

However, it often takes the Labor Department two to three years to issue an opinion of an MET's status. During the interim, the unregulated METs continue to do business and in many cases become insolvent. Insolvent trusts nearly always leave behind a trail of unpaid health claims and frantic policyholders.

Self-funded METs were a problem in the mid- to late 1970s, but with health care costs rising again in recent years and more small employers looking for affordable group health insurance, the problem is rearing its head again and prompting regulators into action.

Some states are not waiting for the NAIC to back a plan to help regulators track insolvent METs.

Illinois, Louisiana and Florida are planning legislative attempts to control METs and California already has proposed a law that would give the Insurance Department more muscle in closing down unregulated METs (*BI*, Jan. 25).

And the House Labor Management Relations subcommittee will hold a hearing March 5 in Chicago to investigate the problem of insolvent METs. The hearing was triggered by the collapse of the Chicago-based National Health Care Trust, which left some $400,000 in unpaid bills with employees of nursing homes (see related story).

More recently, the Illinois Insurance Department issued a cease and desist order prohibiting the Small Business & Independent Trade Assn. Trust (SBIT) and five associates from doing business.

There are 1,000 employees from 75 different small business, trade, or professional organizations in Illinois who thought the trust was fully insured.

Insurance Director Philip R. O'Connor's order was directed at Business Insurance Life of America, a Louisiana insurance company that provided insurance coverage for the trust since Jan. 1, 1981; American Guaranty Life Insurance Co. of Portland, Ore., the trust's insurer prior to 1981; Fringe Facts Inc. (also known as Association Plan Administrators Inc.); and two Illinois agencies, Corporate Consulting Services of Chicago and Midwestern Health Insurance Services of Rolling Meadows, which placed Illinois residents with the trust though Fringe Facts Inc. of Tampa, Fla.

"For more than two months, the Department of Insurance has been receiving assurances from Fringe Facts that $200,000 in unpaid health claims of Illinois residents would be paid," Mr. O'Connor said.

"They have broken one promise after another to us, and based on estimates made by both the Florida and Louisiana insurance departments, we have concluded that both SBIT and Business Insurance Life of America must be for all practical purposes insolvent."

Attorney General Ty Fahner said Fringe Facts, as trust administrators, may have been negligent in insuring the obligations with Business Insurance Life of America "at a time when they knew or should have known that the company had insufficient capital and assets to adequately support the trust's insurance business."

It also points out that the officers of Fringe Facts also own Business Insurance Life of America and placed the trust's insurance with it.

"The prospect for fraud is very real," said Mr. Fahner, "when unbeknownst to any of the trust's participants, the same individuals who have interests in or control of Fringe Facts moved this business to a company, Business Insurance Life of America, which they had only months before purchased.

"When the original insurer, American Guaranty Life, canceled coverage, these people moved to protect their interest in this business without any regard for the welfare or benefit of the trust participants," said Mr. Fahner.

Business Insurance Life was apparently in financial trouble when it assumed the trust's business, said Mr. O'Connor. He added the Louisiana Insurance Department estimates the company, which has been liquidated, is between $800,000 and $1.1 million insolvent.

Fringe Facts Inc. and its associates have not responded to the cease and desist order, but the officers of the company are scheduled to appear at a March 8 hearing before the Insurance Department.

"We're trying to get a handle on what we can do about Fringe Facts," said Don Dowdell, attorney for the Florida Insurance Department, who says the third-party administrator is located in Tampa but does its business in other states.

Georgia has suspended the license of agent Robert B. Woodward and five companies that he did business with: Fringe Facts Inc.; Business Insurance Life of America; Chamber Services Inc., and Chambers Growth Corp., both of Atlanta; and Associated Chambers Trust.

Because the department's investigation is still in process, a spokesman declined to detail the numbers of claimants who have been affected by the agent or the associated companies.

Mr. Woodward was charged with representing an unauthorized insurer back in 1979, fined $2,500 and placed on probation for one year. ■

Insurer loans $400,000 for unpaid MET bills

CHICAGO—The story of the self-funded multiple employer trust that goes bust usually ends on a down note for policyholders.

But in the case of a Chicago MET that collapsed, the ending may be brighter than expected.

The New York excess insurer of the now-defunct National Health Care Trust has agreed to loan the Illinois Insurance Department $400,000 to pay the MET's outstanding health claims.

Mutual Life Insurance Co. of New York agreed to the loan after the self-funded MET and its administrator, Benefit Center Ltd., collapsed in January, leaving 5,000 employees of 82 nursing homes without health coverage.

Cook County Circuit Judge George Higgins entered an order Feb. 9 to liquidate National Health Care Trust.

But, the Illinois Insurance Department and the state attorney general still have to try to wrangle free any assets of the trust from the officers, who are being investigated by the attorney general's office.

The New York insurance company has placed no time restrictions on the loan, said a spokesman for the insurer, which has admittedly been put in a "very difficult situation."

Illinois Insurance Director Philip R. O'Connor said MONY's involvement with the trust arose solely from providing life insurance coverage for employees and excess insurance for the self-funded hospital and medical coverage provided by the MET.

The $400,000 loan will cover outstanding hospital and medical claims of the nursing home employees from March 1, 1980, to February 1982.

"I'm glad this problem has been at least partially resolved," Mr. O'Connor said. "But, as we have pointed out, there are numerous other problems with multiple employer trusts which threaten the insurance coverage of thousands of Illinoisans."

NRA plans to appeal $2 million judgment

Continued from page 2
case of negligence" against the NRA.

Hartford Accident & Indemnity Co., which underwrites a $2 million comprehensive general liability policy for the NRA, has paid attorneys' fees for both defendants but has not acknowledged whether it will pay a claim if the $2 million judgment is upheld, NRA and insurer sources said.

The coverage is brokered by Howard & Hoffman Inc. in Washington, they added.

"I have a lawyer friend who is a gun nut," said Samuel S. Fields, coordinator of legal affairs for the National Coalition to Ban Handguns, a Washington gun-control lobby. "And you want to know what his first reaction was when he heard about this verdict? He picked up his telephone and called his insurance company to see if he was covered in a situation like that.

"It's a financial time bomb," added Mr. Fields. "About 10 more suits like this and people are going to want to own a handgun about as much as they want to own a rabid Doberman pinscher."

A Hartford Insurance Group official said he isn't familiar with the specifics of the NRA case. But he added that a single jury award rarely results in any "knee-jerk" reaction by underwriters to add exclusions to policies for something like liability for use of a stolen gun.

"Any verdict has a ripple effect," said James B. Rafferty, a secretary of the group's commercial casualty lines department. "(But) we don't react to a quirk. If you see a consistent pattern where this type of thing is happening, you take a look at your underwriting practices."

The Gonzales family was represented by James E. Rooks Jr. and Philip Silverman, then lawyers with the New York firm of Speiser, Krause & Madole, which also has a Washington office.

Mr. Rooks, who has since left the firm but is continuing to represent the estate, said he originally sought $2.5 million in damages, including $2 million in punitive claims. But Judge Gasch ruled out punitive damages on the grounds they were not sustainable.

The jury's finding, Mr. Rooks said, totaled $2,038,000: $38,000 to the Gonzales estate, $1.5 million to his common-law wife and $500,000 to a child, now 3 years old. Mr. Gonzales was an animal caretaker at the National Institutes of Health in Bethesda, Md.

Mr. Lowe testified he kept his pistol in a box inside his locked closet and that the key to the closet was stored before the weekend of the theft in a desk drawer, Mr. Rooks said. Mr. Lowe, a long-time NRA employee, testified he was not aware of an alleged NRA policy not to store guns in an office. The NRA said such a policy existed, although not in writing, Mr. Rooks added.

Under the District of Columbia's gun law—one of the nation's strictest—owners of guns may not bring them into the district except for recreational use, Mr. Rooks said.

"If it wasn't for the NRA's activities (operating the target range), Mr. Lowe wouldn't have even been able to bring the gun into the District of Columbia at all," he said.

The issue of who may be liable for the use of a handgun is receiving increasing attention by personal injury lawyers. A November 1981 article in The Brief, the American Bar Assn.'s publication for insurer and plaintiffs' lawyers, cites a growing body of case law that holds manufacturers should be held liable for their role in marketing a product if it causes injury, even if there is no negligence in manufacturing.

It cites a 1978 ruling by the California Supreme Court that held "a product may be found defective in design, even if it satisfies ordinary consumer expectations, if through hindsight, the jury determines that the product's design embodies 'excessive preventable danger,' or, in other words, if the jury finds that the risk of danger inherent in the challenged design outweighs the benefits of such design."

Employing this theory, Dallas-based lawyer R. Windle Turley has filed several suits against gun manufacturers. Another suit was filed Dec. 2 in Cook County Circuit Court in Chicago by attorney Nicholas J. Motherway for the family of a high-ranking Chicago police officer slain by a man wielding an imported .38-caliber pistol. The suit, filed by the family of James J. Riordan, names Interarms Ltd. of Alexandria, Va., the alleged importer of the gun, as a defendant.

The nation's two largest domestic handgun manufacturers are Sturm-Ruger & Co. of Southport, Conn., and Smith & Wesson Co. of Springfield, Mass. In a Dec. 10 telephone interview, Smith & Wesson's general counsel, G.W. Bachman, declined to answer questions about such suits, asking that they be submitted in writing. He did not respond to the written inquiries.

Walter J. Howe, Sturm-Ruger's special projects manager, said, "There is no general handgun-industry council-of-war looking into these things. What the courts will do is a guessing game that nobody really ever wins."

He said he doubted courts would accept the premise of extending liability to gun makers or owners.

"To use the language of the young, this is totally off the wall. I think you will have a hard time finding anything that would connect the law of product liability to a product which is working properly. . .there are people who are not dummies who believe this is stretching the point a bit." ■

Seattle school district plans to tap budget to pay award

Continued from page 2
"There's no way to separately raise the money," said Michael Hoge, general counsel for the school district.

"It will have to come out of the classroom (education budget)," he said.

The school district's insurers are Hartford Insurance Co., which wrote $500,000 of primary insurance, and Insurance Co. of the State of Pennsylvania, which had the next $5 million, according to Len Schroeter, senior partner of Schroeter, Goldmark & Bender, the plaintiffs' attorneys.

Mr. Schroeter also said that his clients were willing to settle for $500,000 but that the insurers refused.

Mr. Hoge, however, said he was unaware of offers to settle for as little as $500,000 but said settlements of $1 million to $3 million were discussed.

Attorneys in Seattle for Hartford and Insurance Co. of the State of Pennsylvania were not available for comment.

Also named originally as defendants were Riddell Inc., the football helmet manufacturer; the Renton School District in suburban Seattle, the district of the opposing team in the game in which the accident occurred; and the Washington Interscholastic Activities Assn.

Riddell settled last May for $95,000 and Renton settled for $27,000. The suit against the activities association was dismissed.

Mr. Hoge said many people in the Seattle area are upset with the verdict, and some are talking about terminating football or even all the district's sports programs.

The Thompson youth was running down the sidelines when he apparently lowered his head and ran into another player who was preparing to tackle him, Mr. Hoge said.

The school district coached its football players to keep their heads up but may not have stressed that the possible injuries from not following these instructions could be so serious, Mr. Hoge explained.

At the trial, the school district contended there was no negligence on its part and said accidents like the Thompson youth's are unavoidable.

The jury, which voted 11-1 in favor of the plaintiff, also found Mr. Thompson 2% negligent and reduced the judgment by that amount.

Market may not be able to hurdle level of insurance for Olympics

Continued from page 2
they will spend the money in their funds by the time the games begin, and they won't be able to refund. So the concessionaire buys separately."

If the coverage, when completed, is similar to other non-appearance or cancellations policies that Adam Bros. insures through Lloyd's, then companies can file claims if the Olympics are canceled for almost any reason. A clause that covers cancellation due to terrorist activities can even be written into the policy, Mr. Fox said.

But Adam Bros. will not cover a company if some nations boycott the games, as happened at the 1980 Summer Olympics in Moscow. A claim by NBC for lost revenues, filed after the U.S. team boycotted the Moscow games and the network decided to cancel its coverage, cost insurers millions of dollars.

"We didn't handle the Moscow games or the NBC people. . .that was non-appearance of the American team and we didn't want to get involved," Mr. Fox said.

"We don't cover boycott. Boycott is inevitable on these games. There has been an element of boycott in the last eight Olympic games. We say it is not a risk that is insurable and we exclude it," he said, adding that no insurer probably will provide boycott insurance for the 1984 games.

The Los Angeles games are not the only sports event that Mr. Fox is looking at these days, however. Coverage for the 1984 Winter Olympics in Sarajevo, Yugoslavia, "is going strong," he said. The direct insurance is being handled by a consortium of Yugoslav insurers, including the state-owned companies, and is being reinsured in the London market.

Also, Korean insurance companies are making plans for the 1988 Summer Olympics to be held in Seoul, Mr. Fox said.

But as the games' popularity increase so does the pressure on the world insurance markets.

"By 1988, the television rights alone will be insured for, say, at least $5 billion," Mr. Fox said. "The sums are going up and up and there won't be enough capacity in the world market."

Insurers in London are also handling cancellation coverage for the World Cup soccer tournament in June.

The organizers and promoters of the tournament, to be held in Spain, are the insurers' biggest customers, though concessionaires and others can also purchase policies.

The FIFA, the world soccer association that organizes the torunament held every four years, have $40 million pounds (approximately $74.8 million) of coverage if the matches are canceled or moved to another country. The premium for the coverage was about 1.2 million pounds ($2.24 million).

The coverage also will insure any advertising revenue lost through cancellation through a peripheral abandonment policy attached to the normal cancellation insurance, Mr. Fox said. The organizers have sold billboard space in the stadium to a host of advertisers.

The peripheral policy will cover the organizers if the games are canceled or if the billboards are destroyed. The insurers also will pay if "the Spanish government forbids, for some reason, certain forms of advertising," he said. ■

BC/BS proposes new rating formula

Continued from page 3
in today's troubled economic times, said Mr. McCaskey.

He insists that the BC/BS would still be regulated by the state.

"Every quarter when the formula is applied, we would file the results with the Insurance Department so that it could always keep track of our rate increases. It wouldn't be a great departure from where we are now," he added.

But critics say a public hearing should be held to give consumer groups and individuals a chance to question proposed rate increases.

Illinois Insurance Director Philip R. O'Connor hasn't yet ruled on BC/BS's request for an average 29% increase. He said he will rule on the rate request within two weeks. At that time, he is also expected to issue an opinion on the BC/BS quarterly rating formula.

If the 29% rate increase is approved for small group members, monthly premiums would go to $96.20 from $73.07 in Chicago and to $63.29 from $47.78 elsewhere in the state. ■

Survey reports on banks' coverage

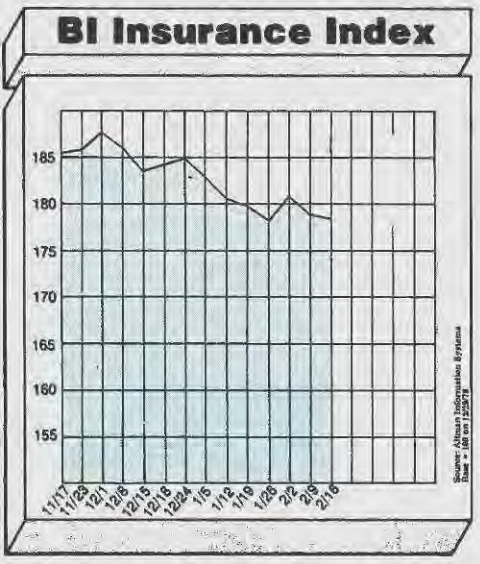
WASHINGTON—Banks paid more than $328 million for insurance coverage in 1980, a $30 million increase over insurance costs for 1979, according to an annual survey by the American Bankers Assn.

The survey monitored the cost of bank insurance, including policy limits, deductibles and loss experience.

The information, gathered from 755 banks, was reported by bank deposit size for five categories: banks with deposits under $25 million, $25 million to $99 million, $100 million to $499 million, $500 million to $999 million and $1 billion or more.

All of the banks reported buying bankers blanket bond insurance. Other coverages purchased by banks include: excess fidelity, 74%; directors and officers liability, 70%; umbrella liability, 58%; fiduciary liability, 21% and trust department errors and omissions, 17%.

Copies of the American Bankers Assn. insurance survey are available from Order Processing, American Bankers Assn., 120 Connecticut Ave. N.W., Washington, D.C. 20036; 202-467-4118. ■



Insurance industry stocks slipped for the second consecutive week as the *BI* stock index dropped 0.6 points to 178.3 from 178.9. Twenty-five stocks posted gains, 35 issues declined and 13 were unchanged. The largest gains were posted by: Baldwin & Lyons Corp., 7.8%; Jefferson National Life Insurance Co., 6.4%; American States Life Insurance Co., 6.2%; Frank B. Hall & Co. Inc., 4.7%; and Penncorp Financial Inc., 4.7%. The largest declines were suffered by: Ryan Insurance Group Inc., 5.9%; Armco Inc., 5.9%; Preferred Risk Life Insurance Co., 5.5%; Zenith National Insurance Corp., 4.3%; and Lincoln National Corp. of Indiana, 4.2%. The *BI* index declined 0.3%, while the major market indicators posted gains.

British Issues

17 Feb Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence	pence
Commi Union	133	9.9	16.07	12.1	136—132	
Eagle Star	364	12.3	21.43	5.9	364—352	
Genl Accident	312	7.3	21.07	6.8	312—308	
Gdn Royal Exch	302	8.2	3.21	7.7	302—298	
Phoenix	240	9.6	22.43	9.3	242—238*	
Royal	362	10.6	35.00	9.7	362—352	
Sun Alliance	890	9.8	53.57	6.0	894—886	
Brokers						
CE Heath	284	9.6	15.71	5.5	284—282	
Hogg Robinson	108	8.6	8.57	7.9	110—108	
JH Minet	154	10.6	6.80	4.4	154—145	
Sedg Grp	154	11.2	7.50	4.9	155—153	
Stenhouse Hldg	110	9.7	7.28	6.6	111—110	
Stew Wrightson	220	11.0	17.14	7.8	221—220	
Willis Faber	400	13.88	17.85	4.5	400—398	

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

Insurers see interest rates as crucial to market turn

By JOHN W. MILLIGAN

INSURANCE COMPANY executives have pinned their hopes for a market shift to stable if not higher premium rates on a steady decline in interest rates—which seemed possible late last year but has been elusive so far in 1982.

In a survey conducted late last year by the New York brokerage firm of Legg Mason Wood Walker Inc., 75% of the insurance company executives responding predicted the industry's depressed underwriting cycle would bottom out sometime this year. And many predicted the turn would occur during the third quarter of 1982.

But 45% of the respondents say that a decline in interest rates was most important to a bottoming out of declining rates.

Continued high interest rates during the first quarter of this year may have foiled their dreams.

Despite widespread public criticism by insurance company executives of cash-flow underwriting, many survey respondents don't deny the link between interest rates and a change in the industry's current underwriting cycle.

Nearly 45% of the Legg Mason survey participants, which included 89 property/casualty insurers with 73% of the industry's total premium volume, chose declining interest rates as the "single most important variable" in any underwiting cycle change.

As the survey points out: ". . .(I)f interest rates fail to stage a more permanent decline in 1982, the underwriting cycle could be prolonged."

Legg Mason Vp Gloria L. Vogel, who conducted the survey, says: My conclusion was that interest rates were the key to the cycle turning."

Yet two other groups, both 17.4% of the respondents, said either underwriting losses or a reduction in cash flow could turn the cycle around.

The vast majority of survey participants—75%—predicted last year that rates will bottom out sometime this year, but they were divided as to the exact timing.

Some 30% expect the cycle to bottom out during the third quarter of this year, 23% chose the second quarter and 21% the fourth. About 20% expect the bottom to occur sometime in 1983.

BI ticker

And when the cycle does change, the survey found, insurers expect the industry to have an average combined ratio of 109.8%.

This figure, however, does not include sizable losses that the property insurers have sustained this year following bitter winter weather and storm damage in the Western and Southeast (*BI*, Feb. 15).

It also does not include the loss of the Ocean Ranger, a floating oil-drilling rig that sank off the coast of Newfoundland last week (see story, page 1).

"It's a little early yet to get an estimated fix on what the loss for the industry might be" from that accident, notes Ms. Vogel.

The Legg Mason survey also provided mixed opinions on cash flow and perhaps some bad news for smaller mutual companies.

While many companies anticipate that cash flow will be slightly lower this quarter, most expect that cash flow will increase an average of 9.4% over the full year.

The majority—94%—expect cash flow to remain positive throughout the year.

Those dropping into a negative cash flow are in for increasing trouble, the study suggets.

Companies experiencing negative cash flows are most inclined to sell their short-term securities to meet obligations, the survey found, "thus eliminating their highest-yielding, least-under-water securities.

"While the sale of high-yielding short-term assests will minimize the drain on surplus for companies with negative cash flow," the survey cautions, "it will also slow the possible improvement from investment income for these companies.

"If there is to be any fallout from the current underwriting cycle, it is likely to be with those firms experiencing cash-flow problems."

Such companies are most likely to be smaller companies, particularly mutuals, Ms. Vogel says.

She points to the management of small mutual companies and questions whether such insurers have been responsive to changing market conditions.

"I think part of the problem is that mutuals haven't been managed as well as stock companies. They've been less responsive to market conditions," Ms. Vogel says.

"They don't have their stockholders to report to," who, with their investments to worry about, "tend to put greater pressure on management," she adds.

Commerical insurers admit competition is still high but say it is starting to ease.

While some 40% of the survey's respondents feel that the commerical market was more competitive in 1981 than 1980, only 19% saw an increase in competition in the third quarter of 1981 from the second quarter of last year.

Easing of competitive pressure is most evident in personal automobile and homeowner lines, but half the survey participants also predicted there would at least be no change in commerical lines rates in 1982, indicating that most lines will not see additional rate cuts.

Seventy-five percent expected no change in commerical rates for the first quarter of this year.

The only exceptions they admitted was in property and workers compensation insurance, the most competitive commerical lines. Workers compensation was acknowledged as especially competitive, with 20% of the respondents looking for further rate cuts over the next 12 months.

"Workers compensation remains the most competitive line, perhaps because of the long-tail investment stream and good underwriting results for the past two years," the survey explains.

An important factor in the industry's extremely competitive posture is the availability of "cheap reinsurance," the survey adds.

"Half our respondents believe reinsurance premium rates have declined in the last year, and 58% believe reinsurance capacity has increased," the survey says.

Inflation, too, is on the minds of insurance company executives.

The impact of inflation on claims has been most evident in the long-tailed commerical lines, averaging 11.3% in general liability and workers compensation lines. The lowest are homeowners lines at 9.4%.

"Overall, severity (cost) has increased 10.5% vs. the prior year," the survey continues.

"Future inflation rates are expected to moderate, at least in the commerical lines. This should help balance the outlook for commerical lines premium rates. For all lines, inflation is expected to increase 10.2% over 1981 levels," the study predicts. ■

BI Industry Stock Report

FEB. 16, 1982 2/10/82 THRU 2/16/82

Insurance Cos.		Price	% Chg.	P/E	$ Div.	% Yld.	High	Low	Vol. (000)
Aetna Life & Cas Co	NYSE	44.75	-0.8	7.5	2.32	5.2	45.13	44.25	203.1
American Bankers Ins Group	OTC	7.88	1.6	8.4	0.48	6.1	7.88	7.88	70.9
American Gen Ins Co	NYSE	41.50	1.8	6.3	2.20	5.3	41.50	40.75	152.2
American Indty Finl Corp	OTC	16.25	-3.7	7.8	1.12	6.9	16.88	16.25	19.5
American Intl Group Inc	OTC	64.75	-2.6	11.2	0.40	0.6	66.00	64.75	213.2
American Natl Ins Co	OTC	13.75	0.0	5.9	0.76	5.5	13.75	13.75	16.1
American Sts Life Ins Co	OTC	17.00	6.2	5.4	0.80	4.7	17.00	16.00	1.5
Aneco Reins Ltd	OTC	2.25	0.0	0.0	0.00	0.0	2.25	2.25	5.9
Appalachian Natl Corp	OTC	2.56	0.0	0.1	0.00	0.0	2.56	2.56	0.0
Avemco Corp	AMEX	9.88	-3.7	6.5	0.58	5.5	10.13	9.88	2.0
Banks Iowa Inc	OTC	38.50	-1.3	5.6	1.44	3.7	38.50	38.50	0.1
Bitco Corp	OTC	38.00	-3.8	4.6	2.16	5.7	39.50	38.00	7.1
Carolina Cas Ins Co	OTC	6.50	0.0	7.2	0.32	4.9	6.50	6.50	1.0
Central Natl Finl Corp	OTC	35.25	0.0	11.5	0.65	1.8	35.25	35.25	0.8
Chubb Corp	OTC	48.63	-1.9	5.5	2.92	6.5	45.50	44.63	90.6
Combined Intl Corp	NYSE	21.50	-1.7	5.6	1.80	8.4	21.75	21.50	118.4
Connecticut Gen Ins Corp	NYSE	48.38	-3.3	6.2	1.76	3.6	50.25	48.38	92.9
Continental Corp	NYSE	25.38	-1.9	6.8	2.60	10.2	25.88	25.13	322.0
Crawford & Co	OTC	12.50	-2.0	9.8	0.56	4.5	12.50	12.50*	5.5
Crown Life Ins Co	OTC	81.00	-4.1	8.8	3.10	3.8	84.50	81.00	0.9
Crum & Forster	NYSE	30.00	-1.6	4.9	1.64	5.5	30.63	30.00	81.9
Employers Cas Co	OTC	28.00	-0.9	6.0	1.20	4.3	28.00	28.00	2.9
Equifax Inc	NYSE	29.38	-1.3	8.4	2.60	8.9	29.88	29.38	14.8
Excelsior Ins Co	OTC	17.25	1.5	11.8	0.70	4.1	17.25	17.00	3.9
Farmers Group Inc	OTC	31.63	-0.8	9.3	1.24	3.9	31.75	31.63	65.6
First Colony Life Ins Co	OTC	62.75	0.2	16.2	1.00	1.6	62.75	62.75	18.6
Foremost Corp Amer	OTC	26.00	2.0	7.2	1.12	4.3	26.00	26.00	32.9
Great West Life Assurn Co	OTC	236.00	-1.7	9.2	10.00	4.2	240.00	236.00	0.0
Hanover Ins Co	OTC	33.75	0.7	4.1	0.72	2.1	33.75	33.50	5.4
Hartford Steam Boiler Insptn	OTC	40.00	-1.2	6.9	2.80	7.0	40.50	40.00	0.6
Jefferson Natl Life Ins Co	OTC	29.00	6.4	8.9	0.76	2.6	29.00	27.25	5.0
Kemper Corp	OTC	30.63	0.4	5.0	1.80	5.9	30.88	30.13	48.3
Lincoln Natl Corp Ind	NYSE	40.25	-4.2	6.2	3.00	7.5	42.25	40.25	51.5
Mgic Invt Corp	NYSE	49.50	-1.7	12.3	1.28	2.6	49.50	48.00	2,451.5
Mission Ins Group Inc	NYSE	33.50	-2.9	5.8	1.00	3.0	34.88	33.50	119.6
Nationwide Corp Ohio	OTC	26.25	2.9	8.7	0.70	2.7	26.25	26.00	1.0
Northwestern Natl Life Ins	OTC	25.50	4.1	5.3	1.36	5.3	26.00	25.25	16.2
Ohio Cas Corp	OTC	41.75	1.2	6.3	2.04	4.9	42.13	41.50	29.2
Old Rep Intl Corp	OTC	18.50	-2.0	4.5	0.92	5.0	18.75	18.50	36.0
Preferred Risk Life Ins Co	OTC	17.25	-5.5	4.6	0.80	4.6	18.00	17.25	1.2
Provident Life & Acc Ins Co	OTC	48.00	-2.0	6.0	2.20	4.6	49.00	48.00	34.7
Ryan Ins Group Inc	OTC	16.00	-5.9	6.9	0.12	0.8	16.75	16.00	5.6
St Paul Cos Inc	OTC	50.13	-0.5	6.6	2.60	5.2	50.50	50.13	55.8
Safeco Corp	OTC	39.63	-0.9	6.9	2.20	5.6	39.88	39.38	56.3
Sri Corp	OTC	23.75	1.1	4.8	1.00	4.2	23.75	23.50	22.8
Seibels Bruce Group Inc	OTC	22.38	0.0	10.8	0.80	3.6	22.38	22.38	11.6
Statesman Group Inc	OTC	5.63	2.3	4.9	0.15	2.7	5.63	5.50	13.1
Tokio Marine & Fire Ins Co	OTC	98.25	-3.4	7.8	1.00	1.0	101.75	98.25	0.0

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		Price	% Chg.	P/E	$ Div.	% Yld.	High	Low	Vol. (000)
Travelers Corp	NYSE	46.88	0.8	5.5	2.88	6.1	46.88	46.63	106.1
United Fire & Cas Co	OTC	28.50	0.0	8.1	0.88	3.1	28.50	28.50	0.3
United States Fid & Gty Co	NYSE	40.88	-1.2	6.8	3.20	7.8	41.50	40.88	67.0
United Svcs Life Ins Co	OTC	13.50	0.9	5.2	1.00	7.4	13.50	13.50	3.4
Usilife Corp	NYSE	21.75	-2.2	5.2	0.84	3.9	22.00	21.63	284.2
Washington Natl Corp	NYSE	16.75	0.0	5.1	1.08	6.4	17.38	16.75	50.0
Zenith Natl Ins Corp	OTC	16.50	-4.3	8.3	0.76	4.6	17.00	16.50	20.7
INSURANCE COMPANIES	AVERAGE			6.0		4.4			
Agents/Brokers									
Alexander & Alexander Svcs	OTC	28.50	1.8	9.6	1.94	6.8	28.50	27.88	468.2
Baldwin & Lyons Inc	OTC	34.50	7.8	6.0	0.80	2.3	34.50	32.00	1.7
Corroon & Black Corp	NYSE	19.75	-1.9	11.7	1.76	8.9	19.88	19.75	23.4
Crump E H Cos Inc	OTC	10.88	-1.1	12.8	0.40	3.7	11.00	10.88	10.3
Hall Frank B & Co Inc	NYSE	27.63	4.7	10.4	1.70	6.2	27.63	24.75	136.8
Integrated Res Inc	AMEX	15.00	-2.4	6.1	0.00	0.0	15.63	15.00	11.5
James Fred S & Co Inc	NYSE	20.50	0.0	9.6	1.60	7.8	20.88	20.50	23.4
Marsh & Mclennan Cos Inc	NYSE	31.25	2.5	9.6	2.00	6.4	31.25	31.00	101.4
Penncorp Fincl Inc	NYSE	5.63	4.7	8.2	0.16	2.8	5.63	5.38	90.9
Pinehurst Corp	OTC	8.63	0.0	0.0	0.00	0.0	8.63	8.63	6.3
Poe & Assoc Inc	OTC	9.25	0.0	10.5	0.80	8.6	9.25	9.25	0.0
Reed Stenhouse Cos Ltd	OTC	11.25	0.0	9.2	0.60	5.3	11.50	11.25	48.6
Rollins Burdick Hunter Co	OTC	20.25	0.6	11.6	1.32	6.5	20.25	20.00*	5.4
AGENTS/BROKERS	AVERAGE			9.3		5.4			
Conglomerates/Holding Cos.									
American Express(Fireman's Fd)	NYSE	42.25	0.3	7.6	2.20	5.2	42.75	41.75	390.4
Anderson Clayton(Ranger/PanAm)	NYSE	28.13	0.0	5.7	1.32	4.7	28.88	28.13	39.0
Armco Inc	NYSE	22.13	-5.9	4.5	1.80	8.1	23.63	22.13	694.8
City Investing Co. (Home Ins.)	NYSE	23.25	0.0	6.7	1.60	6.9	23.50	23.00	143.5
CNA Finl Corp (CNA)	NYSE	14.25	1.8	5.9	0.00	0.0	14.25	13.88	14.5
Control Data (Commil. Credit)	NYSE	33.00	-2.6	7.4	0.55	1.7	33.63	32.13	649.2
General Re Corp	NYSE	84.13	2.0	10.3	2.16	2.6	84.13	82.38	76.4
Gulf Utd Corp	NYSE	18.00	1.4	6.2	1.32	7.3	18.00	17.75	36.2
INA Corp (Ins. Co. of NA)	NYSE	45.00	0.0	6.1	2.40	5.3	45.50	45.00	125.9
ITT (Hartford Group)	NYSE	26.88	-1.4	7.1	2.68	10.0	27.50	26.88	313.0
Optimum Hldg Corp	OTC	9.75	2.6	12.5	0.00	0.0	9.75	9.75	2.6
Sears Roebuck & Co. (Allstate)	NYSE	15.88	-3.1	7.9	1.36	8.6	16.38	15.88	654.2
Baldwin Utd Corp	NYSE	59.50	-11.7	10.2	1.60	2.7	61.38	57.75	222.0
Teledyne Inc (Argonaut)	NYSE	127.50	-1.5	6.4	0.00	0.0	127.50	125.25	307.0
Transamerica Corp (Occidental)	NYSE	21.25	-0.6	6.2	1.40	6.6	21.50	21.25	147.8
CONGLOMERATES/HOLDING COS.	AVERAGE			7.1		3.6			

*Record high/low since Jan. 1, 1981.

System design: Altman Information Systems

Financial briefs

Alexander & Alexander

Alexander & Alexander Services Inc. has declared a regular quarterly dividend of 48½ cents per share, payable Feb. 25 to shareholders of record Feb. 9.

Frank B. Hall

Frank B. Hall & Co. Inc. has declared a quarterly dividend of 42½ cents per share of common stock, payable May 5 to shareholders of record April 15.

SAFECO

SAFECO Corp. has declared a quarterly dividend of 55 cents per share, payable April 26 to shareholders of record April 9.

Cincinnati Financial

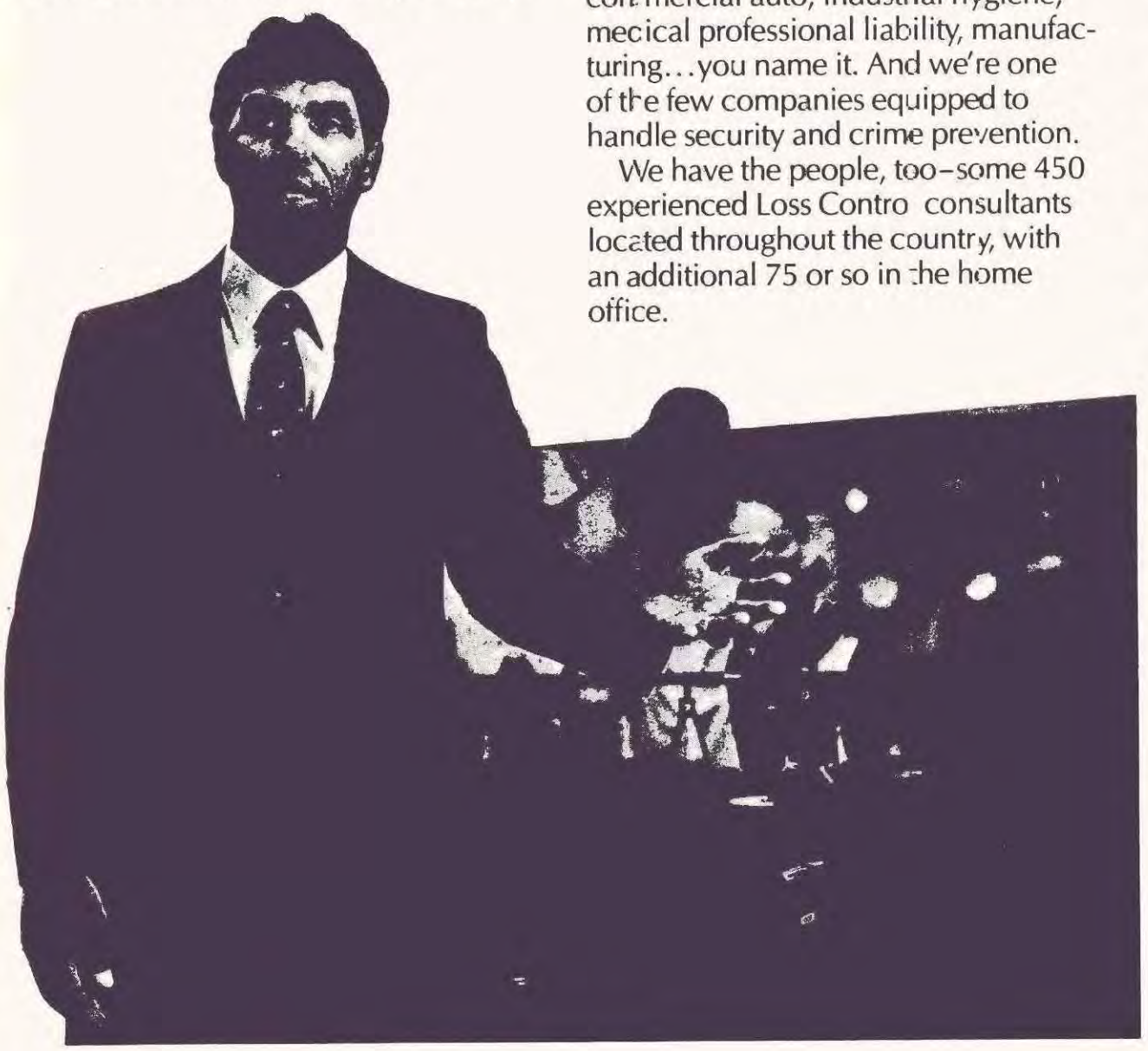
Cincinnati Financial Corp. has declared a quarterly dividend of 44 cents per share, payable April 15 to shareholders of record March 24. ■

"The Hartford will even do a Loss Control analysis before it quotes the business."

An interview with Bill Nebraska, Vice President, Loss Control Department, The Hartford.

Q. How can a Hartford prequote Loss Control analysis cut business insurance costs up front?

A. Our Loss Control professionals will research the company and help develop a program tailored to the situation. We'll show how The Hartford can help the company control losses. By coming in before we make a quote, we can explore ways of reducing losses up front to help customers control their insurance costs.



Q. What is the scope of The Hartford's Loss Control capability?

A. Our range of Loss Control services is one of the broadest in the industry. It covers construction, fire protection, commercial auto, industrial hygiene, mecical professional liability, manufacturing...you name it. And we're one of the few companies equipped to handle security and crime prevention.

We have the people, too–some 450 experienced Loss Contro consultants located throughout the country, with an additional 75 or so in the home office.

Q. Is that tremendous capability available to companies across the country?

A. Absolutely. We're ready to respond on an "as-needed" basis anywhere in the U.S. And we'll bring in whatever level of expertise the situation demands.

Q. Is it available to big risks on an unbundled basis?

A. Yes, through our subsidiary, Hartford Specialty. Some of the largest corporations in the country currently take advantage of The Hartford's Loss Control capability on an unbundled basis.

Q. It sounds like The Hartford has made a major commitment in the Loss Control area.

A. Yes. And an ongoing commitment. We're always trying to improve the scope and quality of our Loss Control services. For example, we recently doubled the size of our industrial hygiene lab and added sophisticated new equipment to increase our effectiveness in this key area.

Q. How can insurance buyers find out more about The Hartford's Loss Control capability?

A. By contacting their broker or independent agent who represents The Hartford.

Don't make a decision on business insurance without a quote from The Hartford.

YOUR Independent Insurance AGENT SERVES YOU BEST

BUSINESS
HOME
AUTO
LIFE

Let us protect your world. **THE HARTFORD**

The Hartford Insurance Group, Hartford, Connecticut 06115.