

business insurance

update

IRS to penalize employers for pension plan infractions

WASHINGTON—The Internal Revenue Service will impose harsh new penalties on employers that failed to amend their pension and savings plans to comply with rules in the 1982 and 1984 tax laws and the 1984 Retirement Equity Act, a consultant says.

The IRS on March 3 will issue Notice 86-3, laying out the penalties for employers that failed to comply in a

Continued on next page

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

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Risk Retention Act expansion proposed

By JERRY GEISEL

WASHINGTON—Two U.S. senators are proposing legislation to provide some relief to commercial insurance buyers.

Sens. John Danforth, R-Mo., and Robert Kasten, R-Wis., will soon introduce legislation that would make it easier for businesses to establish captive insurance companies to write liability risks and to buy liability insurance on a group basis.

Their proposal, outlined last week by Sen. Danforth at a packed Senate Commerce Committee hearing on the liability insurance crisis, would expand a 1981 federal law known as the Risk Retention Act. That law gives businesses the freedom to establish product liability captives and purchase product liability coverage on a group basis without having to meet numerous state requirements.

While the 1981-law applies only to product liability coverage, the Danforth-Kasten proposal would apply to all commercial casualty lines except workers compensation, an aide to Sen. Danforth said.

Under the new proposal, captives that are chartered in one state could write coverage throughout the country without having to be licensed in every state.

In addition, the proposal would allow the purchase of casualty coverages on a group

basis by pre-empting state laws that generally prohibit group insurance purchases.

"In view of the significant capacity in the commercial insurance market, it is essential that we do everything that we can to help purchasers of insurance to help themselves," said Sen. Danforth, the Commerce Committee's chairman.

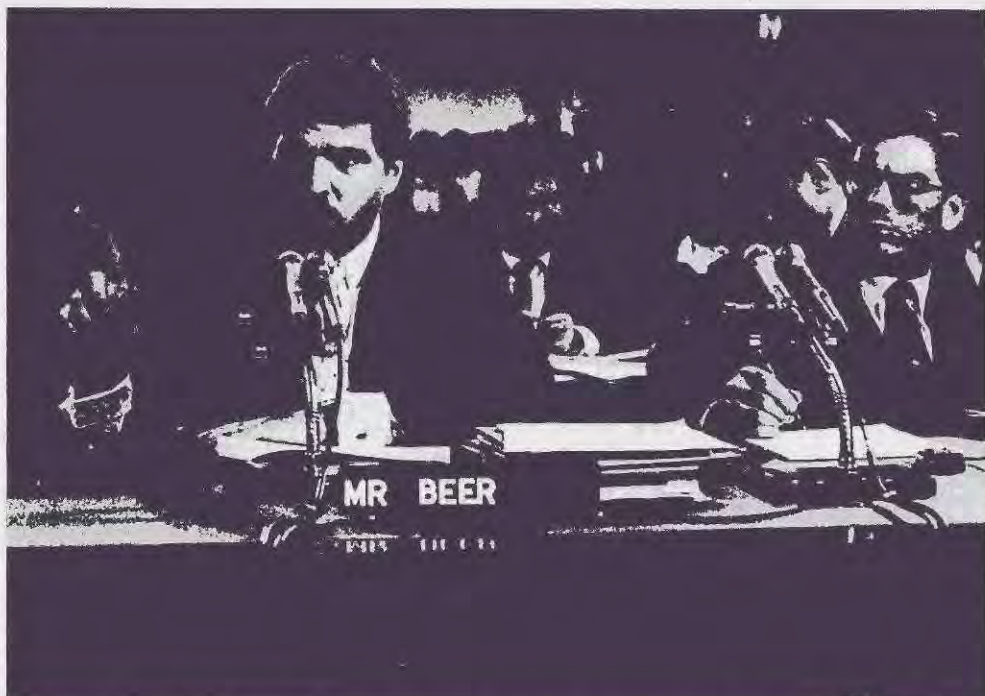
The Danforth-Kasten proposal, which is expected to receive bipartisan support, was enthusiastically received by a parade of witnesses who appeared at the Feb. 19 hearing. No witness specifically objected to the proposal.

"If traditional markets are increasingly unable to respond, then employers need to turn to an alternative risk financing mechanism," said Robert H. Moore, senior vp in the Washington office of Alexander & Alexander Services Inc. and president of the National Assn. of Insurance Brokers.

"Let buyers themselves decide how much risk to take," said Albert Beer, a vp with Tillinghast, Nelson and Warren Inc. in New York.

An expanded Risk Retention Act "will allow sophisticated buyers to meet their own needs," added Alan Page, vp with Johnson & Higgins in New York.

Les Cheek, vp-federal affairs for Crum &



Tillinghast Vp Albert Beer outlines for the committee reasons for the capacity crunch. Photo: Ken Heinene

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New options fuel tax bill debate

By JERRY GEISEL

WASHINGTON—The latest Treasury Department employee benefit and property/casualty options to the House-passed tax bill indicate the debate over the shape of tax legislation is far from over.

"The options show how many more trade-offs are in the offing. We are far from having a final bill," said Edward J. Davey Jr., vp-technical analysis at Johnson & Higgins in New York.

The House's tax bill, passed in late December, is now before the Senate Finance Committee.

The new options suggested by Treasury Department staff members in a 26-page document delivered this month to the Senate committee include:

- Lowering the maximum benefits offered by defined benefit pension plans and the maximum contributions to defined contribution plans.

Under the Treasury Department option, the maximum benefit paid by a defined benefit plan would drop to \$60,000 a year, while the maximum annual contribution to a defined contribution plan would be slashed to \$15,000.

By contrast, the House-approved tax bill would set the annual defined benefit limit at \$77,000 and the annual defined contribution limit at \$25,000. Under current law, the defined benefit limit is \$90,000 and the defined contribution limit is \$30,000.

- Raising the maximum annual salary deferral to a 401(k) plan to \$10,000, compared with \$7,000 in the House bill. Under current law, the maximum annual salary deferral is \$30,000.

In addition, the coordination between 401(k) salary deferrals and contributions to Individual Retirement Accounts would be altered.

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Regulators probe CIGNA plan to discount reserve additions

By DOUGLAS McLEOD

PHILADELPHIA—Insurance regulators in Pennsylvania and Connecticut are reviewing CIGNA Corp.'s plan to discount the \$1.2 billion addition to its property/casualty loss reserves announced last month.

While charging \$1.2 billion to its fourth-quarter earnings, CIGNA is contributing only \$600 million in cash to its statutory loss reserves, contending that an additional \$600 million in investment income will be earned to meet claims payments over a 20-year period, assuming at least a 5% interest rate.

The regulators last week said they were waiting for CIGNA to provide more information on the amount of reserve increases earmarked for particular lines of insurance and how the discounts are to be applied in each line.

After reviewing the information, state insurance regulators will decide whether to approve the reserve discounts.

CIGNA is discounting its reserve contributions not only for workers compensation losses—where discounting is considered standard practice—but also for such long-tail liability lines as professional liability and excess casualty, where discounting is relatively uncommon.

CIGNA's decision to discount its loss reserve additions for statutory accounting purposes seemed to con-

flict with that of property/casualty industry trade groups—including the Alliance of American Insurers, the American Insurance Assn. and the National Assn. of Independent Insurers—which last year fought a Treasury Department proposal to require loss reserve discounting for tax purposes.

However, the trade groups decided in a meeting earlier this month to change their position and support a modified reserve discounting requirement for tax purposes, according to T. Lawrence Jones, consultant to, and former president of, the American Insurance Assn.

In return, the trade groups plan to ask Congress to drop other aspects of a proposed tax bill that would increase the property/casualty industry's tax burden.

Last week, the trade groups were still drafting a proposal to be presented to the staff of the Senate Finance Committee and to Treasury officials, and a trade group executive emphasized that the details of the proposal were still subject to negotiation.

"We aren't sure what our final agreement is going to be or when it's going to be presented to Treasury," said Robert G. Wegenke, vp and secretary of the NAI.

"What we present may not be anywhere near what we finally end up negotiating," he added.

Meanwhile, property/casualty company executives

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Insurance trade groups have agreed to support modified loss reserve discounting for income tax purposes.

Creditors, shareholder groups oppose new Manville plan
Page 2

Mission, creditors negotiate latest bailout proposal
Page 3

Lloyd's of London names its second chief executive
Page 3

Brazil scrambles to insure satellite

By JOHN BARHAM

SAO PAULO, Brazil—Brazil is having serious problems finding launch insurance for its \$70 million Brasilsat 2 communications satellite in the wake of the Jan. 28 space shuttle Challenger explosion, which killed seven astronauts (BI, Feb. 3).

Satellite launch insurance capacity, which already was extremely tight, has become even more scarce since the shuttle explosion, and Brasilsat 2 may not be covered by its March 12 launch date aboard an Ariane rocket.

The launch insurance market for satellites aboard Ariane rockets had been tight long before the shuttle explosion, especially since an Ariane carrying a satellite went off course after launch last year and had to be destroyed (BI, Sept. 23, 1985).

Launch insurance rates currently range up to 30% of a satellite's insured value, compared with the rate of 16% of insured value charged

for the successful launch of the Brasilsat 1 aboard the Ariane in 1984.

Officials at the Instituto Reaseguros do Brasil, which is coordinating insurance for the satellite, are considering three coverage options:

- The IRB is attempting to put together a pool of domestic insurers to provide a primary layer of coverage for the satellite. Brazil's government would provide excess coverage.

A similar system was used to insure part of the Brasilsat 1 after Embratel, the government communications company that owns the satellite, was unable to find the final \$28 million of coverage for that satellite. The Brazilian government provided the coverage and Embratel paid the government a premium.

- The IRB, Embratel and Arianespace, the European agency that launches the Ariane rocket, also are holding talks on the possibility of covering Brasilsat 2 under Arianespace's new launch insurance program.

The program would cover the \$50 million

cost of relaunch if a satellite were lost due to a failure of the Ariane rocket. Brokers and satellite owners hope that separating the cost of a relaunch from other risks currently covered by traditional launch insurance will open up more capacity (BI, Dec. 16, 1985).

- If all else fails, Brazil might launch the satellite without insurance, even though the international banks that financed the satellite have required that it be insured, according to Hamilton Mesquita do Prado, the IRB's deputy international operations director.

"The financing agreements with the banks were signed at a time when insurance premiums were around 6% to 8%. Now, premiums are up 28% to 30%," he said.

"We could renegotiate the insurance problem with the banks now that the situation has changed, and maybe just launch without any coverage at all," he said.

The government is determined that insurance problems will not delay the launch.

Indiana Blues studying cuts in AIDS cover

INDIANAPOLIS—Blue Cross & Blue Shield of Indiana is studying the possibility of limiting payments for acquired immune deficiency syndrome claims.

The study, which began about a month ago, was prompted by requests from some employers who purchase group health plans from BC/BS that the contracts be rewritten to exclude AIDS-related claims, says a contract administrator.

BC/BS is reportedly formulating a response to these employers. However, another BC/BS spokesman would not discuss any such response, saying that communications between the company and its clients are confidential.

He said the study arose out of the increasing incidence and the high cost of AIDS claims.

A separate study of 154 large employers completed recently by New York-based benefit consultant Towers, Perrin, Forster & Crosby, found that only one company had limited its medical benefits for AIDS patients, but that 8% are considering doing so, and 10% were considering limiting disability benefits.

Other ways in which employers are curbing AIDS-related costs are through home health care and hospice care (BI, Oct. 31, 1985).

Besides its own claims data, BC/BS says it is gathering information for its study from other sources, such as government entities and insurance companies.

It is looking at such issues as: how other insurers are treating AIDS claims; the transmissibility of HTLV-III, the virus believed to cause the disease; the use of the HTLV-III antibody blood test in underwriting; how the incidence of AIDS cases is affecting the BC/BS plan now, and how it might affect it in the future.

Findings of the study will be presented to BC/BS management to determine what policy changes, if any, might be made.

But for the moment, BC/BS is "handling AIDS just as we would any other illness," the company spokesman says.

The California Insurance Department recently denied a request by Blue Cross of California to exclude coverage for AIDS and other sexually transmitted diseases from a group health insurance plan. That request was prompted by one of its employer members (BI, Oct. 14, 1985).

Size of awards up in Kentucky

The average size of jury awards in personal injury cases in Kentucky has risen sharply over the past year, according to a recent study.

In 1984, jury verdicts in Kentucky averaged 7% below the national norm, according to a study by Jury Verdict Research Inc. of Solon, Ohio.

The 1985 survey showed that awards averaged 11% above the norm.

In addition, to date 17 verdicts of \$1 million or more have been awarded by courts in Kentucky. Three such verdicts were reported in 1984 and two were reported in 1985.

Jury Verdict Research surveys and analyzes jury awards in every state.

Copies of the 1985 Kentucky Verdict Survey are available for \$17.50 by writing Jury Verdict Research Inc., 5325 Naiman Parkway, Suite B, Solon, Ohio 44139-1065; or by calling 800-321-6910, or 216-248-7960 in Ohio.

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opinions

Mission bailout plan promising

THE MOST RECENT plan to bail out insolvent Mission Insurance Co. should be implemented.

Even though Carl Lindner and his American Financial Corp. aren't mentioned specifically in the plan, there are enough incentives for Mr. Lindner to see to it that the new Mission American Insurance Co. gets the new capital it needs to make the plan work (see story, page 3, and *BI*, Feb. 17).

And, if the plan works, all parties that have conducted business with MIC will gain more than they would if MIC were liquidated today.

As under the first plan, direct policyholders of MIC won't have to turn to guaranty funds to recover their claims—at less than full recovery for claims exceeding guaranty fund caps. They will be able to recover from the new Mission American.

And, in an improvement from the first plan, ceding insurers to MIC can expect payments toward their claims—from future profits of Mission American and from recoveries on reinsurance businesses that Mission retroceded to other reinsurers.

Under the first plan, these ceding insurers would have been able only to recover from MIC, and the amounts of potential recoveries were not promising.

Furthermore, the entire insurance industry and investors in Mission Insurance Group Inc. will benefit if this plan works.

Not only will the ceding insurers be spared losing a great deal of money, but also the entire industry will be spared more assessments to cover guaranty fund payments at a time when assessments are running at a record high.

Finally, with Mr. Lindner determined to rebuild MIG and recover his losses, other MIG investors stand to make more than if they drag down the company now.



letters

Changes would improve the ISO claims-made form

To the editor: The flaws in the occurrence general liability contract are many. Claims-made forms are needed now. What is not needed is a form that raises more questions than the contract it attempts to replace.

The Insurance Services Office's version of claims-made is just that at the moment.

In order to make a little more sense and in an attempt to bring back more stability to the claims-made contract, I offer the following suggestions, with reasons why:

- Eliminate all the choices of retroactive dates and make the date corresponding to the inception date of the first claims-made policy the compulsory retroactive date.

This change would eliminate another reason for buying extended discovery period coverage, which the insured must buy if the date is advanced.

This change also would force the underwriters to put a little extra effort in the process and not take the easy way out by advancing the date.

Remember that an occurrence policy is turned into a claims-made policy today by courts that use the manifestation theory to resolve latent disease claims.

- Make the trigger of coverage a simple request, written or verbal, made to the insured or insurer by a third party during the policy period. The *occurrence* must have taken place after the retroactive date and before policy expiration.

- Eliminate all extended reporting period endorsements except one. The one

remaining would have no time limit other than statutory. This endorsement must be offered only if a policy is canceled, not renewed or renewed with a different form.

- Price the extended reporting period endorsement by taking the difference between the occurrence policy premium and the claims-made policy premium for the same exposures and multiplying it by a factor that would increase it up to a maximum of 50%, depending on the number of years in the claims-made program.

Existing claims-made forms not mired in litigation

To the editor: No doubt, we will see many more comments on the claims-made form, such as those made by John Watkins (*BI*, Jan. 27).

However, there does not seem to be the inordinate amount of litigation over hospital professional liability, directors and officers liability, employee benefits liability, crime and other policies that have been written on a claims-made basis for many years. Surely, the purchasers of

New sources of political risk capacity needed

To the editor: I read with great interest your article "Capacity Still Plentiful in Political Risk Market" (*BI*, Feb. 10).

Having been involved in this area for some time, and seeing the change in the market over the last year, I am intrigued as to the surfeit of this capacity. It is my fervent wish that it exists. Unfortunately, based on the problems and restrictions of the latest reinsurance treaties (or lack thereof), it is difficult to believe capacity is as greatly available as suggested in your article.

I agree that adverse selection (i.e., a great number of bad deals) is a problem, but this has been true since the inception of political risk coverage. Pricing has been perceived by many clients as prohibitive; this point is not new. Yet, it is spe-

- Do not include legal costs in the aggregate but ask policyholders to become coinsurers, say, for 20% of them.

By doing the above, insurance regulators may accept the form more readily. The public could end up with more capacity and it would have more freedom of choice in switching insurers, and the underwriters would be able to sharpen their skills more.

Sal C. Forgione
Towers, Perrin, Forster & Crosby
Philadelphia

these policies have no better understanding of how the policies work than any other group of business managers.

But Mr. Watkins has an alternative: He can insist upon occurrence-basis coverage and find nothing available. Perhaps he should check his own professional liability policy. The chances are good that it is claims-made.

Stephen Michaels
Indianapolis

cious to construe from these points that the lack of capacity is problematic.

It is improbable that a specialized and often misunderstood line of insurance, like political risk, would not suffer severe capacity limitations in a period when it is difficult to obtain capacity for normal property and casualty business.

All of us in the political risk field look to the success of the underwriters for our collective success. Yet to encourage unrealistic expectations is not productive. To be constructive we need to create new capacity, not delude ourselves about its existence.

Richard D. Abrams
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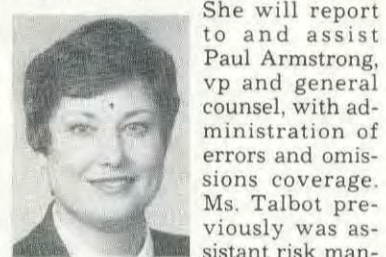
United Artists names Young director of risk management

Terry L. Young, 40, has been named director-risk management at United Artists Corp. in Beverly Hills, Calif. He will administer the entertainment company's loss control and property/casualty insurance programs, reporting to Phillip L. Cuppett, vp-administration. Prior to joining United Artists, Mr. Young was corporate manager-risk management and insurance at MCA Inc. in Universal City, Calif. He holds a bachelor of arts degree in liberal studies from Brigham Young University in Provo, Utah. Mr. Young has Chartered Property Casualty Underwriter and Certified Employee Benefit Specialist

designations.

John C. Hess, 34, has been appointed assistant treasurer for insurance and benefits at Engelhard Corp. in Edison, N.J. In this newly created position, he is responsible for worldwide employee benefit programs and oversees Engelhard's property/casualty and other insurance programs. He will report to David M. Wexler, treasurer. Mr. Hess joined the company in 1982 and most recently was manager-corporate benefits at Engelhard. He holds a bachelor of arts degree in history from Kean College of New Jersey and a law degree from Seton Hall University in South Orange, N.J. He is a member of the American Bar Assn. and the New Jersey State Bar Assn.

Patricia Talbot, 37, has been named risk manager at Brown & Caldwell in Pleasant Hill, Calif. In this newly created position she will be responsible for all corporate insurance matters, including property/casualty insurance programs.



Ms. Talbot

She will report to and assist Paul Armstrong, vp and general counsel, with administration of errors and omissions coverage. Ms. Talbot previously was assistant risk manager at Advanced Micro Devices in Sunnyvale, Calif. She received a bachelor of science degree in chemistry from Northern Illinois University in DeKalb.

Norman A. Kenney, 60, has been named risk manager at International Metals & Machines Inc. in Des Plaines, Ill. Mr. Kenney will be in charge of the corporate insurance program and risk management for IMM and its subsidiaries. He will report to Richard J. Anderson, vp and treasurer, in this newly created position. Prior to joining IMM, he was assistant treasurer-risk management at McGraw-Edison Co. in Schaumburg, Ill. Mr.



Mr. Kenney

Kenney holds a bachelor of science degree in fire protection engineering from Illinois Institute of Technology in Chicago. He has the Chartered Property Casualty Underwriter designation and is past president of the Northeast Illinois Chapter of the Risk & Insurance Management Society.

Terry Steinberg, 34, has been promoted to assistant vp at Aceto Corp. in Flushing, N.Y. He is responsible for risk management at the company, including claims handling, health and property/casualty insurance. He will report to Donald Horowitz, vp-finance. Mr. Steinberg joined Aceto in 1976 after earning a master of business administration degree from Kent State University in Kent, Ohio. He also has a bachelor of arts degree in economics from the State University of New York at Stony Brook.

We'd like to report on staff changes in your company's risk management, or benefits department. Contact Paul Winston, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611, or call 312-649-5442.

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update

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Illinois governor blames courts for insurance crisis

'Some insurance companies are also not without blame,' says Gov. Thompson.

SPRINGFIELD, Ill.—Saying serious tort reform must be approved by the Illinois Legislature this year, Gov. James R. Thompson called upon legislators to "act, and act now, to make insurance available, and at reasonable cost to business and local governments."

During his State of the State message earlier this month, Gov. Thompson, a former U.S. attorney, said the tort system is the major cause for the current lack of availability and high cost of liability insurance.

Reform of the tort system, at a minimum, must include reform of joint and several liability statutes, caps on awards and a modification of the comparative negligence system, Gov. Thompson said.

All of these areas now combine to cause the unfair "deep pocket" problem that can result in a party that is found to be only 10% at fault paying the entire jury award, he said.

Illinois State Chamber of Commerce President Lester W. Brann Jr. said his group is in "full agreement" with the governor that the major cause of the current insurance dilemma is directly related to the tort system.

However, the governor also said some insurers share responsibility for the crisis.

"Some insurance companies are also not without blame. Their underwriting policies often do not reward businesses with good claims records and states with progressive tort systems," Gov. Thompson said. He proposed a law requiring a 60-day notification period for all cancellation notices.

"In addition, the availability of claims information should be made upon request so consumers can show potential insurers that the reason for their cancellation, or large rate increase, was not because of a poor claims record," the governor said.

The Illinois Legislature late last year enacted a bill that prohibits arbitrary or unilateral cancellation of commercial property/casualty insurance policies that have been in effect for at least 60 days except in certain cases (BI, Nov. 11, 1985).

Meanwhile, the chamber's Mr. Brann said he was disappointed that Gov. Thompson did not call for substantive changes in the state's workers compensation system during the State of the State address.

"Changes negotiated with labor over the last several years have not materially improved several high cost areas," Mr. Brann said.

Gov. Thompson only briefly mentioned the workers compensation system during his speech, saying that the state's record "is good" in reducing the cost of doing business.

"Labor and business, beginning six years ago, have acted with concern and statesmanship to increase reform and to improve our business climate," said the three-term governor, who is running for election to an unprecedented fourth term this year.

"Written standards, capping and cutting of permanent partial awards, capping attorney's fees, deregulation of insurers, insurance disclosure and streamlining the hearing processes have been large strides forward," Gov. Thompson said.

The Illinois Industrial Commission, which administers the state's workers compensation system, was asked by the governor to consult with business and labor and to suggest further legislative reforms of the workers comp process for consideration this year.

"We support (the governor's) call for administrative reforms in our state's workers compensation system. We have been working with the chairman of the Industrial Commission for over a year on several major reforms," the chamber's Mr. Brann said.

"This continuing activity will tie in nicely with the governor's plan," Mr. Brann said.

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Market forecast dismal

By MEG FLETCHER

The commercial market for municipal liability insurance in California is nearing collapse for public entities seeking new or renewal coverages, risk managers say.

"In 1986, most cities will not be able to buy liability insurance at any price," Charles K. McClain, Fremont city manager, told his city council earlier this year in a memo.

"As of March 1, 1986, it is expected that nearly 100 California cities will be operating without liability insurance," according to a report by Jeffrey W. Pettegrew, risk manager for the Walnut Creek-based Contra Costa County Municipal Risk Management Insurance Authority.

"Those that have coverage are paying record-high premiums, and may receive notices of non-renewal or clearly unaffordable premium quotes as their insurance coverage expires during 1986," Mr. Pettegrew added.

His comments were made in a report presented at a February meeting of the Public Agency Risk Managers Assn., of which he is president.

Risk managers say they know of no insurers that are willing to write new municipal liability business and only one that is renewing some coverages.

Planet Insurance Co., a subsidiary of Philadelphia-based Reliance Insurance Co., is renewing liability coverage for some municipalities, a Planet spokesman said.

Three other insurance companies that had been in the market—Chicago Insurance Co., Harbor Insurance Co. and Transcontinental Insurance Co.—have discontinued underwriting liability coverages for municipalities in the state of California, the companies' spokesmen said.

Superpool

Continued from page 3

Frank James, Redwood Empire pool general manager, is president of the new superpool's board, which will administer the program. The other officers are William Kaslar, insurance manager for Santa Rosa, vp, and Celia Scott, risk manager and CEO for the Yolo County pool, treasurer.

Superpool members have made a three-year commitment starting Feb. 1, although some are joining later this year when their commercial excess insurance expires.

They can choose to participate in any of four "programs," which are stair-stepped layers of occurrence-based coverage ranging from \$250,000 to \$10 million: \$250,000 excess of \$250,000; \$500,000 excess of \$500,000; \$4 million excess of \$1 million; and \$5 million excess of \$5 million.

A city such as Petaluma, with about 37,000 residents, will participate in all four programs and retain only the first \$250,000 of a pooled loss. However, larger members, such as the city of Fremont and the Yolo County pool, will each retain the first \$500,000 of any loss and participate only in the top three programs.

Superpool members each year must contribute a deposit and the money will be used to pay claims above participants' retentions and administrative costs, which are estimated at less than 5%.

Deposits are determined by multiplying a superpool participant's workers' compensation payroll for the time of the coverage by a set rate. The pool is expected to collect about \$4 million in deposits this year, Mr. James said.

The pool is designed primarily to solve an availability problem, but it also is generally less expensive in the short run and—participants hope—in the long run, too.

● Petaluma will pay about \$150,000 when it joins the superpool July 1 and participates in all four programs for \$10 million in occurrence-based coverage, Mr. Acorne said.

It is now paying the Planet Insurance Co. \$190,000, or 27% more, in premium for \$5 million, or 50% less, coverage that expires June 30. Petaluma faced a 50% to 100% premium hike for \$3 million, or 40% less, coverage on a new claims-made form.

The "significant difference" is that the Cal JPIA will provide coverage on an occurrence, rather than claims-made, basis, Mr. Acorne said.

● On Feb. 1, Fremont paid \$492,711 to join the superpool's three top programs providing a total of \$10 million in coverage above a \$500,000 SIR.

"When the city last renewed its municipal liability insurance on April 1, 1985, it had to raise its self-insured retention from \$250,000 to \$500,000 and the premiums increased 1,125% from \$44,000 to \$539,200 for coverage to \$20 million," Risk Manager Joseph W. Tonda said.

Commercial coverage this year would have cost considerably more, Mr. Tonda said.

● Yolo County's pool will pay \$326,667 to the superpool May 1 for the first \$5 million in coverage, which is \$51,759, or 13.7%, less than the pool is paying Planet Insurance Co. for comparable coverage. However, the pool's self-insured retention is increasing from \$350,000 to \$500,000, Ms. Scott said.

● Redwood Empire is the only participant to pay a deposit larger than its current premium.

Redwood Empire will pay a \$414,000 deposit when it joins March 1, which is \$14,000, or 3.5%, more than its current premium for \$30 million in insurance coverage. However, Mr. James estimates the premium would have doubled upon renewal March 1, if he could have found an insurer to write it. "I canvassed 104 markets and had no takers."

While annual deposits are required of members, actual costs will depend upon the loss experience of not only the individual superpool participant but also each program in which it participates.

Separate accounts will be kept for each program year and members will pool losses only with other members during any one year.

The Cal JPIA will calculate each member's share of pooled costs beginning five years after the end of the program year and annually thereafter. The cost allocation will be recalculated annually until all claims are paid.

"Each member's share will reflect that member's actual loss costs in the layer of loss from \$25,000 per occurrence to \$500,000 per occurrence," Mr. Van Slyke said in an internal memo describing the program for participants. Losses less than \$25,000 will not be considered, the first \$25,000 of each loss will be ignored, and no single loss will be counted for more than \$500,000, although it may be spread over more than one year, he added.

"This basis for cost allocation was selected to give a large enough body of loss experience to be credible while still providing stability,"

Mr. Van Slyke explained.

If losses exceed deposits, program participants must make up the difference through an assessment. However, participants hope that deposits and the interest earnings on them will exceed losses, and that they will receive a refund.

Yolo County's Ms. Scott said an important feature of the superpool approach was that "we participants have the opportunity of getting our deposits back, or some portion of them, plus interest."

"The Cal JPIA concept has been discussed for at least five years," Mr. Van Slyke said.

Leaders of the three JPAs participating in the new superpool were on the board of directors of the California Assn. of Joint Powers Authority, a lobbying and information group, when it studied the feasibility of a superpool. They are Mr. James, Ms. Scott and Edward C. Bickmore of the San Joaquin pool.

The feasibility of joint purchase of excess insurance was studied beginning in November 1984, with the board of directors of CAJPA, consultants from Advanced Risk Management Techniques and the brokerage firm of Johnson & Higgins (BI, Sept. 16, 1985). However, insurance markets deteriorated too quickly and that became "impractical," Mr. Van Slyke said.

Subsequently, consultants from Coopers & Lybrand helped develop the proposal, Mr. James said.

The superpool approach provides answers for many of its charter members' needs, but not all.

The California JPIA will not pool most pollution liability risks, except for the containment of spilled hazardous wastes, Mr. James said. In addition, the feasibility of pooling property coverage is only beginning to be discussed.

Yet, the superpool meets enough needs that other public entities are clamoring to join.

An application process has been developed for those public entities seeking admission.

However, unlike the seven charter members, new superpool members will not be guaranteed a permanent seat on the 10-member board. The remaining three seats will be filled by an election.

While a greater spread of risk may be attractive to superpool members, they are more concerned with sharing risks only with participants who have good programs to prevent or mitigate losses.

To further that, the superpool will have an auditor review claims against superpool participants in their SIR layers so that small claims do not grow into large ones that may pierce the pooled layers.

Some say one disadvantage to joining a superpool is that an individual participant loses its autonomy to decide whether to settle lawsuits. That decision rests with the superpool's board, which has a duty to control losses that would affect all members.

The superpool anticipates changing its funding methods if the commercial marketplace changes. The superpool could purchase excess insurance if it became affordable. In addition, "if the market gets soft we will sell off claims on a retro basis," Mr. James said.

Eugene Berrodin, who is president of PRIMA's pooling section, said the California JPIA's approach marks a "return to the basics" of insurance whereby the risk sharers are also the direct loss bearers. Mr. Berrodin is also director of insurance services for the Michigan Municipal League.

The superpool approach could work in other states that allow this kind of intergovernmental cooperation, Mr. James said. However, California's legislation allowing for joint powers authorities may make it easier there, he added.

Mr. Van Slyke declined to provide details on the approximately dozen superpools being formed or under study.

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Tax plan needs employee impact study

By James A. Curtis

FOR THE FISCAL YEAR 1985, the federal deficit will be approximately \$200 billion. By 1987, it could hit \$245 billion.

Yet our congressmen, in their infinite wisdom, are arguing about what type of "revenue neutral" tax reform legislation will be best to achieve vertical and horizontal equity—vertical equity meaning that taxpayers who earn more income pay more tax, and horizontal equity meaning that taxpayers in similar situations pay the same tax.

But, any smart businessman knows that you don't improve your profit and loss statement by making offsetting changes in expenses. In other words, all this argument on revenue-neutral tax reform, while the deficit is dragging us under, is like fighting for deck chairs on the Titanic.

Most tax reform proposals to date are designed to be revenue neutral by reducing the number of tax preferences: that is, taking away many of your deductions and reducing the tax rate.

Many of the tax preferences that would be reduced under the current reform proposals are employee benefits, including 401(k) plans, pension plans and other savings and retirement benefits.

But, an interesting phenomenon in the tax reform proposals is that most of them do not provide for a comprehensive study of the impact of these changes on employees.

I feel that taxpayers deserve to be treated as well as ducks. If you wanted to drain a swamp, you would have to file an

environmental impact statement as to the effect upon the ducks.

So, how about a statement about the effect of proposed benefit changes on employees?

It is probably the lack of such an impact statement that has gotten us into the current predicament regarding employee benefits. The problem is that there is no coordinated, thought-out approach to the question of what benefits should be tax-preferred to best allow employees to maintain good health and prepare for a comfortable retirement.

One major problem is that the United States has no national retirement policy. Just as the ducks need an impact study, we, too, need to agree on a basic set of guidelines that Congress can consult when considering a change in tax or pension laws.

Sen. John Heinz, R-Pa., chairman of the special Committee on Aging, and Rep. William Clay, D-Mo., chairman of the House Subcommittee on Labor-Management Relations, have drafted a bill called the Retirement Income Policy Act.

Although I am not prepared to say that this bill in its current form is the policy that should be adopted, it does come to grips with some important issues. In other words, it attempts to look at the big picture.

An outline of the proposed legislation will give you an understanding of the decisions that must be considered to develop a national policy on retirement

benefits.

The important provisions of the proposed legislation include:

- Separating all plans into retirement and non-retirement plans. Retirement plans generally are defined as plans that pay benefits in the form of retirement income. Non-retirement, or capital accumulation, plans may pay benefits at any time without penalty.

- Stipulating that an employer cannot provide a non-retirement plan for employees unless the employees first are covered under a meaningful retirement plan.

- Requiring that a retirement plan must provide a meaningful retirement benefit, defined as at least 0.5% of compensation per year of service for a defined benefit plan, or employer contribution of no less than 3% of compensation for a defined contribution plan.

- Setting a maximum benefit from a defined benefit plan as the lesser of 100% of compensation or 200% of the Social Security taxable wage base, and a maximum contribution for a defined contribution plan of the lesser of 20% of compensation or 50% of the taxable wage base.

- Limiting salary reduction for retirement plans to 25% of the Social Security taxable wage base.

- Setting a limit for benefits from non-retirement plans of 10% of compensation or 25% of the Social Security taxable wage base.

- Setting new vesting requirements of five-year cliff vesting for retirement plans other than multiemployer plans, which must have 10-year cliff vesting, and one-year cliff vesting for non-retirement plans.

- Restating integration rules with Social Security.

- Prohibiting lump-sum distribution of retirement plan funds prior to age 59½, and increasing to 20% from 10% the excise tax on distributions before age 59½ from Individual Retirement Accounts and other tax-preferred retirement savings vehicles.

Sen. Heinz and Rep. Clay are soliciting input on their retirement income policy, and I encourage employers to make their feelings known.

We are certain to have major tax changes in the near future, and employers must make it clear that they want a determined, considered policy rather than a shotgun approach.

And, they should keep employees informed about pending legislation and encourage them also to make their views heard.

Lacking a formal study of the impact of the tax plan on employees, it is the best we can do.



James A. Curtis is chairman and chief executive officer of Milliman & Robertson Inc., consulting actuaries in Seattle.

Insurer has duty to defend policyholders: Court

The Court of Appeals of New York ruled that an insurer's duty to defend arises whenever allegations in a complaint against the policyholder fall within the scope of risks undertaken by the insurer, regardless of how false or groundless such allegations might be.

In 1974 a product manufactured by The Gillette Co. was promoted on national television by its advertising agent, J. Walter Thompson Co. The commercial compared a rival product manufactured by the Alberto-Culver Co. unfavorably to Gillette's product in a demonstration depicting the supposed advantages of the latter.

Alberto-Culver sued both Gillette and Thompson claiming unfair competition, deceptive trade practices, fraud and common-law libel.

Seaboard Surety Co. insured both Gillette and Thompson under separate but similar policies called "Libel, Slander, Copyright, Piracy, Plagiarism and Privacy Liability Policy." Seaboard disclaimed all coverage under the policies and declined to defend Gillette and Thompson.

Later, the underlying suit was settled and the parties requested Seaboard to pay the settlement as well as defense costs. Seaboard refused. Seaboard then brought this action seeking a declaration that it had no duty to defend or indemnify.

The lower courts declared Seaboard breached its duty to defend.

On appeal, Seaboard claimed that clauses in the policies excluded coverage for fraud or misrepresentation in advertising as unfair competition and, thus, it had no duty to defend.

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

legal briefs

The court disagreed, stating that where an insurance policy includes the insurer's promise to defend the insured against specific claims in addition to indemnifying the policyholder for actual liability, the insurer's duty to furnish a defense is broader than its obligation to indemnify.

The court emphasized that the insurer's duty was not contingent on its ultimate duty to indemnify if the policyholder were found liable, nor was it material that the complaint against the policyholder asserted additional claims that fell outside the policy's general coverage or within its exclusionary provisions.

"Rather, the duty of the insurer to defend the insured rests solely on whether the complaint alleges any factors or grounds which bring the action within the protection purchased," the court said. *Seaboard Surety Co. vs. Gillette Co.*, Court of Appeals of New York, Dec. 27, 1984 (BI/02/J.-\$5).

Extension of benefits

The U.S. Court of Appeals for the 7th Circuit ruled that a regulation issued by the Wisconsin commissioner of insurance was intended to compel life insurers to provide for extension of benefits after policy termination, even when the policy contained no extension-of-benefits clause.

Mr. Walker, a full-time employee, went on sick leave Jan. 23, 1979, because of a heart problem. He retired on April 27, 1979, because of total permanent disability, without having returned to work.

He was electrocuted in a home accident on July 8, 1979.

His employer had a group life insurance policy with Sun Life Assurance Co. and an accidental death and

dismemberment policy with Continental Casualty Co. Each provided coverage of roughly \$44,000 for an employee at his salary level.

Effective March 1, 1979—after Mr. Walker took sick leave but before he retired and died—the two policies were replaced by two similar policies issued by Maccabees Mutual Life Insurance Co.

The CNA policy contained no provision for extension of benefits in the event an insured employee became totally disabled.

However, the commissioner at the time of Mr. Walker's death required that every group policy provide a reasonable provision for extension of benefits in the event of total disability at the date of the discontinuance of the group policy or contract during the continuance of total disability.

None of the insurance companies would pay Mr. Walker's widow. She sued all three companies.

Maccabees paid her under the group life policy and then cross-claimed against Sun.

The trial court ruled in the widow's favor against CNA but for Maccabees.

On appeal, CNA argued that the extension provision of the commissioner was inapplicable to cases such as this one, in which the group policy contained no extension-of-benefits clause. The court noted that there was an inconsistency in the insurance commissioner's rule.

The court concluded that the commissioner simply had botched the regulation in the drafting process. The court believed that the insurance regulation was intended to require an insurance company to provide for extension of benefits after termination of the policy. Since Mr. Walker still was totally disabled when he died, the court said that his death benefits became due. *Walker vs. Maccabees Mutual Life Insurance Co.*, U.S. Court of Appeals for the Seventh Circuit, Jan. 24, 1985 (BI/02/F.—\$5).

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RIMS sessions

Continued from page 3

A panel of experts will discuss the disappearing D&O market, alternatives to D&O insurance and give an explanation of D&O policies, as well as give suggestions on filing claims.

John G. Pinner, assistant treasurer of Mattel Inc. in Hawthorne, Calif., will moderate the panel, which includes Joseph P. DeAlessandro, president of New York-based National Union Fire Insurance Co. of Pittsburgh, Pa., and Roberta A. Davis, vp and department manager at Johnson & Higgins of California.

Also noteworthy is a session on risk financing, which will teach risk managers:

- How to compare risk financing alternatives from a financial standpoint.

- Non-financial considerations.
- Claims administration options.
- Insurance policy analysis.

"Many risk managers have forgotten their calculations," said Ms. Larcamp. "They need to know how far they can go before they hurt their shareholders."

After taking this course, risk

managers will know what to ask brokers and consultants and also how to tell when the answers they get are reasonable, she said.

Sandra McCall, risk manager at Apple Computer Inc. of Cupertino, Calif., is the scheduled moderator of the risk financing session. Speakers include Terry Coleman, principal consultant at Risk Services of California in Fountain Valley; James A. Robertson, president of James A. Robertson & Associates Inc. in Costa Mesa, Calif.; and Margaret W. Tiller, president of Tiller Consulting Group Inc. in Corona Del Mar, Calif.

But today's risk managers are more than just specialists in risk and insurance matters, according to Kathleen Carangi, risk manager for Scott Paper Co. in Philadelphia.

"We are managers in the pure sense of the word. We must supervise and motivate our staff and those who provide services to us. We must communicate, negotiate and delegate to these individuals as well," she explained.

That's why this year's RIMS conference also includes a general management track, designed to hone those managerial skills.

Ms. Carangi urges every risk

manager to attend a track course on managing stress, during which Professor Laurie Bilik of The College of Insurance in New York will speak.

The program will be moderated by Steve Heumann, vp and treasurer of International Mill Service Inc. in Philadelphia, on April 17, and by Marilyn Maffucci, assistant director of conferences at RIMS, on April 18.

Also of note is a course on return on investment analysis, moderated by Lise Miller, senior risk analyst at CIGNA Corp. in Philadelphia. Speakers include: Mitchell J. Cole, vp and principal of Tillinghast, Nelson & Warren in Darien, Conn.; John M. Cozzolino, director of research at The College of Insurance; James V. Davis, chairman of the research and development division of Corroon & Black Corp. and its Advanced Risk Management Services division; and Richard E. Hinds, risk manager for Florida Power & Light Co. in Miami.

Two other sessions that Ms. Carangi recommends will focus on presentation pointers, including public speaking and body language. The courses are divided into two sessions because "there was too much information," she said.

Speakers for the public speaking sessions include Vanessa Czerniawski and Elizabeth D'Aniello, both training specialists at Alexander & Alexander Services Inc. in New York.

"If anyone is qualified to teach public speaking, it has to be the brokers," Ms. Carangi noted.

The speaking course will be led by Mary C. Harrington, risk and insurance manager at Suburu of America Inc. in Pennsauken, N.J.

K.T. Montalbano, director of administration at Trans Technology Corp. in Sherman Oaks, Calif., will moderate session focusing on body

language.

And, because "we're all out there negotiating our risks to the best of our ability," a course on negotiating techniques should be particularly helpful, Ms. Carangi said.

David A. Duran, insurance manager for Midland-Ross Corp. in Cleveland, will moderate the program, and Raymond Crapo, principal consultant at Woodlawn Heights T&D Associates, is the scheduled speaker.

The third track program offered during the RIMS conference will expose risk managers to computerized risk management information systems. H. Gordon Heile, risk manager at Asplundh Tree Expert Co. in Willow Grove, Pa., is coordinating the program.

Risk managers who attend a "nuts and bolts session" on determining needs and designing an RMIS should be somewhat familiar with computers, Mr. Heile stressed. "It is not designed to take someone who's never heard of a computer."

Speakers during this session will include Scott Gilmour, vp-marketing at Corporate Systems in Amarillo, Texas; Charles K. Anderson, director of engineering and ergonomics at Back Systems in Dallas; and Janice Hackett, financial analyst at Corroon & Black Advanced Risk Management Services in Nashville, Tenn.

Another session, "RMIS Decisions: PC vs. Mainframe, Etc.," will survey various types of systems and outline how they differ in terms of basic mission and the amount of user skill required, according to Mr. Heile.

Speakers include Richard W. Kieffer, president of Gallagher Risk Data Inc. in Rolling Meadows, Ill.; Richard Bikenfeld, marketing sales representative at Corporate Systems; Jim Blinn, vp at Tillinghast, Nelson & Warren Inc.; and

Jack Gardner, second vp at Travelers Corp. in Hartford, Conn.

Other courses within the RMIS track will focus on:

- Safety and claims management and RMIS. Speakers include Richard F. Denning, president of Risk Sciences Group Inc.; John P. Hickey, vp at Bayly, Martin & Fay International Inc.; and Arthur E. Parry, manager of risk management services at The Wyatt Co.

- Employee benefits and the personal computer. Speakers include Hugh Gibbons, director-legal department at Blue Cross/Blue Shield of Maryland; Paul Backlund, principal consultant at The Wyatt Co.; and James F. Fitzpatrick, employee benefits manager for the Congregation of the Sisters of the Holy Cross in South Bend, Ind.

- Spreadsheets, allocations, modeling, management reports. Speakers include David Clock, chairman of the finance department at the University of Central Florida in Orlando; and Lawrence J. Ely, account executive at Corporate Systems. Joseph Casey, corporate risk manager at A. Duda & Sons Inc. of Orlando, Fla., will moderate the session.

- How to design a system utilizing a data base. Speakers include Tracy Carragher, vp at Alexander & Alexander Services Inc.; Mark Dorn, president of SOFTECH Inc. in Livonia, Mich.; and David A. Tweedy, consultant at Betterly Risk Consultants in Worcester, Mass. The moderator will be George F. Blackell, assistant manager-insurance and risk management division at American Can Co. in Greenwich, Conn.

In addition, a computer seminar and an accompanying exhibition will give attendees some "hands-on practice" in using an RMIS, said Rom Lewison, corporate risk and insurance manager at Degussa Corp. in Teterboro, N.J., who is coordinating the show.

Companies participating in the computer exhibition include: Anistics Inc.; Brokers Service Agency; California Interactive Computing; CIGNA Corp.; Coopers & Lybrand; Corporate Systems; Crawford & Co.; Dyer Wells & Associates; GAB Business Services; Arthur J. Gallagher & Co. Inc.; Lawson & Associates; Liberty Mutual Insurance Co.; Resource Information Management; Risk & Benefit Management Systems; SOFTECH Inc.; and Travelers Corp.

The computer seminar will take place on the lower level of the Metro Toronto Convention Centre.

The track programs, offered for the second year, focus on single themes, explained Ms. Carangi, coordinator of the general management track. With so many seminars to choose from, registering for the RIMS conference can be extremely confusing, she said. Track programs are designed to coordinate attendees' programs.

Registrants also can arrange a smorgasbord program by selecting courses from each of the three tracks, she said.

Ms. Carangi reminds prospective conference-goers to register early for track sessions, because space is limited.

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

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

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Combined International buys life insurance firm

markets

Combined International Corp. in Chicago has agreed to pay \$557 million for Life Insurance Co. of Virginia, an underwriter of group and individual life and health insurance products.

Combined, which currently writes primarily accident and health insurance through its insurance company subsidiaries, "has been looking for a prestigious acquisition" that would give it wider appeal, according to a spokesman. "This is it."

Combined is also the parent of Rollins Burdick Hunter Co., the nation's seventh-largest insurance brokerage.

The acquisition is expected to be completed sometime in the second quarter.

The spokesman said purchasing the Richmond, Va.-based insurer from KMI Continental Inc. will give Combined a new line of products "that we aren't heavily involved in."

Combined is particularly interested in the insurer's universal life product, he added, though Life of Virginia also underwrites a variety of other individual and group health and life coverages, annuities and pension products.

Life of Virginia reported revenues of \$525 million last year and assets of more than \$2 billion.

Name change

L.W. Biegler Inc., a Chicago-based managing general agency, has changed its name to Crum & Forster Managers Corp. (Ill.).

Biegler, which was formed in 1971, now is part of C&F Underwriters Group, another Crum & Forster unit headquartered in Basking Ridge, N.J.

In addition, the firm is closing its Toronto office.

Richard E. Stone, Biegler's chairman and chief executive officer, said the decision to close the office was made because of limited growth and profit potential in the Canadian liability and specialty insurance market.

It also is an effort to continue the consolidation of underwriting activities in the Chicago headquarters, he added.

Other name changes at Crum & Forster are:

- L.W. Biegler Inc. (N.Y.) is now Crum & Forster Managers Corp. (N.Y.).

- L.W. Biegler Inc. (Fla.) is now Crum & Forster Managers Corp. (Fla.).

- R.L. Blue & Co. is now Crum & Forster Benefit Managers Corp.

New reinsurer

Constitution Reinsurance Corp. in New York has agreed to manage Finmar Re Insurance Co. of Frankfort, Ky.

A spokeswoman for Constitution Re described Finmar as a multiline reinsurance company and said Constitution Re would give the recently formed Finmar "guidance and help as it enters the reinsurance market."

Finmar was formed in late December with initial capital of \$10 million. It is owned by the Petrofina Group of Brussels. Petrofina is a petrochemical firm that already owns or participates in several non-U.S. insurers and reinsurers. ■

Pollution coverage changes face uphill fight in Senate

By ROBERT A. FINLAYSON

WASHINGTON—A Senate subcommittee is set to hold hearings this week on a House-passed bill that would retroactively extend the deadline for hazardous-waste facilities to meet federal financial responsibility requirements. But, there appears to be little support in the Senate for the measure.

The Senate Environmental Pollution Subcommittee will hold hearings Feb. 24 on H.R. 3917, which would retroactively extend the Nov. 8, 1985, deadline for meeting the financial responsibility rules.

The House passed H.R. 3917 on a voice vote Dec. 16 after some last-minute maneuvering by Rep. James T. Broyhill, R-N.C., ranking minority member of the House Energy and Commerce Committee. But, it appears lack of interest may kill the bill in the Senate.

Proponents of the measure had argued that hundreds of hazardous-waste facilities would be forced to close because of the congressionally imposed deadline for meeting the requirements.

But statistics recently released by the Environmental Protection Agency reveal that only about 60 companies were forced to close their waste facilities because they could not comply.

The November 1985 deadline was set by Congress in a 1984 amendment to the Resource Conservation and Recovery Act, which was designed to prevent the EPA from delaying implementation of the financial responsibility regulations.

Those rules require all companies operating hazardous-waste disposal facilities either to demonstrate that they can self-insure their environmental liability exposure or to obtain environmental impairment liability insurance.

Many larger companies were able to pass the financial test, but smaller firms have complained that they cannot pass the test and, because of the tight insurance market, cannot obtain EIL coverage.

Environmental Pollution Subcommittee members hope to get additional information on the House bill at the hearing, staff members explain, but they admit that the measure is not a top priority.

They note that subcommittee members are currently working on several major environmental bills, including an extension of the Superfund, which is now in a House-Senate conference committee.

H.R. 3917 allows for a maximum one-year extension of the deadline to Nov. 8, 1986. To qualify for the extension, a facility must file certain information with the EPA and demonstrate "good-faith efforts" to satisfy the financial responsibility rules. The bill provides that the EPA may reject the certification and deny the extension.

The bill also would require the EPA to modify the financial regulations to provide other alternatives to EIL insurance, including indemnity contracts, surety bonds and corporate guarantees.

The House bill requires these modifications to be made by March 1. ■

Manville plan

Continued from page 2

One addition to the plan, however, is the creation of a trust fund for the payment of asbestos property damage claims against Manville brought by local governments. More than \$86 billion in claims are pending against Manville for the removal of asbestos from government buildings.

Under the plan, Manville would provide \$125 million in cash—as well as insurance proceeds not used to settle asbestos bodily injury claims—to pay property damage claims.

Property damage claimants will also have the right to any assets in the proposed asbestos health trust not required for bodily injury claims.

Like the trust fund for bodily injury claims, the property damage trust will be administered by five independent trustees and include a settlement facility that will determine the amount to be paid for property damage claims.

Even with the support of all creditor groups, the proposed plan still must go through a number of steps before it is confirmed by the bankruptcy court. However, Manville hopes to have the plan confirmed by Jan. 1, 1987, a company spokesman said last week.

As presently constituted, the reorganization plan calls for creation of a trust for bodily injury claims funded by:

- An initial payment by Manville of more than \$800 million, including cash, short-term receivables and proceeds from insurance policies.

This also includes \$5 million in cash "in lieu of," and in full satisfaction of, punitive damage obligations for bodily injury claims that will be applied for charitable purposes for treatment of asbestos-caused disorders.

- Issuance of a \$1.65 billion bond paying annual installments of \$75 million starting four years after a reorganization plan is finalized.

- Manville common stock equating 50% of the company's outstanding shares, plus preferred stock that could be converted to

Bermuda plans captive campaign

HAMILTON, Bermuda—The Bermuda government has agreed to help finance a drive to attract captives to the island.

The administration of Premier John Swan will partially finance a "Come to Bermuda" campaign at the Risk & Insurance Management Society Conference, to be held April 13-18 in Toronto.

The promotion will include a specially prepared brochure on the advantages of doing business from Bermuda, a booth that will be manned by government tourism department staff members and industry representatives and a cocktail reception for hundreds of RIMS registrants.

The cost of the promotion has not been revealed.

Premier Swan will make an appearance at the conference along with Bermuda Finance Minister Clarence James and Finance Secretary Jim Brock, who oversee the regulation of insurers in Bermuda.

The administration's decision to give financial aid to what ranks as Bermuda's second-most-important industry after tourism follows efforts last year to reduce disincentives to incorporate in Bermuda.

In November, the administration announced it was applying a \$25,000 ceiling on the amount of stamp duty payable by newly formed insurance companies, which previously have been required to pay a duty of 0.25% of their authorized capital. ■

'Manville cannot bridge the disputes among creditor factions by offering more to unhappy groups. Either those groups will have to make peace with each other, or we will have to go back to the drawing board,' Mr. McKinney says.

the equivalent of an additional 30% of the company's common shares if needed to pay claims.

- Beginning in the fourth year, Manville contributions of 20% of annual net profits, to the extent funding needs are not met by payments under the bond or other payments.

In addition, the plan calls for the establishment of a claims-handling facility to provide "fair, reasonable and objective settlements" and mediation, binding or non-binding arbitration and medical reviews. However, if claims are not settled through the facility, claims can be

pursued against the trust in state and federal courts.

In his statement, Mr. McKinney acknowledged the strong opposition to the plan from bank and trade creditors and from preferred and common shareholders.

"Unless the creditors represented by the creditor committees vote in favor of the plan, the plan will not be confirmable and will have to be renegotiated," Mr. McKinney said.

He added that it was uncertain whether opposition by shareholders could ultimately prevent completion of the plan.

A spokesman for Manville said

negotiations are continuing with shareholders and commercial creditors.

"Absolutely," he said. "We will continue to negotiate."

A representative of the creditors committee told *Business Insurance*, "If the plan stays in its present form, we will oppose it. We don't believe that with the way the settlement will work and with the burdens placed on the creditors committee, that it is fair."

Commercial creditors want 100% compensation of their claims for principal of about \$450 million plus interest from Aug. 26, 1982, when Manville filed for reorganization.

The company said that as currently drafted, the plan would not deliver the full amount.

Manville also said that it was uncertain whether proposed new shares of preferred stock to be issued for present shares of preferred stock would, if issued today, trade at prices comparable to Manville's present preferred stock, which is

trading on the New York Stock Exchange.

"Similar uncertainties exist regarding Manville's common stock," the company said.

It would not speculate about the trading value the markets might give the new preferred stock and Manville's common stock if the plan is confirmed.

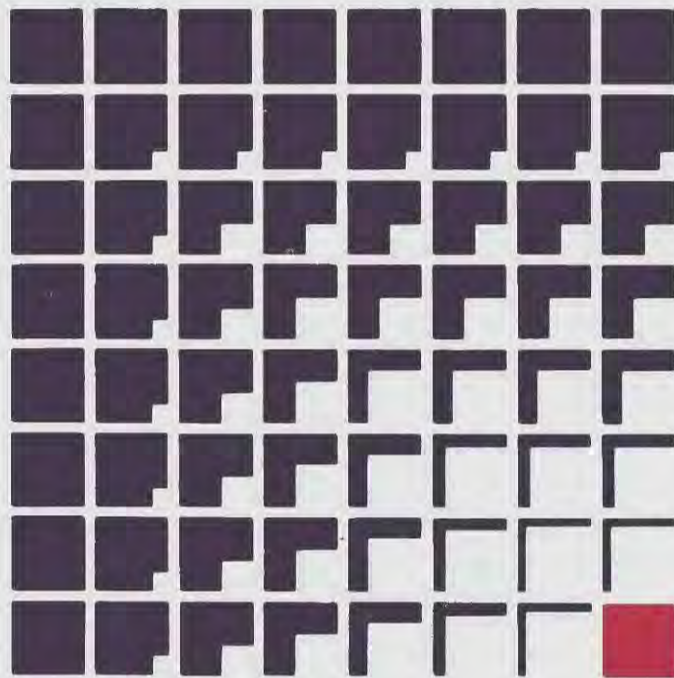
In addition to requiring court confirmation, the plan is also subject to a number of conditions including:

- Receipt by Manville of appropriate tax rulings.

- Determination of standards to be used by the trust for paying property damage claims.

- Satisfactory arrangements for legal fees for plaintiffs' attorneys.

- A final order of the bankruptcy court enjoining any future action to collect or recover any claim against Manville after the plan is approved, including bodily injury or property damage claims or future bodily injury claims. ■



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New Mexico

Continued from page 2

● Creating an interim legislative committee of four senators and four representatives to study the entire workers compensation system and report back to the Legislature during the 1987 session.

Among other things, this committee is to study how well the system is working using the new definitions of impairment.

● Capping attorneys' fees beginning July 1 and requiring that fees be subtracted from the total settlement amount. Fees would be determined by a complicated formula on a case-by-case basis.

This provision also is slated to expire July 1, 1987, and also will be studied by the special legislative committee.

"S.B. 110 is the bill everyone has agreed on, but it doesn't go as far as the business community would have liked," said Wayne Ciddio, legisla-

'I don't like it at all. Would you, if rates were frozen?' asks Mountain States' Mr. Garrett.

tive manager for the Greater Albuquerque Chamber of Commerce, which has about 2,100 members.

About 19 local chambers of commerce, as well as a dozen or more employer trade associations, support the bill, he said.

Insurers, however, were not in favor of the rate freeze provision.

"I don't like it at all. Would you, if rates were frozen?" asked Sherman Garrett, president of Mountain States Mutual Casualty Co., a large workers compensation insurer based in Albuquerque.

Some sources said the insurance industry may challenge the legislation in court on constitutional grounds.

However, John Lacy, a director of government, consumer and industry affairs for the National Council on Compensation Insurance, said an insurer committee will review the legislation before deciding what action to take.

The NCCI already is in court fighting the disapproval of an average 37.1% rate increase. The State Board of Insurance found the filing excessive and on Dec. 23 entered an order denying the new rates (BI, Feb. 3).

In addition to S.B. 110, three other pieces of legislation were before the Legislature last week. The approval of these measures was a "foregone conclusion," according to one capital observer, although one bill was bogged down in the House.

One of those measures—H.B. 56—calls for an appropriation of \$500,000 to fund the new administrative system within the Employment Securities Department.

Under this bill, a workers compensation director and hearing officers would be appointed between July 1 and Dec. 1. They, in turn, would set up the administrative rules of the system.

Claims would continue to be filed with the courts until Dec. 1, after which they would be filed with the new administrative operation.

Another bill—H.B. 215—calls for workers compensation rates to be filed by individual insurers rather than en masse by a ratemaking organization.

If New Mexico adopts this law, it would become only the 10th state to have an open rating, or competitive rating, statute.

According to Chris Krahling, executive assistant to the governor, Gov. Anaya likes the concept of open rating because "he believes in a free enterprise system."

Some members of the House, however, were not as keen on the measure, and it was stalled in that chamber last Wednesday.

Representatives of insurers, employers, unions and others involved in work comp issues were calling sources throughout the country last week to get more information about how open rating works and whether it is cost-effective in order to lobby legislators.

And still another measure—this one affecting all commercial lines of insurance in addition to workers compensation—was expected to be approved. This bill, S.B. 226, requires quarterly financial reporting by insurers.

"In reviewing the method by which rates are approved in New Mexico, the governor felt there was a need for additional information regarding insurance profit/loss portfolios... taking into consideration investment income and reserves," said Mr. Krahling. Such information can be used to make objective rate adjustments, he noted.

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Lloyd's official

Continued from page 3

In 1975, he joined the Treasury Department, and in that position he was responsible for the industrial, monetary, taxation and counter-inflation aspects of central economic policy.

In 1977, Mr. Lord joined Dunlop Holdings as director of corporate planning and managing director of Dunlop International.

From 1980 to 1984, Mr. Lord was managing director of Dunlop Holdings Ltd., which is the parent company of Dunlop Group.

During that time, Dunlop was experiencing financial troubles. In 1984, the company suffered a net loss of 88 million pounds, primarily due to extraordinary items, with pretax profits of 27 million pounds.

Banks put together a reconstruction plan, which finally jelled in 1985.

Major management changes occurred, and Dunlop was subsequently sold to BTR Inc. P.L.C. for 101 million pounds last year.

Mr. Lord, as managing director, was instrumental in selling off Dunlop's loss-producing European tire operations to Dunlop's long-time Japanese partner, Sumitomo Rubber Industries Ltd., in September of 1983.

But in 1984, the banks pressed for Mr. Lord to be replaced as managing director by Sir Michael Edwards, who is known for bailing out financially troubled British companies, particularly car manufacturer British Leyland.

The 42 banks that supported Dunlop were owed more than 400 million pounds and "became irritable," recalled former Dunlop Chairman Maurice Hodgson, who is now chairman of British Home Stores.

"I refused to replace Alan," Mr. Hodgson told *Business Insurance*, and as a result he, Mr. Lord and the entire Dunlop board resigned.

Mr. Hodgson called Mr. Lord's selection for the Lloyd's post "a splendid appointment."

"I read about the appointment with pleasure," he said.

John Havers, Dunlop's group insurance manager at the time, also praises Mr. Lord.

"He was supportive of risk management principles and practices and supported the formation of a captive called Maxfort Insurance Ltd. in Guernsey," Mr. Havers told *Business Insurance*.

"I can think of no better appointment for Lloyd's," Mr. Havers continued. Mr. Havers now works as Midlands regional director for broker Hogg Robinson Ltd. after he was laid off by BTR last year following the acquisition.

"He has a tremendous brain and he is very incisive. He didn't get the credit for keeping Dunlop afloat that he should have gotten," said Mr. Havers.

When asked last week if he thought he was tough enough to fill the job at Lloyd's, Mr. Lord replied in the affirmative. As proof, he pointed to his laying off 8,000 Dunlop employees to save the remaining jobs.

"Sadly, that was the price of saving the jobs of the other 4,000 employees," he said.

Mr. Lord said he believes that Lloyd's should not be regulated under the new financial services bill that currently is going through Parliament.

The bill, which does not include regulation of Lloyd's, will further regulate the British financial industry.

Mr. Lord has held several non-executive directorships with the Bank of England, John Matthey Bankers Ltd. and Allied-Lyons P.L.C. However, he will resign all his outstanding appointments to take on the role of Lloyd's chief executive.

The position of chief executive

'I can think of no better appointment for Lloyd's. He has a tremendous brain,' says Mr. Havers.

was created in 1983 at a time when scandal was rife at Lloyd's and the Lloyd's Act of 1982 had just been enacted.

Mr. Davison, 52, a former partner in the accounting firm Arthur Andersen & Co., joined Lloyd's to help improve its image by promoting tougher regulations and codes of conduct.

Mr. Miller paid tribute to Mr. Davison's work during the last two years, saying it was "fitting and proper to record publicly the deep sense of debt Lloyd's owes to Mr. Davison in the evolution of a successful system of self-regulation." ■

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Treasury options

Continued from page 1

Under the Treasury Department option, contributions to an IRA would be offset dollar for dollar for those employees who defer more than \$8,000 to a 401(k) plan. For example, if \$9,000 were deferred to a 401(k), an employee only could put \$1,000 in an IRA.

By contrast, the House-approved tax bill calls for reducing employee contributions to an IRA dollar for dollar by 401(k) deferrals. For example, if a single employee deferred \$1,000 of salary to a 401(k) plan, he or she could only contribute \$1,000 to an IRA.

Under current law, 401(k) deferrals have no effect on IRA contributions.

● Placing unspecified limits on the ability of companies that file consolidated tax returns to offset corporate profits with losses incurred by property/casualty insurance company subsidiaries.

A provision in the House bill says that losses from a property/casualty unit that reports a negative number on Line 18(b) of its annual convention statement cannot be used to offset profits of a corporation that files a consolidated tax return.

An insurance industry official said last year, however, that few companies would be affected by this provision (BI, Nov. 25, 1985).

While benefit experts welcome the Treasury option to raise the 401(k) limit to \$10,000, compared with \$7,000 in the House bill, they are concerned that liberalizing 401(k) deferrals would be "paid for" by cutting maximum pension benefits and contributions.

The new 401(k) options would cost the Treasury Department \$4.6 billion in revenues over the next five years compared with the House proposal, while reducing maximum pension benefits and contributions under Section 415 of the Internal Revenue Code would raise \$6 billion over five years—a net revenue gain of \$1.4 billion.

"Staffers have set it up in their minds that 401(k) will be paid for with new 415 limits rather than through another revenue expenditure item," said Mark Ugoretz, executive director of the ERISA Industry Committee, a Washington-based benefits lobbying group representing large employers.

"There had been intense pressure for a higher 401(k) limit," notes Dallas Salisbury, president of the Employee Benefit Research Institute in Washington. But that employer pressure may ease as companies realize how much the Section 415 limits would be reduced to offset revenue losses, he adds.

Benefit experts say new cuts in defined benefit and contribution limits will jeopardize the security of pension benefits.

Increasingly, companies will have to turn to so-called excess, or top-hat plans, to provide promised benefits that exceed Section 415 limits. Excess plans, unlike qualified plans, are not advance-funded. Employer contributions are made only when benefits are paid, so benefits are more costly to provide because there is no buildup of investment interest income. Tax deductions also are taken only when they are paid.

And, since there are no assets in the excess plan, the benefits are less secure.

"You have only paper promises" with an excess plan, said Frederick Rumack, director of taxes and legal services for Buck Consultants Inc. in New York.

On the property/casualty side, the options paper says limitations could be imposed on companies filing consolidated tax returns from offsetting corporate profits by losses from their property/casualty units.

While the Treasury document doesn't spell out exactly how strict the limitation should be, the option says such a change would raise \$300 million in revenue over five years.

Insurers are divided about the effect such a proposal would have on corporate buyers.

Some insurers say that corporations that file consolidated tax returns would be reluctant to purchase insurers or invest needed capital if they were unable to offset prop-

erty/casualty losses against profits earned by other corporate units.

But Walter Vinyard Jr., an attorney with Zuckert, Scouff, Rasenberger & Johnson in Washington, says risk managers should favor limitations on companies filing consolidated tax returns from using losses at property/casualty subsidiaries to offset profits earned by other units.

He believes such offsetting has played a key role in wild price swings. When companies know they can offset property/casualty insurance losses with other corporate profits, they don't price policies according to the true risk, he argues. When losses become so steep, insurers then have to seek huge rate hikes. Limits on offsetting would result in more pricing stability, Mr. Vinyard said.

While the Risk & Insurance Management Society doesn't have a position on the issue, "We would have a disposition toward favoring consolidation because we believe it attracts capital to the industry, which so very much needs capital," said Jon Harkavy, director of governmental affairs and general counsel for RIMS in New York.

Meanwhile, no official date has been set for the Senate Finance Committee to begin marking up the House-passed tax bill. Sources say consideration—at the earliest—will not start until mid-March.

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Business Insurance Circulation Breakdown*

Commercial Consumers

Administrative:

CEO's presidents and owners... 2,983
Vice-presidents, general managers and other administrative personnel... 2,758

Financial:

Chief financial officers and vice-presidents of finance... 2,018
Secretaries, treasurers, controllers and other financial personnel... 6,484

Risk/employee benefits:

Vice-presidents, directors, managers, and other related department personnel of: insurance, risk, employee benefits, personnel, compensation, pension, safety, security, industrial relations, human resources and employee/labor relations... 8,111

Sub-total... 22,354

Associations... 483
Government, unions and educational systems... 1,252

Commercial Consumers

Sub-total... 24,089

Insurance agents and brokers 10,285
Insurance companies... 6,739
Financial institutions... 748
Actuaries, attorneys, adjusters, appraisers and consultants... 3,808
Others allied to the field... 1,308

TOTAL... 46,977

* Source Business/Occupational breakdown of qualified circulation, Nov. 25, 1985 issue, as submitted to BPA for December 1985 BPA Publisher's Statement.

CIGNA discount plan

Continued from page 1
 disagree about whether CIGNA's move might encourage other under-reserved insurers to discount contributions to reserves in their statutory filings.

"Somebody is going to look at this and say, 'This is the way out of our reserve deficiency,'" observed one insurer executive who requested anonymity. "This is too tempting a way out of it."

Some observers still voice the fear raised by the trade groups in the fight against the Treasury proposal last year: that discounting could further weaken an industry that still may be 10% to 20% under-reserved for its future loss liabilities.

"It takes some of the safety margin out of the balance sheets of those companies," one insurance company executive said.

CIGNA last week reported that its property/casualty group suffered an operating loss of \$1.2 billion for the fourth quarter of 1985 and \$1.3 billion for the full year, including the \$1.2 billion charge taken for reserve strengthening.

Without the charge, the group would have reported operating income of \$32.2 million for the fourth quarter and an operating loss of \$145.5 million for the full year.

This compares with operating losses of \$91.1 million for the fourth quarter of 1984 and \$398.8 million for all of 1984.

The property/casualty group also reported earned premiums of \$1.17 billion for the fourth quarter of 1985 and \$4.43 billion for the full year, up 11.4% from \$1.05 billion and up 8.8% from \$4.07 billion for the same periods in 1984.

Using generally accepted accounting principles, the property/casualty group's combined ratio after policyholder dividends hit 222.9% for the fourth quarter of 1985 and 149.4% for the full year, including the \$1.2 billion charge.

Without the charge, the GAAP combined ratio would have been 116.3% for the fourth quarter and 121.4% for the full year. This compares with a combined ratio of 123.4% for the fourth quarter of 1984 and 128.8% for the full year.

The \$1.2 billion reserve addition—actually \$1.24 billion before tax credits—amounts to about 16% of CIGNA's year-end 1985 property/casualty reserves of \$7.3 billion.

It includes \$674 million for general casualty losses (\$220 million of which will go to professional liability lines); \$300 million for commercial package business; \$100 million for work comp; \$80 million for domestic reinsurance; \$50 million for marine, aviation and other lines; \$32 million for personal lines; and about \$5 million for property insurance, Mr. Arton said.

Reserves for relatively short-tail business—including property and personal lines—will not be discounted for statutory accounting purposes, Mr. Arton said.

In addition, about \$120 million in reserves for

asbestos-related losses are not being discounted, he said, explaining CIGNA expects to pay its remaining asbestos-related losses within two years.

However, in its statutory statements filed with state insurance departments, CIGNA will discount reserves for several lines by a total of about \$600 million.

About \$283 million of the \$600 million discount relates to work comp reserves, Mr. Arton said. Though CIGNA will add only \$100 million to these reserves, the insurer is increasing the discount applied to previously established reserves, resulting in the \$283 million discount and a net decrease of about \$183 million in statutory reserves for workers comp losses, he explained.

Another \$265 million of the \$600 million discount relates to other casualty lines, including professional liability and excess casualty, Mr. Arton said. He added that the professional liability class does not include much medical malpractice business, a line where many insurers routinely discount loss reserves.

The remainder of the \$600 million discount relates mainly to domestic reinsurance reserves, according to Mr. Arton.

State regulators are waiting to get more information—including CIGNA's statutory filings due March 1—before deciding whether to approve the insurer's discounting plans.

Peter F. Kelly, chief examiner of the Connecticut Insurance Department, said the department will look at the amount of reserve increases for each line of business and the amount of discounts to be applied each year for each line before deciding if those discounts are appropriate.

Regulators could disallow the discounts if they are found to be inappropriate, a spokeswoman for the Pennsylvania department said.

CIGNA, however, is "optimistic" that its statutory filings will be approved, Mr. Arton said.

He added that CIGNA is "reviewing" the possibility of continuing to discount reserves for long-tail liability losses other than the traditionally discounted workers compensation line.

"There is a case, on an ongoing basis, to allow discounting of certain very long-tail lines other than workers comp," Mr. Arton said.

In seeking state regulatory approval of its current discounting plan, CIGNA also is testing the states' willingness to approve such ongoing loss reserve discounts, Mr. Arton suggested.

And, other insurers appear willing to accept discounting of loss reserves for tax purposes.

Insurer trade groups last year fought a Treasury proposal that would have discounted tax deductible contributions to loss reserves to reflect interest income earned on the reserves before claims are actually paid. The effect would be to increase insurers' taxable income.

However, representatives of five trade groups—AIA, NAIL, the Alliance, the National Assn. of Mutual Insurance Companies and the Reinsurance Assn. of America—met earlier this month

to discuss reserve discounting.

All the groups except RAA agreed to support modified reserve discounting for tax purposes in return for other concessions, sources say.

While noting that AIA has not taken a position on discounting statutory reserves, Mr. Jones said that the group had agreed to support discounting for tax purposes as long as all property/casualty insurers use the same set of actuarial assumptions, including fixed discount rates for particular lines of business and industry average payout periods for losses in those lines.

NAIL's Mr. Wegenke added that the trade groups agreed to support some form of discounting as a substitute for other forms of property/casualty taxation contained in the House-passed tax bill, H.R. 3838. Some of these proposals—such as an alternate minimum tax on preferential income and partial taxation of municipal bond income—could be retained in the bill, which is now being considered by the Senate Finance Committee staff, Mr. Wegenke noted.

While the debate over discounting for tax purposes continues, insurers also disagree about the likelihood of other insurers following CIGNA's lead in discounting statutory reserves for losses other than workers compensation.

"A lot of senior managements of major companies are opposed to discounting loss reserves," said one insurer executive who requested anonymity. "I do not feel that they've been waiting in the wings and that now they will jump on the bandwagon."

The official speculated that CIGNA may have been forced by the sheer size of its reserve contribution to discount the addition for statutory purposes: It may not have been able to swallow a full \$1.2 billion charge to surplus, he said.

Mr. Garton declined to respond to this suggestion.

Another insurance company executive, however, observed that many under-reserved insurers may decide that a discounted contribution to statutory reserves may be the most attractive way to address inadequate reserve levels.

"I rather doubt that this is going to be an isolated case," he said of CIGNA.

CIGNA's Mr. Arton also added that "over time we would expect more support from (other insurers) as they come to understand" discounting.

Some insurance industry analysts, however, are skeptical about reserve discounting for the same reasons cited last year by trade groups.

June Hoffer, an analyst with Prudential-Bache Securities in New York, observed that the property/casualty industry can't afford to discount reserves on a broad basis or it will become "more under-reserved than in the past."

She doesn't expect many companies to follow CIGNA's lead, though, since most recognize they have problems setting adequate reserves "even on an ultimate basis, let alone on a discounted basis."

Mission plan

Continued from page 1
 unacceptable."

"They're kidding themselves if they think there can be any progress on this plan without the cooperation of our people," Mr. Heffernan added.

The opposition of these debtholders was the primary reason that AFC Chairman Carl H. Lindner backed down from the original rescue plan, forcing the development of the latest proposal, according to Mr. Clark.

Mr. Lindner was unwilling to stand behind his promise that AFC would contribute \$125 million to Mission American while the threat of bankruptcy loomed. He feared he would lose the \$125 million to creditors.

Mission American, now MIG's flagship underwriter, is to assume most of MIC's policies under both of the proposals.

But, the current proposal no longer mentions AFC as contributing any money to Mission American. Instead, the proposal provides incentives for MIG to raise \$75 million within three years, which observers expect will come from AFC.

Mr. Bunner asserts, however: "Things will have to happen faster than that. There's absolutely no way any of us will sit by and wait

'Everybody thought the creditors didn't have any other choice, but they did,' Mr. Clark said.

that long." When they were initially absorbed in negotiations with the California Insurance Department and MIC reinsurance policyholders to bail out MIC, representatives of MIG and AFC did not regard the debtholders' bankruptcy petition with the seriousness it later proved to deserve, Mr. Clark explained.

MIG, AFC and the department believed once they explained to the creditors what they had to gain by supporting the original bailout and what they had to lose by proceeding with their bankruptcy drive, they would drop their action, he said.

"Everybody miscalculated, and they were wrong. Everybody thought the creditors didn't have any other choice (but to accept the plan), but they did," Mr. Clark said. "When AFC found out it wasn't going to go away, (negotiations) required a completely different tack."

While AFC and MIG now are trying to convince the debtholders that they would fare better under the new rehabilitation plan than they would as bankruptcy creditors, Mr. Clark also notes that if the state Superior Court approves the rehabilitation plan, "it would pretty much put the deck against the bankruptcy creditors."

However, the bondholders could press their bankruptcy case and jeopardize the current plan.

The bondholders are seeking a dollar-for-dollar payment for what they are owed, but "there's not dollar-for-dollar there," he says.

If MIG enters Chapter 11, the department probably will take control of Mission American to provide more funds for MIC policyholders, Mr. Clark says. The action would substantially diminish MIG's ability to pay stock dividends by cutting off its major source of income: Mission American's earnings.

If MIG is forced into bankruptcy, MIG's creditors might get 50 cents on every dollar owed them, and that could be 10 years from now, speculates Mr. Clark.

Continued on next page

Tylenol coverage

Continued from page 2
 believed J&J did not purchase the coverage even when it was available, possibly fearing it would damage litigation on its 1982 recall.

J&J is seeking coverage for the 1982 recall from its excess liability insurers (BI, Sept. 2, 1985). A U.S. District Court judge is considering motions for summary judgments from both sides, says Linda Novak, an attorney for J&J with the New York firm of Patterson, Belknap, Webb & Tyler.

She also says Johnson & Johnson is also now appealing a U.S. District Court judge's ruling that McNeilab, the J&J unit that manufactures Tylenol, cannot recover lost profits under the business interruption clause of a property policy written for J&J by Affiliated FM Insurance Co.

McNeilab sought coverage for more than \$110 million in product recall, business interruption and extra-expense losses incurred in the 1982 recall when it sued Affiliated FM and the excess liability insurers in U.S. District Court in Newark in November 1982.

McNeilab subsequently dropped its claim for extra-expense coverage, noting that business interruption losses would exhaust the \$50 million limit of the Affiliated FM policy. The case has since been split into two separate cases, says Ms. Novak.

One observer familiar with the product integrity market says J&J may have been reluctant to purchase product impairment integrity coverage because it might have weakened its contention that the 1982 recall should be covered under its business interruption and excess liability policies.

Meanwhile, others say the product integrity impairment insurance market is disappearing (BI, May 27, 1985).

The coverage is "all but impossible to obtain on any semblance of reasonable terms," says Stanley King, director of corporate risk management at Kellogg Co. in Battle Creek, Mich.

Terry Van Gilder, vp and senior national underwriting manager at Chubb Corp.'s executive protection department, says Chubb, one of the few insurers providing the coverage last year, stopped writing product impairment integrity insurance at the beginning of the year and is now running off the business.

"It never became a large enough book of business to be self-sustaining," he says. "It just never became a very large part of our operations," he adds.

Chubb, which offered product integrity coverage for three to four years, provided up to \$10 million in limits, he says.

Lexington Insurance Co., an American International Group Inc. affiliate, still writes product integrity impairment insurance, a spokeswoman says.

"We are open to writing product integrity, but the reinsurance market is very limited right now," she says. Limits and deductibles "depend on the individual risk, and since the reinsurance market is so limited right now, we would have to take a look at them as they came in," she said.

Additions to TPA directory

The following companies were inadvertently omitted from the directory of third-party administrators that appeared in the Jan. 27 issue of *Business Insurance*.

Benefit Plan Administrators Inc.
 P.O. Box 3208, Wichita, Kan. 67201; 316-262-3578

Parent company: Health Care Plan of America.
Year founded: 1971.
Services provided: 80% claims administration, 20% other services.
Region served: Kansas, Oklahoma, Missouri, Arkansas, Louisiana.
Specialty: Both property/casualty and employee benefits/group insurance: 90% health, 8% disability, 2% life.
Self-insured clients/claims: Administration: five clients, \$3.5 million claims paid.
Client mix: Administration: three corporations, one public/government entity, one Taft-Hartley plan. Health plans: 2,400 employees covered.
Staff: 12 total staff members, five of whom serve self-insured clients only.
Charges: Administration: per employee per month, \$3-\$8.50.
1985 gross revenues: \$300,000 total, \$240,000 from claims services.
Branch offices: Sales office in Oklahoma City.
Principal officers: Jerry W. Cole, president; Larry Armfield, vp; Bob Vohs, secretary/treasurer.

Membership: Society of Professional Benefit Plan Administrators.

Handel Group Inc.
 P.O. Box 709, 53 Academy St., Poughkeepsie, N.Y. 12602; 914-454-4041

Year founded: 1957.
Services provided: 35% claims administration, 5% adjusting, 3% auditing, 57% other services.
Region served: Middle Atlantic and New England states.
Specialty: Employee benefits/group insurance: 65% health insurance, 25% pensions, 5% life, 1% professional liability, 4% miscellaneous.
Self-insured clients/claims: Administration: 40 clients, approximately \$20 million claims paid. Adjusting: 10 clients. Auditing: 10 projects conducted.
Client mix: 80% multiemployer plans, Taft-Hartley plans and union-sponsored plans; 20% corporations and not-for-profit organizations.
Staff: 30 total staff members, 25 of whom serve self-insured clients only.
Charges: Administration and adjusting: per capita. Auditing: on retainer.
1985 gross revenues: Not reported.
Branch offices: New York and Newburgh, N.Y.
Principal officers: Bernard Handel, president; Shirley M. Handel, secretary; Gilbert Krom, director.
Membership: Society of Professional Benefit Plan Administrators.

Insurance bill

Continued from page 1

Forster in Washington, said in an interview that businesses should have the option to set up risk retention groups when liability coverage is not available from commercial insurers.

While the Danforth-Kasten proposal was favorably received, other proposals suggested at the hearing found little support.

As expected, Sen. Paul Simon, D-Ill., advocated a partial repeal of the McCarran-Ferguson Act so that property/casualty insurers would lose much of their immunity from federal antitrust law. The McCarran-Ferguson Act leaves primary regulation of the insurance industry with the states.

Sen. Simon, who charged that property/casualty insurers' recent losses resulted from poor pricing decisions in the early 1980s, said insurers "can get together and raise rates 300%".

"It is legally possible," he noted, adding that insurers can collectively decide not to write certain lines.

"They ought not to be able to get together and say: 'Let's charge so much for this risk,'" the Illinois Democrat said.

But Sen. Simon's picture of an industry that periodically unites to set rates or limit capacity was disputed by other witnesses.

While noting that the insurance industry often engages in "lemming"-like behavior, Tillinghast's Mr. Beer said property/casualty rates are individual—not collective—decisions.

William H. McCormick, chairman and chief executive officer at Fireman's Fund Insurance Cos. in Novato, Calif., said anyone who believes that there is "an old-boy network" that sets rates "doesn't know what he is talking about."

Other witnesses noted that if insurers conspired to limit coverage, the McCarran-Ferguson Act would not exempt them from antitrust charges. Such actions would be deemed an illegal boycott and be subject to antitrust law.

However, others at the hearing besides Sen. Simon criticized the industry's practices.

Sen. Larry Pressler, R-S.D., a self-described friend of the indus-

try, said insurers, which blame the tort system for many of the industry's problems, have not provided the empirical link between problems in the civil justice system and higher rates.

"If the tort law is the problem, why have states with low litigation experienced higher rates?" he asked. "The insurance industry will have to prove its case."

Sen. Pressler complained that "we haven't gone beyond the finger-pointing stage."

But, just as insurers haven't supplied the data on how the tort system is responsible for the tightening market, "other than accusations, consumer groups haven't produced evidence that insurers are conspiring," Sen. Pressler added.

Indeed, there was no shortage of accusations at the hearing, many of them supplied by consumer advocate Ralph Nader.

Mr. Nader blamed much of the liability insurance crisis on underwriters at Lloyd's of London, charging that Lloyd's underwriters are refusing to reinsure U.S. liability risks as a tactic to pressure American legislators to take away consumer rights.

While Lloyd's has said it has suffered heavy losses in the U.S. market (BI, Jan. 20), Mr. Nader attributed Lloyd's problems to "internal corruption" and a high amount of property damages claims due to jetliner crashes and satellite losses.

Mr. Nader advocated the establishment of a temporary federal reinsurance facility "to send a message to Lloyd's" that foreign reinsurers cannot control the U.S. reinsurance market.

And, while Sen. Danforth commented at the hearing that the nation is overrun with litigation, Mr. Nader described the U.S. civil justice system as the "best in the world." Such a system shouldn't be changed because of insurance industry mismanagement, he said.

Disputing industry contentions that courts are inflating awards and overcompensating victims, Mr. Nader said awards and settlements have done no more than keep up with inflation and added that many victims are not compensated.

"One of 20 victims of medical malpractice don't get any money," he said.

But Richard B. Berman, executive vp of public affairs and human resources at S&A Restaurant Corp., a Dallas-based restaurant chain, said the civil justice system is in need of reform.

He gave an example, involving his company, of how the tort system is becoming flooded with frivolous suits that are costly to defend and drive up the price of insurance.

Mr. Berman, the only business representative to testify at the hearing, said a patron consumed several drinks at an S&A restaurant before leaving. He then possibly had additional drinks elsewhere.

The patron later collapsed. He was assisted by another person, who was hit and injured by a car, Mr. Berman said. That person is now suing the restaurant, charging that he would not have been injured if the restaurant had not served drinks to the patron, Mr. Berman said.

"We are opening up the system to a lot of frivolous suits," Mr. Berman said. "You can be 1% to 2% responsible and have to pay 100% of the damages."

Edmond Rondepierre, senior vp and general counsel with General Reinsurance Corp. in Stamford, Conn., noted that the rapidly changing legal system has made it almost impossible for underwriters to predict their costs.

"We saw standards of defense erode for medical malpractice," Mr. Rondepierre said, noting that General Re had to add \$100 million to medical malpractice reserves in 1984 because earlier assumptions about claims costs were incorrect.

"We have very little confidence in predicting the future... In our present system we lack predictability to make quotes," he said.

"Reinsurance problems will persist until there is more predictability," added Andre Maisonpierre, president of the Reinsurance Assn. of America in Washington.

In his written testimony, Mr. Maisonpierre provided statistics to back up the industry's claim that the civil justice system is to blame for problems in the commercial insurance market, including:

- An increase in product liability suits filed in federal courts. Some 13,554 suits were filed in 1985, compared with 6,132 in 1979.
- An increase in lawsuits against public officials. Today, 28% of local governments are facing lawsuits, compared with 14% in 1982.
- Rising court awards. According to a sample of reported cases,

White House readies proposals

WASHINGTON—While Congress discusses the liability insurance crisis, the Reagan administration soon will make its own recommendations.

At a White House conference last week on tort reform, Attorney General Edwin Meese said the administration will unveil within 30 days its recommendations for civil justice reform, according to those attending the meeting.

The report and recommendations, which are being drafted by a panel of federal officials (BI, Nov. 18, 1985), is one of the administration's highest priorities, Mr. Meese reportedly said.

According to James Coyne, executive director of the Washington-based American Tort Reform Assn., who attended the White House meeting, Mr. Meese said he had misgivings about setting up a commission to probe problems in the civil justice system because the issue has been sufficiently studied.

At a subsequent briefing, Assistant Attorney General Richard Willard ruled out any kind of federal reinsurance program, stating that it would not be practical in the current economic environment, Mr. Coyne said.

Mr. Willard did suggest some kind of federal involvement in the product liability area, but he did not provide details.

"We're optimistic about the high level of interest at the White House in civil justice reform," said ATRA's Mr. Coyne.

the average annual size of jury verdicts in product liability cases rose to \$1.25 million in 1984 from \$237,462 in 1973.

Mr. Maisonpierre said that incurred losses are rising faster than premium volume, noting in his testimony that in 1984 premiums increased 9% while losses climbed 18%.

"What this means, of course, is that current premiums are still likely to be inadequate to pay losses which will be incurred on newly issued policies and further increases will need to be imposed on policyholders," Mr. Maisonpierre said in his statement.

Another witness, Tillinghast's Mr. Beer, captured the attention of the committee as he outlined in a 20-minute presentation the reasons for the dramatic capacity contraction in the commercial liability insurance market.

With the lights darkened in the hearing room in the Russell Senate Office Building, Mr. Beer explained, with the use of charts, that the current problems are complex, with no simple solutions.

Poor underwriting results, he said, can partly be traced to the rampant price competition of the early 1980s, an era in which insurers were eager to write as much business as possible to take advantage of high interest rates.

"Under the premise that \$100 collected today would create \$120 available to pay losses a year from now, many underwriters initially chose to charge \$100 for those \$120

risks. Soon other competitors felt that \$95 would lure the account, then \$85, then \$80 and the downward spiral continued," Mr. Beer said.

"In general, the price competition that followed was generally not based upon sound underwriting or particularly favorable loss experience of those industries that benefited," he said.

At the same time insurers were not properly pricing their product, courts expanded insurers' liabilities, Mr. Beer said. For instance, insurers discovered that pollution exposures they intended to exclude from general liability policies were being interpreted by courts as being retrospectively covered, he explained.

Finally, in mid-1984, insurers realized that a self-destructive price war would have to come to an end, as major corporations—like American Express Co., ITT Corp. and Xerox Corp.—reported serious earnings deterioration, mainly due to the poor performance of their property/casualty insurance subsidiaries.

"It was in this environment that insurers began to increase premiums in an attempt to achieve a more appropriate rate level," Mr. Beer said.

Since commercial general liability loss ratios have been so high, it is not surprising that commercial liability lines have experienced the sharpest premium increases and coverage restrictions, Mr. Beer said.

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Mission bailout plan

Continued from previous page

But the current plan—negotiated between the department and Mission American—assures that MIG will have the funds to pay dividends, Mr. Clark contends.

While conceding that liquidation of MIC is a possibility if no agreement can be reached with the bondholders, Mr. Bunner adds, "I'm not willing to say we're there yet."

Other possibilities would be selling the Mission insurers to the ceding companies or asking the ceding companies to infuse capital as an investment, Mr. Bunner said.

While saying he is optimistic that the recently modified plan will succeed, Mr. Bunner acknowledges that these creditors can jeopardize its success. "They almost destroyed it and if they continue to play games that's exactly what they could do. It'd be tragic if the bankruptcy-type people can't come to some resolution and frustrate this thing," he said.

"We can't have that cloud hanging over us. If they're going to be at each other's throat up there, it will sabotage the (Mission) companies," he says.

"I think what we have is very fair and provides everyone the best opportunity to become whole," Mr. Bunner asserts.

Mr. Clark suspects AFC will want to resolve the creditor issue before committing further energy—or money—to Mission American.

While the \$75 million infusion called for in the plan is not contingent on AFC, Mr. Clark says he is unaware of any other party interested in contributing to MIG.

AFC would not comment for this article.
Mr. Bunner is not letting the debtholder negotiations stop progress on proceeding with the new plan for MIC,

including lining up more support from ceding insurers.

The ceding companies that have agreed to the plan represent about 50% of MIC's outstanding liabilities on reinsurance assumed business. For the plan to go through, Mr. Bunner wants agreements from companies representing 70% of its outstanding reinsurance liabilities.

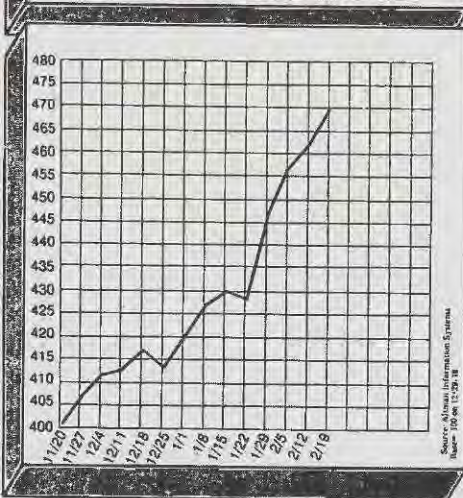
Mr. Bunner is asking the participating ceding insurers to encourage other ceding insurers to support the plan, and predicts the additional 20% support will be won.

Under the newest plan, insurers who ceded business to MIC and other MIG subsidiaries who give up their right to offset claim payments they owe MIC by claims MIC owed them will receive a surplus note from Mission American guaranteeing payment of the estimated aggregate ultimate gross liability of MIC and its subsidiaries to them. The note held by these participating ceding insurers will be paid down over the next 10 years by one-half of Mission American's profits after dividends to preferred shareholders, half its tax benefits and possibly a portion of reinsurance recovered by Mission American related to MIC's reinsurance underwriting.

MIC now has assets of \$693 million and estimated liabilities of \$1 billion, according to Mr. Clark. If 100% of the ceding companies agree to the plan and forgive total gross liabilities of \$580 million in exchange for the surplus note, Mission American would receive \$1.1 billion in assets and \$845 million in liabilities, Mr. Clark said. Mission American would then have a surplus of \$277 million, MIG has told the department.

If only 70% of the ceding insurers participate, Mission American's surplus would be about \$178 million, MIG says.

BI Insurance Index



The *Business Insurance* stock index continues to climb, setting a record high for the third consecutive week. The *BI* index of insurance industry stocks closed at 469.1 points on Feb. 19, up 6.7 points from the previous high of 462.4 points set on Feb. 12. A total of 40 stocks reported increases, 15 stocks closed down and five stocks were unchanged. The biggest increases were posted by Torchmark Corp., up 11.6%; Tokio Marine & Fire Insurance Ltd., up 9.2%; Zenith National Insurance Corp., up 8.5%; Provident Life & Accident Insurance Co., up 8.3%; and The Home Group Inc., up 7.5%. The biggest losses were posted by Avemco Corp., down 11.4%; Crown Life Insurance Co., down 7.4%; Baldwin & Lyons Inc., down 5%; Fireman's Fund Corp., also down 5%; and Faimont Financial Inc., down 3.6%. The *Business Insurance* index rose an average of 1.4% for the trading period. This was slightly less than the increase shown by the major market indicators: The New York Stock Exchange composite rose 1.7%; the Standard & Poor's 500 rose 1.8% and the Dow Jones 30 Industrials rose 1.7% during the same trading period.

Underwriters can learn lesson from fairy tale

By MYRON M. PICOULT
Special to Business Insurance

OVER THE PAST FEW weeks, we have seen a stunning revival of Hans Christian Andersen's tale, "The Emperor's New Clothes." The cast includes the managements of several large property/casualty insurers.

For those of you who might not remember the story, it involves an emperor who demands the most magnificent cloth from his tailors for a new suit of clothing to wear in an upcoming parade. Unable to meet the emperor's demands, the tailors pretend to fit the emperor and convince him only the most intelligent can see his new clothes. Rather than admit stupidity, the emperor praises the tailors and actually marches in the parade without any clothes.



Mr. Picoult

The parody, of course, is that most property/casualty insurers have convinced themselves, their accountants and state regulators that they were adequately reserved, even if they believed differently. In many instances, this attitude was—and is—related to poor business judgment and/or financial constraints. When possible, managements meticulously defend their reserve records and scorn the intelligence of their doubters.

Well, there appear to be a lot of naked property/casualty insurers running around the marketplace as a result of the extraordinary reserve adjustments announced by some companies over the past several weeks. We believe they will be joined by many more of their brethren as 1986 unfolds.

Of course, the embarrassment likely will be greater for those dominant commercial lines underwriters that still argue that they are devoid of any reserve difficulty. The traditional line, "...we continue to feel we are adequately reserved," seems to have a hollow ring given the recent adjustments.

Myron M. Picoult is senior vp and senior insurance analyst with Oppenheimer & Co. in New York. He is the past president of the Assn. of Insurance & Financial Analysts and a member of the New York Society of Security Analysts.

The reserve adjustment taken by Chubb Corp. to cover its medical malpractice business is admittedly sharp. The company purchased a stop-loss reinsurance contract from Sun Alliance & London Insurance P.L.C. The reinsurance will pay \$285 million of losses in excess of Chubb's current medical malpractice base of \$225 million. There is apparently no time horizon on the coverage, which cost Chubb \$173.5 million.

USF&G is attempting to squeak by with a \$100 million reserve addition that seems very small. However, one should recognize that the company is locked in a battle with its accountants about the restatement of prior year earnings due to the use of questionable investment methodology.

The surprise reserve announcement from Continental Corp. was only a little above the recognized degree of error, but was nonetheless prudent as management recognized that additional liability existed. Continental's reserve hiccup equaled about 6.5% of its domestic reserve base as of Sept. 30, 1985. One could argue that a 5% miss is within tolerance.

It is the announcement by CIGNA Corp. that must be dissected. CIGNA's \$1.2 billion reserve charge was equivalent to 28% of CIGNA's year-end 1984 aggregate reserve base and about 22.5% of the Sept. 30, 1985, domestic reserve base.

About \$220 million of the addition was earmarked for professional liability lines, another \$120 million was marked for asbestos losses, \$80 million will go toward reinsurance, and \$50 million was earmarked for excess/surplus lines. The remaining \$770 million—including \$300 million for the liability portion of commercial package policies—was to plug a hole in reserves for "regular lines."

The sheer size of the loss is mind-boggling. The size of the figure clearly indicates that "the big, the bad and the ugly" were festering in the Insurance Co. of North America book of business for some time.

The numbers and the method proposed to address CIGNA's reserve deficiency raise some interesting points.

The size of the adjustment underscores the fact that the property/casualty industry, particularly the commercial lines underwriters, is under-reserved. It would be fallacious to assume that CIGNA's reserve problem is unique. As we wrote in this column several months ago, all the companies play in the same bathtub with the same rubber ducks.

While CIGNA's management is to be com-

mended for addressing its reserve deficiency, one wonders why it took so long for the problem to surface. Nonetheless, it is the funding of the reserve shortfall that is of interest.

The company has indicated that it was going to discount about \$600 million of the \$1.2 billion charge (see story, page 1). While discounting is used by many companies for both workers compensation and medical malpractice lines, it is somewhat unusual for the more standard lines to be discounted.

Furthermore, CIGNA is proposing the discounting for its statutory reserves as opposed to GAAP (generally accepted accounting principles) reserves. If the state of Pennsylvania, where INA is domiciled, were to permit CIGNA's methodology, would it open a Pandora's box? Discounting becomes a very attractive alternative to an insurer with a reserve problem in cases in which there might also be a problem in raising the additional capital. How would other regulators view this matter?

Also of note is the fact that discounting could further weaken the industry's finances if, in fact, reserves are still 10% to 20% short.

Still another factor to consider is that discounting might play directly into the hands of the Treasury Department and the General Accounting Office, which have proposed requiring insurers to discount reserves for tax purposes. This would reduce tax-deductible expenses and increase taxable income.

A more realistic reserve posture has been a long time coming to the industry. It is now incumbent for all the little "tailors," including the accountants and the regulators, to tell it like it is. It is better for the emperor to have some tattered clothes than none at all.

And, in any case, he must not be permitted to delude himself anymore.

General Re

General Re Corp. has sold 2.875 million common shares at \$114.50 each, including 375,000 shares purchased by underwriters to cover over-allotments.

The \$329 million offering was managed by Morgan Stanley & Co. Inc., The First Boston Corp., Goldman Sachs & Co. and Salomon Brothers Inc. The proceeds will be used to support domestic property/casualty reinsurance underwriting.

Separately, General Re's board of directors declared a 2-for-1 stock split and decided to increase the quarterly dividend on pre-split stock shares to 44 cents per share, payable March 31 to shareholders of record March 24.

Stamford, Conn.-based General Re also reported 1985 net income of \$135.8 million, down 13.1% from \$156.3 million in 1984. However, operating income increased 141.4% to \$158.4 million from \$65.6 million.

General Re reported net written premiums of \$1.97 billion in 1985, up 37.5% from \$1.43 billion in 1984. The company's combined ratio at year-end 1985 stood at 110.8%, compared with 127.0% at year-end 1984.

Transamerica Corp.

Transamerica Corp. is offering more than 5.5 million shares of common stock at \$35.25 a share. Some 4.4 million shares are being offered in the United States, while 1.1 million are being offered in Europe. Salomon Brothers is the lead U.S. underwriter, while Swiss Bank Corp. International is the lead European underwriter.

Poe & Associates

Poe & Associates Inc., the 15th-largest U.S. brokerage, reported a 26% increase in gross revenues in 1985 to \$28.7 million from \$22.8 million in 1984. In addition, Poe reported 1985 net income of \$2.87 million, compared with a \$642,000 loss in 1984.

For the fourth quarter, the brokerage reported a 41% increase in gross revenues to \$7.55 million from \$5.35 million in 1984. The brokerage also reported fourth-quarter net income of \$743,000, compared with a \$1.66 million loss in the fourth quarter of 1984.

In addition, Poe's board has voted to recommend a 3-2 stock split.

British Issues

18 Feb Companies	Price	P/E	Div.	Yield	1 Week High-Low
Comm Union	265	N/M	16.9	6.4	268-258
Genl Accident	758	34.5	31.4	4.1	763-750
Gdn Royal Exch	788	68.5	38.6	5.2	796-780
Royal	825	51.6	35.0	4.2	835-818
Sun Alliance	603	60.3	23.6	3.9	615-595
Brokers					
CE Heath	700	9.1	37.5	5.3	700-685
Hogg Robinson	318	13.0	13.4	4.2	320-317
JH Minet	268	12.2	11.4	4.3	270-268
Sedg Grp	395	17.2	17.1	4.3	410-388
Stew Wrightson	398	15.3	16.4	4.1	403-398
Willis Faber	430	22.1	11.8	2.7	443-430

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

BI Industry Stock Report

February 19, 1986 2/13/86 thru 2/19/86

Brokers	Price	% Chg.	P/E	Div.	% Yld.	High	Low	Vol.(000)	Combined Intl Corp	Price	% Chg.	P/E	Div.	% Yld.	High	Low	Vol.(000)		
Alexander & Alexander Svcs	NYSE	35.38	1.8	0.0	1.00	2.8	36.50*	35.38	875.0	NYSE	59.50	3.5	12.3	2.16	3.6	59.50*	57.50	319.0	
Baldwin & Lyons Inc	OTC	76.00	-5.0	16.8	0.80	1.1	76.00	76.00	0.0	NYSE	49.25	-1.5	0.0	2.60	5.3	50.13*	48.50	954.9	
Corroon & Black Corp	NYSE	64.25	-0.8	86.8	1.00	1.6	66.13*	64.25	25.8	OTC	250.00	-7.4	15.1	0.00	0.0	270.00	250.00	7.8	
Crump E H Cos Inc	NYSE	24.50	0.0	23.3	0.25	1.0	24.75	24.50	93.5	OTC	42.50	-1.2	11.7	1.36	3.2	43.50	42.50	13.4	
Geett & Chandler Cos Inc	OTC	17.88	0.7	30.8	0.00	0.0	18.00	17.88	56.5	OTC	81.00	0.0	13.7	2.00	2.5	81.00	80.25	145.4	
Gallagher Arthur J & Co	OTC	56.50	0.9	25.7	0.40	0.7	56.50*	55.00	25.3	AMEX	20.13	-75.2	16.8	0.00	0.0	20.75	20.13	33.6	
Hall Frank B & Co Inc	NYSE	19.13	2.0	0.0	0.00	0.0	19.25	18.00*	574.1	NYSE	35.75	-5.0	0.0	0.30	0.8	37.50	35.75	322.3	
Marsh & McLennan Cos Inc	NYSE	97.00	3.5	21.7	2.70	2.8	97.00	93.38	235.6	OTC	29.88	0.0	0.0	0.48	1.6	30.00	29.63	382.9	
Poe & Assoc Inc	OTC	18.00	5.9	0.0	0.80	4.4	18.00*	18.00	62.5	OTC	490.25	0.1	4.9	18.00	3.7	490.25	490.00	0.1	
AGENTS/BROKERS	AVERAGE	135.8			1.7					AMEX	26.75	7.5	0.0	0.00	0.0	27.00	25.50	638.1	
Conglomerates & Holding Cos.										OTC	63.25	2.0	65.9	0.56	0.9	63.75*	62.75	37.5	
American Express(Fireman's Fd)	NYSE	61.38	4.0	17.3	1.36	2.2	62.25*	59.50	3,308.5	Hartford Steam Boiler Inspn	OTC	69.50	-0.4	12.8	2.00	2.9	70.25	69.50	16.5
Anderson Clayton(Ranger/PanAm)	NYSE	55.00	-3.5	31.4	1.32	2.4	56.00	55.00	329.9	Kans City Life Ins	OTC	29.50	-0.8	11.6	0.87	2.9	29.50	29.50	6.1
Araco Inc	NYSE	10.63	0.0	0.0	0.00	0.0	10.63	10.50	583.5	Keuper Corp	OTC	96.50	3.5	20.9	1.80	1.9	97.50*	94.25	284.2
Berkley W R Corp	OTC	44.00	3.5	137.5	0.32	0.7	44.00	42.00	131.8	Liberty Corp S C	NYSE	34.75	1.1	14.5	0.72	2.1	34.75	34.25	50.8
CIGNA Corp	NYSE	70.63	3.9	34.3	2.60	3.7	70.75*	68.50	1,227.1	Lincoln Natl Corp Ind	NYSE	58.25	0.4	13.7	2.00	3.4	58.50	58.00	289.4
CNA Finl Corp (CNA)	NYSE	68.50	-0.7	21.4	0.00	0.0	70.13*	68.50	532.6	Mission Ins Group Inc	OTC	2.75	0.0	0.0	0.00	0.0	2.75	2.75	504.4
General Re Corp	NYSE	117.00	1.3	84.5	1.76	1.5	119.00*	115.50	502.4	Monumental Corp	OTC	35.50	-1.0	12.0	1.40	3.9	35.50	35.25	79.4
ITT (Hartford Group)	NYSE	41.00	-2.4	21.7	1.00	2.4	41.88	41.00	3,504.8	Nac Re Corp	OTC	39.00	0.6	31.0	0.00	0.0	39.75*	39.00	16.4
Sears Roebuck & Co. (Allstate)	NYSE	42.00	4.3	11.9	1.76	4.2	43.00*	42.00	4,981.4	Nobel Ins Ltd	OTC	16.25	1.6	21.4	0.25	1.5	16.50*	15.75	39.8
Teledyne Inc (Argonaut)	NYSE	327.75	-1.7	7.0	0.00	0.0	332.38	327.75	58.3	Northwestern Natl Life Ins	OTC	27.88	-1.8	13.8	0.80	2.9	28.50	27.68	586.6
Transamerica Corp	NYSE	37.13	2.8	17.3	1.68	4.5	37.88*	36.88	1,159.0	Ohio Gas Corp	OTC	86.25	6.5	25.3	2.80	3.2	86.25*	82.00	116.2
(Occidental & Fred S. James)	NYSE	37.13	2.8	17.3	1.68	4.5	37.88*	36.88	1,159.0	Old Rep Intl Corp	OTC	40.63	2.5	11.0	0.74	1.8	40.63	39.50	96.4
CONGLOMERATES/HOLDING COS.	AVERAGE	13.4			1.3					NYSE	34.13	1.9	0.0	0.76	2.2	34.63*	33.75	124.3	
Insurers										OTC	25.00	4.2	9.3	0.66	2.6	25.25*	24.75	48.4	
Aetna Life & Cas Co	NYSE	60.63	3.9	22.8	2.64	4.4	60.63*	58.38	1,750.1	Provident Life & Acc Ins Co	OTC	29.25	8.3	10.1	0.76	2.6	29.25*	27.13	753.4
American General Corp	NYSE	41.00	5.5	12.7	1.12	2.7	41.00*	39.00	1,482.6	St Paul Cos Inc	OTC	93.50	0.8	41.4	3.00	3.2	93.50*	92.75	258.7
Amerm Heritage Life Invnt Co	NYSE	39.25	0.6	14.7	1.20	3.1	39.50	39.25	1.9	SAFECO Corp	OTC	54.88	2.1	16.7	1.60	2.9	54.88*	53.13	348.7
American Indty Finl Corp	OTC	24.00	2.1	0.0	1.12	4.7	24.00*	23.50	21.6	OTC	19.13	0.7	0.0	0.80	4.2	19.25	19.00	60.7	
American Intl Group Inc	NYSE	122.13	3.3	30.5	0.44	4.4	125.75*	118.50	400.7	OTC	21.75	2.4	12.1	0.80	3.7	22.00	21.75	145.2	
Aneco Reins Ltd	OTC	0.88	0.0	0.0	0.00	0.0	0.88	0.88	0.0	OTC	6.38	-1.9	0.0	0.05	0.8	6.50	6.38	181.3	
Avemco Corp	NYSE	34.13	-11.4	13.4	0.60	1.8	38.75	33.13	204.3	Tokio Marine & Fire Ins Co	OTC	251.25	9.2	47.3	1.05	0.4	251.25*	238.50	26.9
Business Mens Assurn Co Amer	OTC	28.25	0.9	13.1	1.10	3.9	28.50	28.25	75.0	Torchmark Corp	NYSE	27.75	11.6	12.8	0.				

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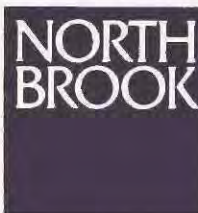
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