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update

Kaiser Steel eliminates health benefits for retirees

FONTANA, Calif.—The medical benefits of nearly 4,900 retirees of Kaiser Steel Corp. are being eliminated because the company does not have the funds to pay for the coverage, a company spokesman said.

Kaiser Permanente Medical Care Program, an independent health maintenance organization that provided coverage for 4,300 re-

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Oil firm sues insurers over political risk loss

By STEPHEN TARNOFF

LOS ANGELES—Occidental Petroleum Corp. is suing four of its political risk insurers for failing to reimburse it for part of the $68.1 million the oil company paid to the government of Peru last year to renegotiate petroleum production agreements.

The lawsuit, filed last month in Los Angeles County Superior Court, seeks to recover $9.1 million in claims payments from the insurers and an additional $125 million in punitive damages from the insurers and their claims representatives.

The insurers named in the suit are National Union Fire Insurance Co. of Pittsburgh, Pa., a unit of American International Group Inc.; Arkwright-Boston Manufacturers Mutual Insurance Co., a member of the Factory Mutual System; Athena Assurance Co., a unit of The St. Paul Cos. Inc.; and Aetna Insurance Co., a CIGNA Corp. unit.

Also named in the lawsuit are companies alleged to perform insurance claims administration or management services for the defendant insurers, including AIG Specialty Agencies Inc., which represented National Union; Pacific Mutual Marine Office Inc., which represented Arkwright-Boston; Atwater McMillian Inc., which represented Athena; and CIGNA Worldwide Inc., which represented Aetna.

The suit charges that the $9.1 million sought by Occidental is the four insurers' share of the $68.1 million Occidental promised to pay to the Peruvian government in March 1986 to maintain oil production agreements after the government threatened to confiscate Occidental's Peruvian operations.

The Occidental loss is "one of the largest" political risk claims on record, said a London broker who asked not to be identified.

Occidental already has recovered various amounts from settlements with its other political risk insurers, including underwriters at Lloyd's of London and various other London-based insurers, said Thomas P. Lambert, Occidental's outside counsel with the Los An-

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Policyholders to advise on rehab of Mutual Fire

By MICHAEL BRADFORD

PHILADELPHIA—A court-ordered committee of Mutual Fire, Marine & Inland Insurance Co. policyholders will analyze and comment on the proposed rehabilitation plan for the allegedly insolvent Philadelphia-based insurer.

Over the objection of the Pennsylvania Insurance Department, Judge James Crumlish Jr. of the Commonwealth Court of Pennsylvania last Wednesday ordered the formation of the policyholder committee to represent several thousand Mutual Fire, Marine policyholders.

The committee's costs—including fees charged by attorneys and experts—also can be submitted to the court for approval to be charged against the Mutual Fire, Marine estate, the judge ruled.

The Jan. 28 order delays until March 10 a hearing on the Pennsylvania Insurance Department's rehabilitation plan. The department had submitted its plan to the court Dec. 4 for a hearing Dec. 18.

The rehabilitation plan as filed calls for direct policyholders' claims to be paid in full and for other creditors, including ceding companies, to accept a combination of cash and surplus notes for money owed them.

Judge Crumlish ordered formation of a policyholder committee at the request of five commercial insurance policyholders.

Two of those policyholders complained to the court in a Jan. 12 motion, for example, that they did not have sufficient time or information to analyze the true financial status of the insurer and whether the proposed rehabilitation plan was in the best interests of Mutual Fire, Marine policyholders.

The two policyholders—Sun Coast Hospital Inc. of Largo, Fla., and Federal Realty Trust Inc. of Bethesda, Md.—argued that policyholders are entitled to comment on the plan because they are the largest group of creditors, their interests may be different from those of other creditors and because as mutual insurance company policyholders they own the company, the policyholders argued in court documents.

Mutual Fire, Marine was insolvent by $5.8 million at year-end 1985, according to court documents filed on behalf of Pennsylvania Insurance Commissioner George F. Grode. Assets totaled $115.9 million and liabilities totaled $121.7 million, according to the petition.

However, Sun Coast and Federal Realty question the accuracy of those figures.

Auditors currently are attempting to determine the insurer's assets and liabilities based on financial data through the first three quarters of 1986.

In addition to establishing a policyholder committee, Judge Crumlish also ordered that all "creditors, policyholders and other interested parties" be issued a new notice of the proposed rehabilitation plan postmarked no later than Feb. 2.

The new notices of the rehabilitation plan must announce formation of the policyholder committee and the judge's other orders, including that:

- Mutual Fire, Marine immediately make available all annual reports, certified financial statements, actuarial reports and reports of regulatory examinations. The information be available for at least 30 days at places designated by the Insurance Department and the insurer. Results of a current audit of the insurer's

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Rates for airline coverage moderate

By STACY SHAPIRO

LONDON—Hull insurance rates for commercial airlines are expected to decline for the first time in several years as capacity in the world aviation insurance market builds.

Several airlines that renewed their aviation insurance in December and January saw rates for hull coverage decrease by up to 22% compared with the previous year.

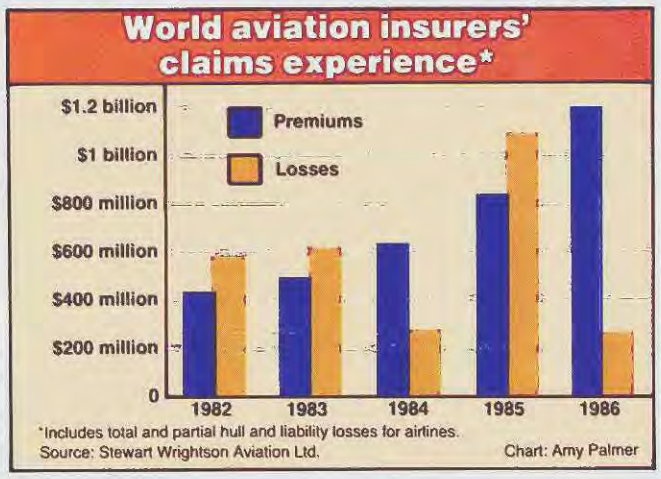
Other airlines have pushed their renewal dates from Jan. 1 to April 1—which is now considered to be the first major renewal date in the airline industry—in hopes that hull rate reductions will be standard by spring.

These airlines have extended their 1986 coverage for an additional three months.

Aviation insurance brokers and underwriters anticipate that, by the April renewals, hull insurance rates will be reduced for most airlines by as much as 10%, compared with an average 10% hull rate increase in 1986.

Airlines' liability insurance rates, on the other hand, will increase by a fraction of a percentage point for non-U.S. airlines and up to 50% for most U.S. airlines, brokers and underwriters say. Underwriters say rates for U.S. airlines are still rising because of high court awards in recent U.S. aviation disaster cases.

However, this year's increase in airline liability insurance rates will be much smaller than in 1986, when rates rose as much as 300% for some airlines.



Market observers are attributing the rate moderation to an increase in aviation insurance capacity, spurred by phenomenally good loss experience in 1986.

In other developments in the aviation insurance market:

- A "terrorist surcharge" will continue to be imposed for liability war risk insurance, but underwriters later this year will review whether the surcharge should be continued.

Aviation liability war risk underwriters last year imposed the surcharge—which ranged from 4 cents to 5 cents per 1,000 revenue passenger miles—following several aviation losses linked to terrorism (*BI*, June 23, 1986).

- Major U.S. airlines are looking for only $350 million to $500 million in liability insurance limits this year, compared with $750 million to $1 billion previously, because recent aviation disasters have proved lower limits are sufficient.

"Where airlines used to buy $750 million to $1 billion of liability insurance, now they are backing away. Most in the U.S. are now carrying $350 million to $500 million," said Robert Tyrone, vp of the national aviation and aerospace division at Alexander & Alexander Services Inc. in New York.

"Airlines' claims experience, even with major disasters, shows that you don't need more," he said.

The rate moderation is good news for airlines, who have paid increasing rates for several years for all types of aviation insurance to make up for record losses.

Aviation insurers paid $1.1 billion in claims in 1985 while collecting only $850 million in premium, according to Stewart Wrightson Aviation Ltd. And from 1982 through 1985, losses exceeded premiums by $180 million (see chart).

However, loss experience improved during 1986, with premium volume totaling $1.2 billion and claims totaling only $280 million, according to Stewart Wrightson.

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NEWSPAPER

update

Kaiser drops medical benefits

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tirees and 300 current employees, canceled coverage after the company failed to make its latest premium payment, the spokesman said.

Another 800 current employees and 600 retirees are covered by New York Life Insurance Co., which has not canceled coverage but has stopped processing claims until an agreement between the insurer and Kaiser can be reached, said the spokesman.

Current Kaiser employees can bill the company for their medical costs and be reimbursed, but retirees cannot because there is not enough money available, the spokesman said.

The United Steelworkers union has filed suit in U.S. District Court in Los Angeles seeking to restore the health care plan for those among the 6,000 who are covered under a 1984 union contract with Kaiser.

That agreement called for the continuation of the free medical benefits, noted Karen Feldman, a Steelworkers union attorney. She said she was unsure about how many of the 6,000 employees and retirees are covered by the agreement.

AIG execs join Columbia

NEW YORK—Former American Home Assurance Co. President Dennis Busti is joining Berkshire Hathaway Inc. subsidiary Columbia Insurance Co. as president and chief operating officer at the same time Columbia expands its commercial underwriting.

Joining Mr. Busti at New York-based Columbia is Executive Vp Dinos Iordanau and Senior Vp Michael Russo, both formerly vps with American Home, a subsidiary of American International Group Inc.

Mr. Busti said Columbia, with policyholder surplus of about $500 million, until now has written only "some limited specialty, ad hoc and reinsurance business."

Initially, Columbia will concentrate on writing commercial casualty insurance, mostly excess and umbrella coverages, according to Mr. Busti. "We've got a great many submissions and are prepared to bind coverage," he added.

AIG named Joseph R. Wiedemann as president of American Home in New York. Mr. Wiedemann formerly was president of AIG's Boston surplus lines subsidiary Lexington Insurance Co.

Kevin H. Kelley, formerly executive vp at Lexington, has been named president of Lexington.

Western Employers shuts down

SANTA ANA, Calif.—Western Employers Insurance Co. stopped writing all new and renewal business effective Jan. 1 and has commenced running off its business.

Santa Ana, Calif.-based Western Employers, a unit of Peter Kiewit Sons' Inc. Group, wrote three major categories of coverage: workers compensation, primarily in California; commercial property; and directors and officers liability, said G. Todd Stress, executive vp.

The decision caps more than a year of major changes in the insurer's management and business operations, which included discontinuing unprofitable lines of business such as D&O insurance, several unsuccessful attempts to sell the company and closing several branch offices. Claims administration is now centralized in the Santa Ana, Fullerton and San Mateo, Calif., offices.

The insurer, part of Kiewit Continental Inc. in Norwalk, Conn., also expects to reduce employees to 200 from 295 by year-end.

The insurer had a policyholder surplus of $22 million as of Sept. 30, 1986. Its current assets total approximately $270 million.

Andersen judgment upheld

WASHINGTON—Arthur Andersen & Co. must pay $17 million, plus up to $3 million in post-judgment interest, to Manufacturers Hanover Trust Co. following the U.S. Supreme Court's refusal last week to review an award involving losses the bank suffered following the 1982 collapse of Drysdale Government Securities Inc.

The high court let stand a March 1985 federal court jury's decision that Chicago-based Andersen, which audited Drysdale, violated three sections of federal securities laws and was guilty of common law fraud and negligence. The decision was later upheld by an appellate court (*BI*, Sept. 15, 1986; April 1, 1985).

Still to be decided by the trial court is whether Manufacturers Hanover is entitled to pre-judgment interest, which could amount to $6 million, according to one source.

An Andersen spokesman said the company was disappointed the high court did not review the case because it believes Manufacturers Hanover did not suffer significant losses due to its reliance on Andersen's report on Drysdale's finances.

Andersen is believed to have adequate insurance to cover the award.

Rocket designer sues employer

WASHINGTON—A Morton Thiokol Inc. engineer is suing the company for $1.1 billion, alleging that it and the National Aeronautics and Space Administration tried to publicly discredit him after he testified before a panel investigating last year's space shuttle disaster.

The engineer, Roger Boisjoly, also filed a $10 million claim against NASA Jan. 29 under the Federal Tort Claims Act.

Mr. Boisjoly, who helped design the shuttle's solid rocket booster, testified before a presidential commission that he and other engineers had repeatedly warned Thiokol and NASA about defects in the design of the booster made by Thiokol (*BI*, Feb. 3, 1986).

The suit against Thiokol, filed in U.S. District Court in Washington on the anniversary of the disaster, seeks $1 million in compen-

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First captive comes ashore under Risk Retention Act

By JERRY GEISEL

MONTPELIER, Vt.—The first captive insurance company to come ashore as a risk retention group under the newly expanded Risk Retention Act is now writing product liability coverage.

MEDMARC Ltd., a Bermuda-based group-owned captive that has reinsured product liability coverage for medical equipment manufacturers since 1979, was licensed late last month in Vermont as MEDMARC Insurance Co. Risk Retention Group Inc.

In addition, MEDMARC members can now obtain up to $5 million of product liability insurance through the MEDMARC program.

National Union Fire Insurance Co. of Pittsburgh, Pa., writes a maximum of $5 million in coverage for MEDMARC members, up from $1 million under the Bermuda program. MEDMARC now reinsures the first $1 million in coverage, up from $500,000 under the old program.

While MEDMARC had been considering coming ashore for some time because of its rapid growth, last year's expansion of the Risk Retention Act gave the captive added impetus to make the move, said MEDMARC President Jaxon White.

"The opportunity to move was irresistible," Mr. White said, explaining that operating a captive in the United States will be more economical than it was offshore.

"We have always filled a pathfinder role, and we are certain others will follow us to Vermont," said Mr. White, who also is president of Fairfax, Va.-based Hamilton Resources Corp., which is a consultant and managing general agent for the MEDMARC program.

Mr. White said the captive's increased tax liability under provisions in the Tax Reform Act of 1986 was not a factor in MEDMARC's decision to come onshore, but acknowledged that the captive's tax liabilities will be about the same onshore as they would have been offshore.

Simultaneous with MEDMARC's licensing was the licensing of City Attorney Liability Mutual Risk Retention Group Inc., a risk retention group organized by several New York law firms to write professional liability coverage. Details about the attorneys' risk retention group were not available last week.

"The licensing of these two groups is a signal to the world that we are attracting risk retention groups," said Jonathan Stevens, a Burlington, Vt., attorney and an expert on Vermont's captive statute.

Under the amended Risk Retention Act, signed by President Reagan in late October, businesses and professionals can band together in special multiple-owner captives—called risk retention groups—to self-fund all their commercial liability risks except workers compensation.

Under the original 1981 Risk Retention Act, risk retention groups could only provide product liability and completed operations coverage.

A risk retention group that is chartered in one state is free to operate nationwide without having to obtain

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City must fund COLA shortfall, court rules

By STEVE TARAVELLA

FRESNO, Calif.—The city of Fresno—not its pension plan participants—must pay the $17.2 million of unfunded liabilities in the plan's COLA fund for participants' past service, a state appellate court says.

The California Court of Appeals in Fresno has ruled that the city violated provisions of the state Constitution by attempting to recoup the shortfall in the cost of living adjustment fund by retroactively assessing active employees without offering participants a corresponding benefit.

The ruling, handed down Dec. 3, 1986, means that monies to make up the shortfall will have to come "from the public taxpayer, without question," said Edwin Oeser, Fresno assistant city attorney.

The court also ruled that active employees and the city must equally share the responsibility for covering $22 million of unfunded future liabili-

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Dar Allen denies it acted improperly

By DOUGLAS McLEOD

FREEPORT, Ill.—Dar Allen Reinsurance Agency Inc. last week denied allegations that it acted improperly in its handling of reinsurance business for American Centennial Insurance Co. and Mead Reinsurance Corp.

Bermuda-based Walton Insurance Ltd. sued ACIC and Mead Re in December 1986, charging the two reinsurers and the Dar Allen agency, their managing general agent, with several improprieties in the handling of business ceded to Walton (*BI*, Jan. 12).

Walton—a unit of Phillips Petroleum Co. that no longer is writing commercial reinsurance business—alleged that:

- Dar Allen reported reinsurance premiums net of ceding commissions as gross written premiums in some cases.

As a result, double commissions may have been taken, the suit charged.

- Reserves on business produced by Dar Allen were grossly understated—in one group of cases by nearly 1,000%—and that Dar Allen maintained no reserves for loss adjustment expenses.
- Dar Allen wrote medical malpractice business even though it was specifically excluded in retrocessional agreements.
- Dar Allen improperly sub-delegated binding authority for ACIC and Mead Re to several brokers.

Dar Allen ceased underwriting last year and currently is running off all of its business except that managed for ACIC and Mead Re, which have taken back administration of their books, according to Thomas G. Butler, executive vp and chief operating officer.

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inside

✓ Benefit managers should warn corporate management that retiree health care plan liabilities are mounting and insist that these liabilities be measured and projected, this week's editorial says. **PAGE 8**

✓ Worldwide, a *BI* column devoted to news from around the world, reports that Swiss chemical manufacturer Ciba-Geigy A.G. has bolstered its product storage safety procedures following last year's chemical spill in the Rhine river. **PAGE 14**

✓ In International Issues, Jerome Karter, a vp with Johnson & Higgins, asserts that foreign operations of multinationals have as much to gain from loss control efforts as U.S. operations, especially considering worldwide disparities in safety standards. **PAGE 24**

✓ The cost of risk declined as a percentage of corporate revenues in both 1983 and 1984, according to a survey conducted on behalf of the Risk & Insurance Management Society. But, the survey notes that following 1984, the last year covered by the survey, corporate cost of risk started to increase. **PAGE 26**

✓ Anticipating huge pollution liability claims, the Institute of London Underwriters and marine syndicates at Lloyd's of London are drafting exclusions for land pollution and non-marine casualty risks they hope to introduce to excess-of-loss liability reinsurance contracts beginning on March 1. **PAGE 36**

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Most firms ignore retiree health costs

By ALISON KITTRELL

Although a majority of corporate benefits officials express concern about the potential cost of retiree health care benefits, a disappointing few have any idea about the actual cost and even fewer have any concrete plans for dealing with it, a recent survey shows.

Most benefit managers say that retiree health care costs currently are under control, but 47% say these costs will become a major problem for their company within 10 years, and an additional 37% predict they will become a minor problem, according to "The Equicor Health Care Survey IV: Looking to the Future of Retiree Health Benefits," conducted for Equicor by Louis Harris & Associates.

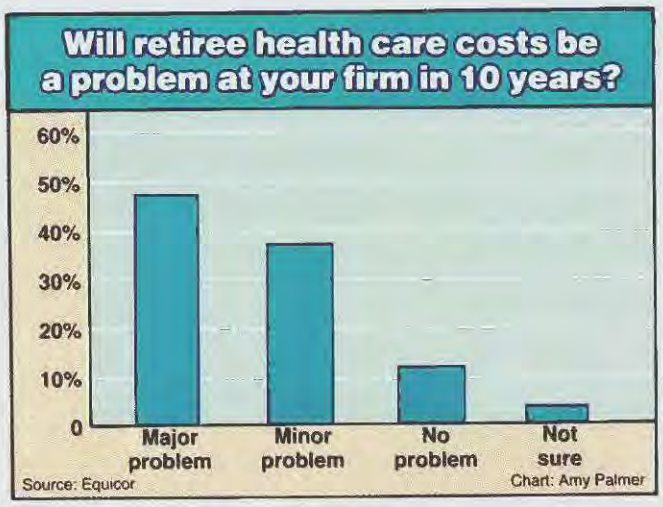
The current total corporate liability for retiree health care has been estimated at as much as $100 million, and the number of retirees covered by corporate health plans is expected to double over the next 10 years, according to survey.

And, the survey notes that despite this concern about the future cost of retiree health care, corporations are doing little to prepare for the future.

For example, only 31% of the companies that provide retiree health care benefits have projected the cost of these benefits beyond 1986.

"Ignorance and an unwillingness to address the problem characterize most companies' efforts to manage the future cost of retiree health benefits," the survey authors say. "A head-in-the-sand approach toward managing future liability for these costs appears to be the norm among corporations."

"I don't think there were any radical surprises" in the survey findings, said Thomas Ferguson, an Equicor vp in New York. Most Equicor clients, he noted, are only beginning to come to grips with the problem of retiree health care.



The problem of retiree health care liabilities varies according to the type of company, he noted. For example, relatively young companies with few retirees may have little problem.

But, Mr. Ferguson said, "This is particularly a problem for mature companies that may have fewer employees than they once did."

And, he noted that retiree health care benefits "become an issue particularly when a company is selling off part of its operation," because those promised benefits may represent a substantial financial obligation.

The ultimate issue, he notes, is whether such benefits should be prefunded, "and the answer is probably yes, they should be."

However, only 27% of companies prefund retiree health care benefits, because reserves are only partially tax-deductible and earnings attributable to the reserves are fully taxable, according to Equicor.

Far from prefunding these liabilities, most companies don't even have a clear picture of what their liability is for retiree health care costs. And, a similar lack of awareness exists among retirees and current employees, who also were questioned for the survey about their health care needs and expectations. For example, only 15% of the retirees said they worry about how they would pay for nursing home care (see story, page 35).

In conducting the Equicor survey, Louis Harris interviewed three groups of people: 1,005 current employees, 501 retirees and 500 corporate benefits officers at companies with 500 or more emloyees.

In its interviews with corporate benefits officers, Equicor found:

- Nearly half of the companies provide retiree health care to employees who retire before age 65, and 38% provide the coverage to those who retire after age 65.
- The most common type of coverage offered is the "Medi-

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Federal court orders pollution defense

By STEPHEN TARNOFF

NEW YORK—A policyholder can recover the cost of defending a pollution lawsuit from its primary and excess general liability insurers despite a pollution exclusion in the policies, another federal judge has ruled.

Meanwhile, a state court in Michigan says a policyholder is entitled to defense and indemnification from its liability insurers for suits stemming from a toxic chemical leak, but an Illinois state court has ruled that a group of liability insurers do not owe their policyholder defense or indemnification for a pollution lawsuit (see story, page 32).

In New York, U.S. District Court Judge Edward Weinfeld ruled that Beaver Smelting & Refining Corp. and Woodbourne Mining Smelting & Refining Corp. are entitled to coverage for defense costs under primary and excess general liability policies written by CNA Financial Corp. units.

Judge Weinfeld ruled that CNA must pay defense costs on a pro rata basis with National Grange Mutual Insurance Co., which under a prior settlement agreed to reimburse Beaver and Woodbourne for the cost of defending a Superfund claim.

However, the judge also held that CNA does not owe Beaver and Woodbourne a defense under an environmental impairment liability policy and that CNA does not have to pay the companies' legal costs stemming from the insurance litigation.

An attorney for CNA last week said the insurer has filed a motion for re-argument of the portion of Judge Weinfeld's decision that held CNA liable for defense costs on the excess policies it wrote. The insurer also is seeking clarification on how CNA and National Grange should split the defense costs.

CNA currently is not asking the 2nd U.S. Circuit Court of Appeals to review Judge Weinfeld's decision on the pollution exclusion, but it may, said CNA attorney John L. Rivkin, with the Uniondale, N.Y., firm of Rivkin, Radler, Dunne & Bayh.

The decision is another in a series of ruling on coverage for pollution liability. Rulings generally have favored policyholders,

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Too-low work comp rates will be hiked, NCCI says

By CAROL CAIN

Workers compensation rates across the United States are an average of 12% too low, contends the nation's largest workers compensation rating organization.

Because of this rate inadequacy, workers compensation insurers in many states will seek rate increases when they submit rate filings this year, said Richard I. Fein, a recently appointed executive vp at the National Council on Compensation Insurance in New York.

The NCCI is a workers compensation rating, research and statistical organization that files rates on behalf of its insurer members in 32 states, while providing similar assistance in half of the remaining states.

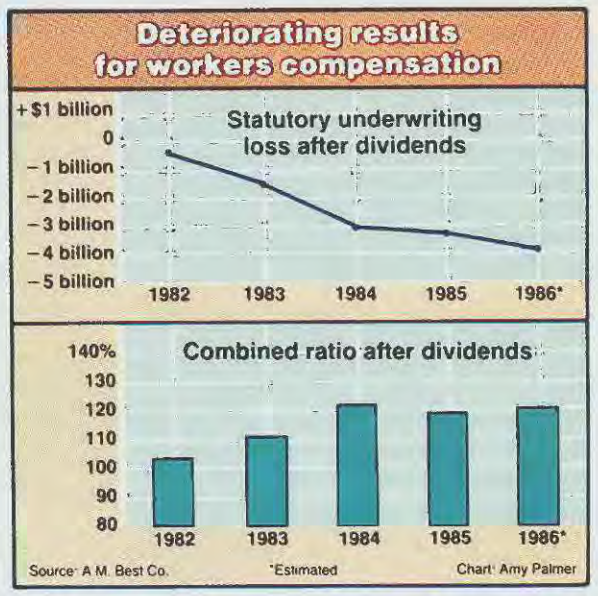
In addition, provisions in the new federal tax law are expected to change workers compensation insurers' investment and tax strategies, which also could lead to higher workers compensation rates, says Daniel J. McNamara, chairman of the Insurance Services Office in New York.

Rate increases approved last year in several states that will take effect this year will help workers compensation insurers cut their losses, but there still is a need for higher rates since losses are continuing to rise, Mr. Fein said.

The NCCI estimates that workers compensation insurers will report a $3.8 billion underwriting loss for 1986 on gross premiums of $19 billion, he said. That will work out to an estimated 120% combined ratio for workers compensation insurance, an indication that higher rates are needed, Mr. Fein said.

These NCCI estimates are based on third-quarter commercial insurer results and do not include statistics from state funds, Mr. Fein said.

A.M. Best Co. estimates that workers compensation insurers will report a 120.5% combined ratio for 1986,



up from a 119.0% combined ratio in 1985. Workers compensation insurers' statutory underwriting loss grew 23.9% to an estimated $4 billion in 1986 from $3.23 billion the previous year, Best reports.

In addition, the aggregate workers compensation combined ratio has increased in three of the past four years, while underwriting losses have risen in each of the past four years, according to Best (see chart).

While neither the NCCI's nor Best's statistics include state workers compensation funds, state funds' performance historically has followed trends set by com-

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Heavy metal lyrics spark product suit

By MICHAEL BRADFORD

RENO, Nev.—CBS Records is facing a product liability charge in a lawsuit that claims a record album the company distributes is responsible for the death of one teenager and another's attempted suicide.

The record maker and its parent, CBS Inc., were named in two suits filed last year in Nevada's 2nd Judicial District Court in Washoe County.

The suits, which seek in excess of $10,000, have since been consolidated and a trial date for the case could be set soon. Also named are members of the rock group Judas Priest and the Record Corral music store, where the teen-agers purchased the record.

Under Nevada law, plaintiffs cannot seek a specific damage amount in civil suits. Instead, once the case goes to trial, the plaintiff must prove actual damages and argue for non-economic damages, like pain and suffering. The amount of actual and non-economic damages, if awarded, are determined by a jury.

The complaints were filed by the mother of 18-year-old Raymond Belknap and by James Vance, 19. Under Nevada law, both Mr. Belknap and Mr. Vance were considered adults at the time of the incident.

According to court papers, Mr. Belknap and Mr. Vance drove to the First Church of God playground in Washoe County on Dec. 23, 1985, and shot themselves after listening to a recording of rock group Judas Priest's album "Stained Glass."

Mr. Belknap was killed when he shot himself in the head with a shotgun. Mr. Vance survived a suicide attempt with the gun but was left disfigured by the self-inflicted wound.

The lawsuit charges that the death of Mr. Belknap and the injuries suffered by Mr. Vance were "precipitated by the lyrical instructions of the music. . .which created an uncontrollable impulse to commit physical harm to oneself or suicide."

The suit charges that the defendants should have known the music on "Stained Glass" has "a substantial impact on and influences the emotions and behavior" of listeners. The papers say that "the suggestive lyrics, combined with the continuous beat and rhythmic non-changing intonation of the music combined to induce, encourage. . .and otherwise mesmerize" the plaintiffs into believing "the answer to life was death."

Specifically, the lawsuit points to the lyrics in two of the album's heavy metal tunes entitled "Beyond the Realms of Death" and "Hero's End."

The papers go on to say that because of the "defective product," Mr. Belknap's parents and Mr. Vance have incurred damages in excess of $10,000.

Timothy Post, a Reno attorney representing Mr. Vance, said he is pursuing a product liability argument in the case because the music "is a product. Anyone who makes a product and puts it in the stream of commerce has to be responsible for injuries that come out of that product."

He is charging in the suit that the record company was negligent by not putting a warning on the album cover about the record's lyrics, which Mr. Post says promote a cultlike worship of the band.

CBS Records would not comment on the lawsuit, saying its policy is not to discuss matters that are in litigation.

However, this is not the first time CBS has faced these charges, according to the record company's attorney, Suellen Fulstone of Woodburn, Wedge, Blakely & Jeppson in Reno. Ms. Fulstone said that although she was somewhat unfamiliar with the details,

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Occidental suit

Continued from page 1

geles firm of Mitchell, Silberberg & Knupp.

Mr. Lambert declined to reveal the amount of those settlements.

A portion of the first layer of Occidental's $411.2 million in political risk coverage in force at the time of the payment to the Peruvian government was reinsured with Occidental's captive insurer, Piper Indemnity Co. in Bermuda, Mr. Lambert said. Lloyd's syndicates also participated on the first layer.

The coverage was in effect from Aug. 15, 1985, to Aug. 15, 1986, according to the complaint.

Of the $411.2 million in coverage, court papers show National Union wrote $34 million or 8.27% of the total; Arkwright-Boston wrote $5 million or 1.22%; Athena wrote $10 million or 2.43%; and Aetna wrote $6 million or 1.46%.

The layers on which each of the insurers participated are not known.

Occidental said it paid more than $2 million in premiums to National Union, $150,000 to Arkwright-Boston, $180,000 to Aetna and $300,000 to Athena.

According to the suit, an Occidental subsidiary—Occidental Petroleum Corp. of Peru, Sucursal del Peru (OPC-Peru)—entered into operating agreements in 1980 with a Peruvian government-owned oil company, Petroleos del Peru-Petroperu S.A. (Petroperu), to engage in petroleum production.

Under the agreements, OPC-Peru obtained the right to operate existing oil wells and build new wells to extract oil from two tracts in the Peruvian jungles.

OPC-Peru installed and maintained property, plants and equipment in Peru valued at more than $650 million, Occidental's complaint said.

In 1985, Occidental purchased insurance for OPC-Peru operations that covered Occidental and OPC-Peru against the "political risk" of confiscation, expropriation, appropriation, seizure and other governmental action in Peru, according to the suit.

On Aug. 29, 1985, the president of Peru issued a decree rescinding the OPC-Feru's operating agreements but provided a period under which new contracts could be executed.

To obtain new contracts and to avoid confiscation of all of its operations in Peru, Occidental and OPC-Peru's representatives were informed that OPC-Peru would have to agree to pay Peru $36.6 million and to issue three notes maturing successively each year on Aug. 30 beginning in 1986 equal to $31.5 million, or a total of $68.1 million.

In March 1986, OPC-Peru executed new contracts with Petroperu that allowed the Occidental unit to continue its operations in Peru.

"Accordingly, even though Occidental disputed the position of Peru and believed in good faith that it was fully entitled to any and all benefits OPC-Peru had received under said decrees or utilized in 1985, Occidental and OPC-Peru were forced and coerced into agreeing to pay said sum of $68,116,000 to avoid a total, complete, and final confiscation of the entirety of OPC-Peru's property, plant and equipment in Peru," the complaint says.

Reasonably believing that its entire operations in Peru would be confiscated and that it would suffer a loss in excess of the $411.2 million in political risk insurance limits, Occidental agreed to pay the $68.1 million, the complaint adds.

The suit charges that Occidental's insurers had a duty to reimburse Occidental for all costs incurred by it to avoid or diminish a loss.

Occidental's payment of the $68.1 million actually conferred a benefit upon each of its political risk insurers, the suit says, since the insurers were spared paying their entire limits.

As a result, the suit asserts that under the policies, each of the insurers must reimburse Occidental to the extent of the value of the benefit conferred on each insurer and to prevent their "unjust enrichment."

Occidental contends that "the benefit conferred upon each underwriter defendant is measured by the ratio that its coverage limit bears to the combined coverage limit of $411.2 million, multiplied by $68,116,000."

Following this reasoning, Occidental alleges that it is owed $9.1 million by the four insurer defendants, with National Union owing $5.6 million, Arkwright-Boston owing $828,000, Athena owing $1.6 million and Aetna owing approximately $1 million.

"The underwriter defendants have breached and repudiated the 1985 political risk insurance policies by failing and refusing, and continuing to fail and refuse, to pay Occidental their respective shares of said $68,116,000 paid and to be paid by Occidental to avoid and/or diminish a loss, despite demand therefore," the Occidental suit adds.

In addition to the $9.1 million, Occidental also is seeking to recover from the four insurers additional economic damages, including the value of the use of the money it is owed. It also seeks attorneys' fees.

In addition, because of the "conscious disregard of Occidental's rights" by the insurers and their claims representatives, the suit seeks $100 million in punitive damages from National Union and AIG Specialty Agencies Inc. It seeks an additional $25 million in punitive damages from the remaining insurers and their representatives.

In the alternative, the complaint seeks a ruling from the court that Occidental is entitled to a refund of $667,500—or 25% of the premium paid to the four insurers—including $510,000 from National Union, $37,500 from Arkwright-Boston, $45,000 from Aetna and $75,000 from Athena.

In the suit, Occidental charges breach of written insurance contracts against National Union, Arkwright-Boston, Athena and Aetna, and tortious breach of the covenant of good faith and fair dealing and breach of statutory duties under the California Insurance Code against all of the defendants.

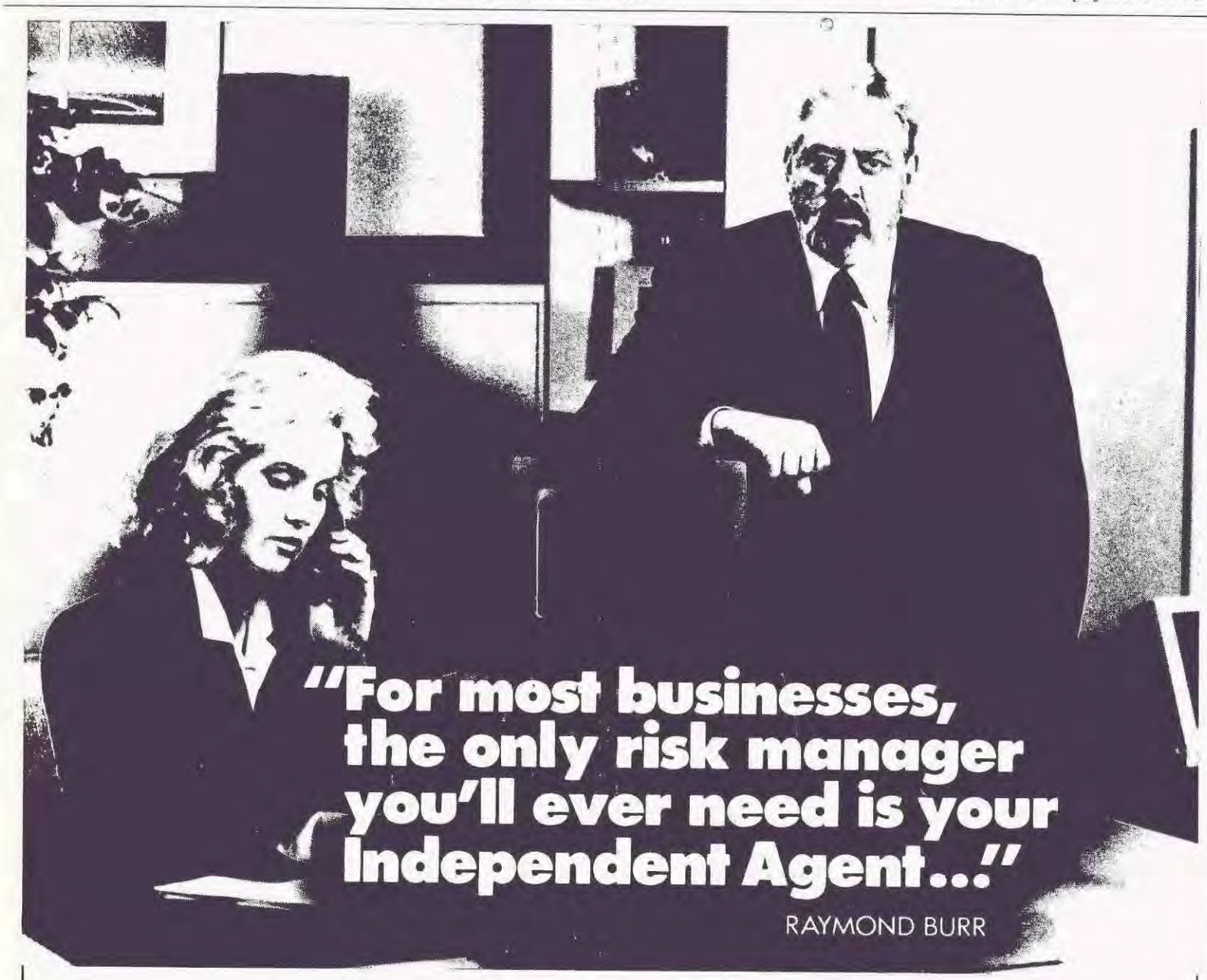
Occidental alleges the defendants failed to properly investigate Occidental's claim, failed to explain their denial of Occidental's claim, were dilatory in responding to Occidental's demands and failed to effectuate a prompt, fair and equitable settlement of Occidental's claim when responsibility had become reasonably clear.

The insurers and their claims representatives "wrongfully and in bad faith failed to properly investigate the claim by Occidental. . .(and) failed to explain the denial of Occidental's claim," the suit alleges.

Spokesmen from AIG and CIGNA declined comment on the lawsuit. Arkwright-Boston's general counsel referred inquiries to an official at Mutual Marine Office Inc. in New York, who could not be reached for comment.

A spokesman for St. Paul, Athena's parent, declined to comment on the suit, citing the company policy of protecting the privacy of its policyholder. He noted, however, it is "a very complex, international issue in which Athena had a very small part."

The defendants have not yet filed answers to the Occidental complaint. ■



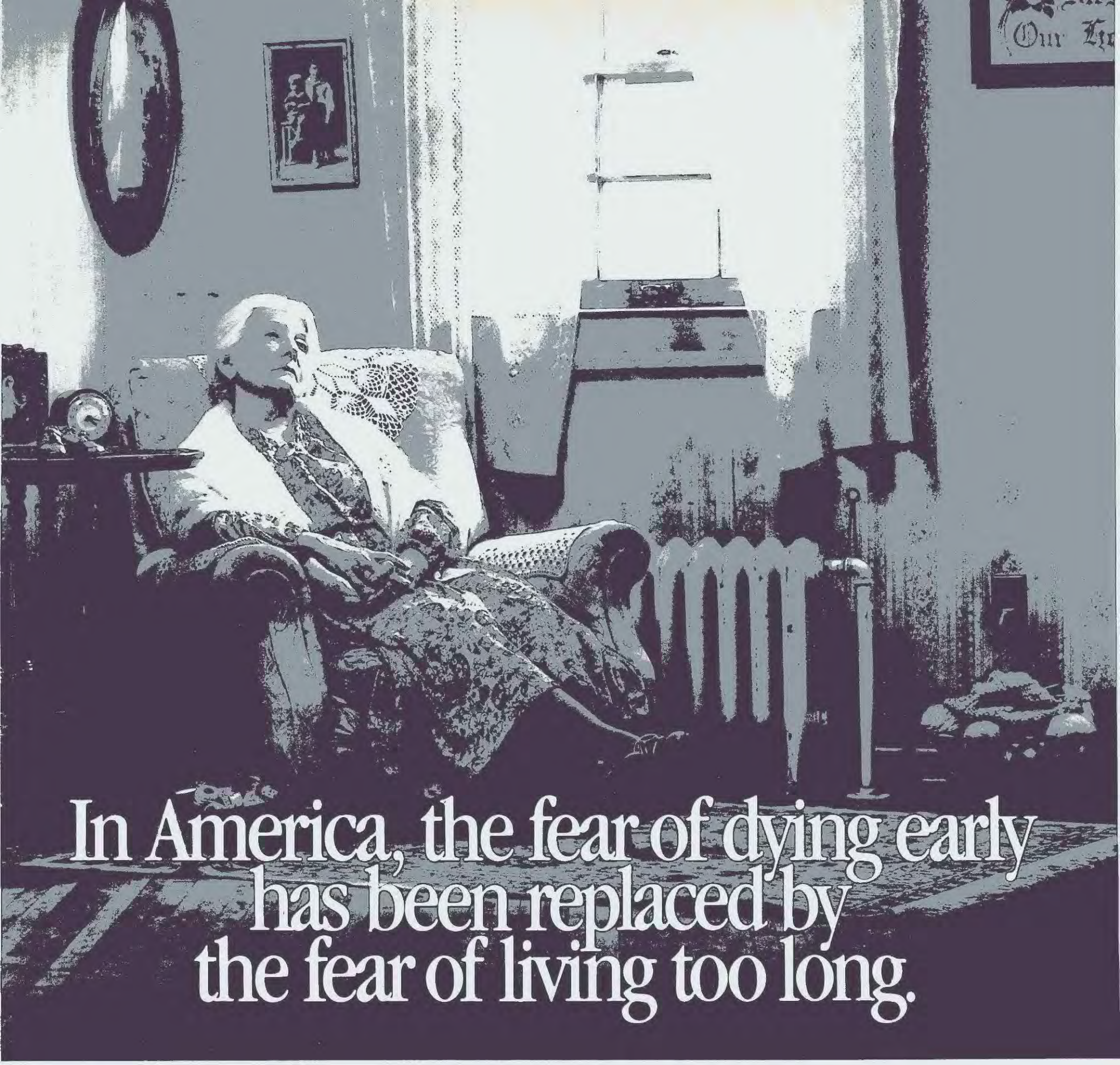
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A&A drums up interest in EIL facility

By ROBERT A. FINLAYSON

Alexander & Alexander Services Inc. hopes to raise $50 million in capital to allow EPIC to offer environmental impairment liability coverage limits of $5 million per claim with a $10 million annual aggregate.

LOS ANGELES—Officials at Alexander & Alexander Services Inc. are optimistic they will raise up to $50 million to capitalize a proposed risk retention group that would write environmental impairment liability insurance primarily for small to medium-sized companies.

Several hundred people attended informational meetings held in the past two weeks in Chicago, New York, Los Angeles, Houston and Dallas to discuss the proposed risk retention group, said Harry L. Shuford, a vp with A&A in New York.

Potential investor-policyholders attending the five meetings expressed great interest in the facility, to be called Environmental Protection Insurance Co., he said.

The facility would write environmental impairment liability coverage on a claims-made basis (*BI*, Jan. 19; Dec. 8, 1986).

A&A hopes to raise $50 million in capital to allow EPIC to offer EIL coverage limits of $5 million per claim with a $10 million annual aggregate.

Alexander & Alexander officials say they do not believe the facility will be able to line up reinsurance support.

About 500 participants would have to contribute about $100,000 each, depending on the number of sites insured, to raise the $50 million in capital needed to get EPIC off the ground, Mr. Shuford said. He acknowledged that A&A executives still have "a lot of work ahead of us."

The average premium also would be about $100,000 annually, Mr. Shuford said.

If A&A is successful in raising the capital, EPIC will be incorporated in Illinois as a wholly owned subsidiary of a Delaware holding company, he said.

Mr. Shuford said EPIC is primarily designed for small and mid-sized companies that have not been able to obtain EIL coverage from commercial insurers or for companies that have found commercial coverage too costly and may not have the capital required to participate in the "megabuck" EIL captives that have been proposed in the past year.

However, Mr. Shuford noted that A&A also has been approached by several large companies that are interested in joining EPIC.

The EPIC policy, which is still in draft form, will provide EIL coverage on a claims-made basis with defense costs included within policy limits, explained Robert Grella, a vp with Alexander & Alexander in Philadelphia.

Policies written by EPIC would cover bodily injury and property damage arising from both gradual and sudden and accidental pollution releases, Mr. Grella said.

Policies would include a standard $25,000 deductible and exclude coverage for automobile and product liability and any liability associated with acid rain, radon gas, asbestos, earthquake damage or spent nuclear fuel.

Policies also would exclude coverage for underground storage tanks unless specifically endorsed to cover such exposures.

Mr. Grella said the EPIC policy will be written on a site-specific basis, and potential participants will be required to obtain an independent risk assessment of each site.

Guidelines for those assessments were developed for A&A by Environmental Strategies Corp., an environmental risk assessment firm located in Vienna, Va.

Lynne M. Miller, president of Environmental Strategies Corp., said the risk assessments required by EPIC are likely to cost $6,000 to $8,000 per site.

The timetable established by A&A for EPIC calls for regional committees, drawn from among potential participants, to meet in mid-February to review the proposed facility's draft policy language and business plan.

Enrollment would begin in April, with initial capitalization in July, according to the timetable.

A loss analysis and financial projection for EPIC should be available soon, according to Mr. Shuford, who previously was with Fred S. James & Co. Inc.

W. Lee Carter, director of research and development for A&A, told attendees at the EPIC meeting in Los Angeles that incorporating the facility as a risk retention group will make it easier to raise the needed capital and will give the facility greater operational flexibility than a traditional captive.

He noted that as a risk retention group chartered in one state, EPIC would be able to operate as a licensed insurer in all states.

Because of the level of interest in EPIC, A&A plans to hold two additional meetings for potential participants in Philadelphia and in another location to be determined. ■

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RISK CONTROL

Q. **Is there such a thing as too much risk control?**

A. ...the cost of control can easily exceed the cost of exposure...In order to deal with this, you should establish a budget for risk control and track or monitor results in accord with that budget.

Q. **How can I measure the effectiveness of risk control?**

A. ...there should be specific criteria established to measure the degree of effectiveness...These criteria must be measurable, quantifiable and relative to an exposure base.

CLAIMS ADMINISTRATION

Q. **If my ultimate workers compensation costs either under a self-insured or insured program are based on my loss experience, is there anything I can do to control that cost?**

A. The effective coordination of Claims, Vocational Rehabilitation, and Risk Control can achieve substantial reduction in loss experience and ultimately reduce your workers compensation cost.

Prompt investigation of claims and coordination of defense activities should result in the prompt payment of valid claims and effective compromise or defense of those which are questionable...

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opinions

Unknown, but dangerous

MOST EMPLOYERS that provide post-retirement health care benefits are in for a nasty surprise: the ultimate cost of these plans.

Too many employers that provide post-retirement health care benefits don't know the amount of unfunded liabilities they are accruing. More than two-thirds of employers are in this undistinguished camp, according to a recent survey sponsored by Equicor (see story, page 3). Only 31% of the surveyed employers sponsoring retiree health care plans have projected their cost.

This has to change. As the Equicor survey points out, new developments are increasing the cost of retiree health care plans: the growing retiree population, increased life expectancy and high medical care cost inflation. As a result, "A crisis looms for businesses which provide retiree health benefits," the Equicor survey reports.

It's up to employee benefit managers to warn management that retiree health care plan liabilities are mounting and to insist that these liabilities be measured and projected.

We can sympathize with employee benefit managers who are swamped with work involving the employee benefit changes mandated by the Tax Reform Act of 1986 and the health care continuation provisions of the Consolidated Omnibus Budget Reconciliation Act. They have enough work to do and enough bad news to report to management without looking for more. And, we appreciate that no one wants to go to management with bad news.

Nonetheless, employers providing health care benefits to retired workers must recognize their liability for these benefits, project future costs and plan how to fund for these liabilities.

As we have suggested before, tax laws should be changed to encourage employers to prefund retirement health care plans. Today, only 27% of employers providing retirement health care benefits prefund the plans, according to Equicor.

And, we endorse the proposal before the Reagan administration to give favorable tax treatment to pension plan asset reversions that are used to prefund post-retirement health care benefits.

In addition, we encourage the Financial Accounting Standards Board to pursue the proposal now before it to require companies to disclose in their financial statements their liabilities for unfunded retiree medical benefits. This disclosure not only would present a more accurate picture of a company's finances, but it also might encourage employers to fund retiree health care benefits. At the very least, it will force employers to come to grips with the amount of these liabilities, which are estimated to total as much as $100 billion.

We realize this is not a popular position to take. Only about a third of benefit managers surveyed by Equicor say that requiring employers to disclose unfunded liabilities for retiree health care benefits would be a very helpful or at least somewhat helpful government policy change.

Eventually, we expect Congress will mandate prefunding of retiree health care benefits just as pension plans must be prefunded. But, the prudent employer will not wait for the government mandate to begin to tackle this important problem.

letters

The current tight market is only part of a cycle

To the editor: Thomas C. Radziewicz makes an important point in his Speaking Out column (*BI*, Jan. 12) that deserves to be repeated: "Many buyers are making long-term commitments. . .to solve a short-term insurance problem." Many risk managers seem to have overlooked the fact that the latest down cycle is just that—a cycle.

Sound management practices require that both the short-range and long-range consequences of a new program be considered.

Many organizations are locking themselves into programs that require a significant commitment and restrict independent action, assuming there is no other choice. While this may be true for some organizations, many can handle the current short-term problems without such extreme measures.

It is important to remember that approaches that can generate commissions and fees will be heavily and creatively promoted. Simpler approaches will not always enjoy promotion by talented marketers but do still deserve consideration. For some organizations all that is needed is an expansion of existing risk management programs, including safety and self-insurance.

The approaches widely discussed today have their applications, whether they involve specialized outside services or simpler internal changes. It is the risk manager's obligation to determine which approach is consistent with the organization's philosophy, best addresses the organization's needs and serves legitimate management and risk management purposes.

Implementing change only for the purpose of generating activity or just to embrace a glamorous concept is poor management.

Roy A. Clarke
Risk Manager
City of Beverly Hills, Calif.

Headlines paint an overly optimistic picture of insurance market

To the editor: The Jan. 5 issue of your excellent magazine was, for the most part, a review of insurance availability as respects pending renewals.

The headlines of the individual articles —"Capacity Opening Up With Dawn of 1987," "Availability Problems Easing: NAIC Studies," "Problems Ease for Most Lines: Insurers," etc.—were most encouraging. Unfortunately, in my opinion and in the opinion of many of my colleagues and brokerage contemporaries, they were also somewhat misleading. The bodies of the articles in question, however, did provide a more accurate picture of the current situation—namely, the property market (never really a severe problem)—had eased and that liability insurance was now at least available *for a price*. And there's the rub.

There are, regrettably, underwriters whose prices scream of fear (charitably thinking), or greed and overreaction. It would seem that such underwriters are intent upon having the insuring public retroactively pay for the past folly of these same underwriters, because the prices being demanded in such a cavalier manner would not appear to bear too much of a relationship to the exposures involved. In some cases, such underwriters provide the only game in town, and the policyholders have no option but to accede and pay usurious prices for the privilege of delivering required certificates of insurance.

When this situation improves, the article headlines will ring more true. Until then, headline scanners had better penetrate those headlines.

George J. Guess Jr.
Vp
John M. Riehle Inc.
New York

Rates at Royal are still going up, not down

To the editor: Unfortunately, my comments on rates as reported by *Business Insurance* in your property/casualty insurance market report (*BI*, Jan. 5) are not technically correct, and, as written, convey an impression that Royal Insurance Group's pricing on package business has deteriorated markedly. One could also read into the quote that we are reducing our prices!

This interpretation of my comments is not accurate.

The context in which we were discussing pricing package business was the relationship of pricing during the last quarter of 1986 compared with price level achievement during the first three quarters of 1986.

I indicated that over the past few months *price increases* at Royal Insurance Group on package business written had moderated from historically high levels by about 10% to 15%, but were still significant.

In fact, our price increases at Royal were in the 30% range in the final quarter of 1986.

I am concerned your readers have an entirely false impression of our pricing activities.

William G. Watt
Senior Vp
Royal Insurance Group
Charlotte, N.C.

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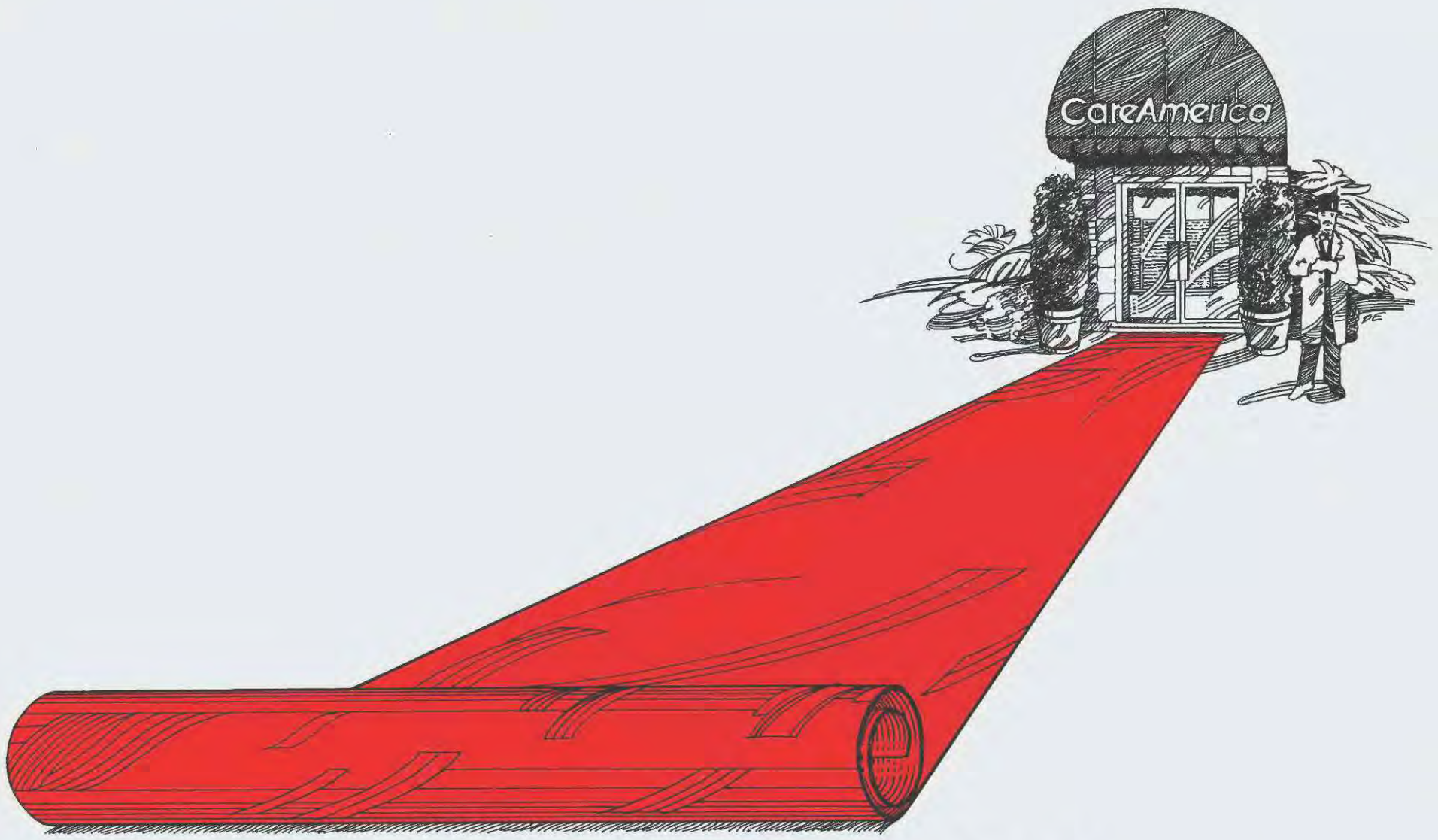
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Public entities in three states pool risks

By MEG FLETCHER

Public entities in three states have formed four self-insurance pools for liability risks, while a fifth pool now is on the drawing board.

Meanwhile, a risk financing fund has been established from which Chicago-area public transportation agencies may borrow up to $50 million to pay most types of liability claims.

The four pools, which will offer public entities liability coverage for general liability, automobile, public officials' and police exposures, are now located in California, Missouri and Mississippi.

In addition, the Maine Municipal League plans to start a pool for its members by March.

More than $30 million in certificates of participation sold in late January will be used to capitalize a self-insurance pool formed by most of the municipalities in the Sherman Oaks, Calif.-based Independent Cities Risk Management Authority.

The pool also may use proceeds from the sale of the bondlike instruments to pay liability claims that exceed reserves in the pool's expected-loss fund contributed by member municipalities, said D. Michael Enfield, a managing director at broker Marsh & McLennan Inc. in San Francisco. The brokerage provided insurance consulting services for the certificate of participation issue.

Gordon R. Davis, general manager of the ICRMA, said he hopes the COP proceeds will attract reinsurance support for the pool.

The pool offers members $10 million in coverage per occurrence above each member's self-insured retention for general liability and automobile liability risks, as well as the acts of police, public officials and paramedics, he said.

The COP issue was underwritten by Drexel Burnham Lambert Inc. in Los Angeles.

The Missouri Public Entity Risk Management Fund began offering all public entities in the state a broad package of liability coverages Jan. 1.

The fund offers initial limits of $800,000 per occurrence, which is the maximum liability a Missouri public entity faces in state tort cases. It also offers tail coverage for public entities that previously were covered under claims-made liability policies (*BI*, July 7, 1986).

The pool began operations with seven members—six counties and one city—with a combined premium volume of $750,000, said Don LeMond, the state's risk manager. However, the pool is "swamped" with applications and its membership should soon swell to nearly 100 public entities, he predicted.

Members of the pool can be fully assessed for claims that exceed established reserves.

The pool is open to any public entity in the state. The state's attorney general sits on its board and will direct defense efforts, Mr. LeMond said.

The Mississippi Municipal Liability Plan, which began providing coverage Jan. 1, writes $2 million of first-dollar coverage on a claims-made form for 119 cities, explained Patrick Dunne, executive director of the Mississippi Municipal Assn.

State law caps municipalities' exposure for state tort claims at $500,000, Mr. Dunne noted. However, the cap does not apply to public officials.

Members of the pool are liable for a percentage of losses exceeding the pool's established reserves. A member's payment would be based on its proportion of the pool's annual premium volume.

The Orange County Cities Risk Management Authority's liability pool offers 10 Southern California cities $5 million in claims-made coverage above self-insured retentions that vary among members. There is a $10 million annual aggregate for the group, said David Barrett, assistant city manager of Cypress, Calif., and president of the authority, which has operated the pool since December.

Pool members can be assessed up to four times the amount of their premium deposit, Mr. Barrett said.

The Maine Municipal League is planning to begin operating a property/casualty insurance pool for cities and towns by March 1.

The pool will offer liability coverage limits of $300,000 for state tort claims and $1 million for federal claims, according to Stephen Gove, operations director for the association's group services programs.

Plans call for members to be assessed to pay claims that exceed established reserves.

A liability risk financing program for Chicago-area transit districts became fully funded in December with the receipt of proceeds from $40 million in general obligation bonds.

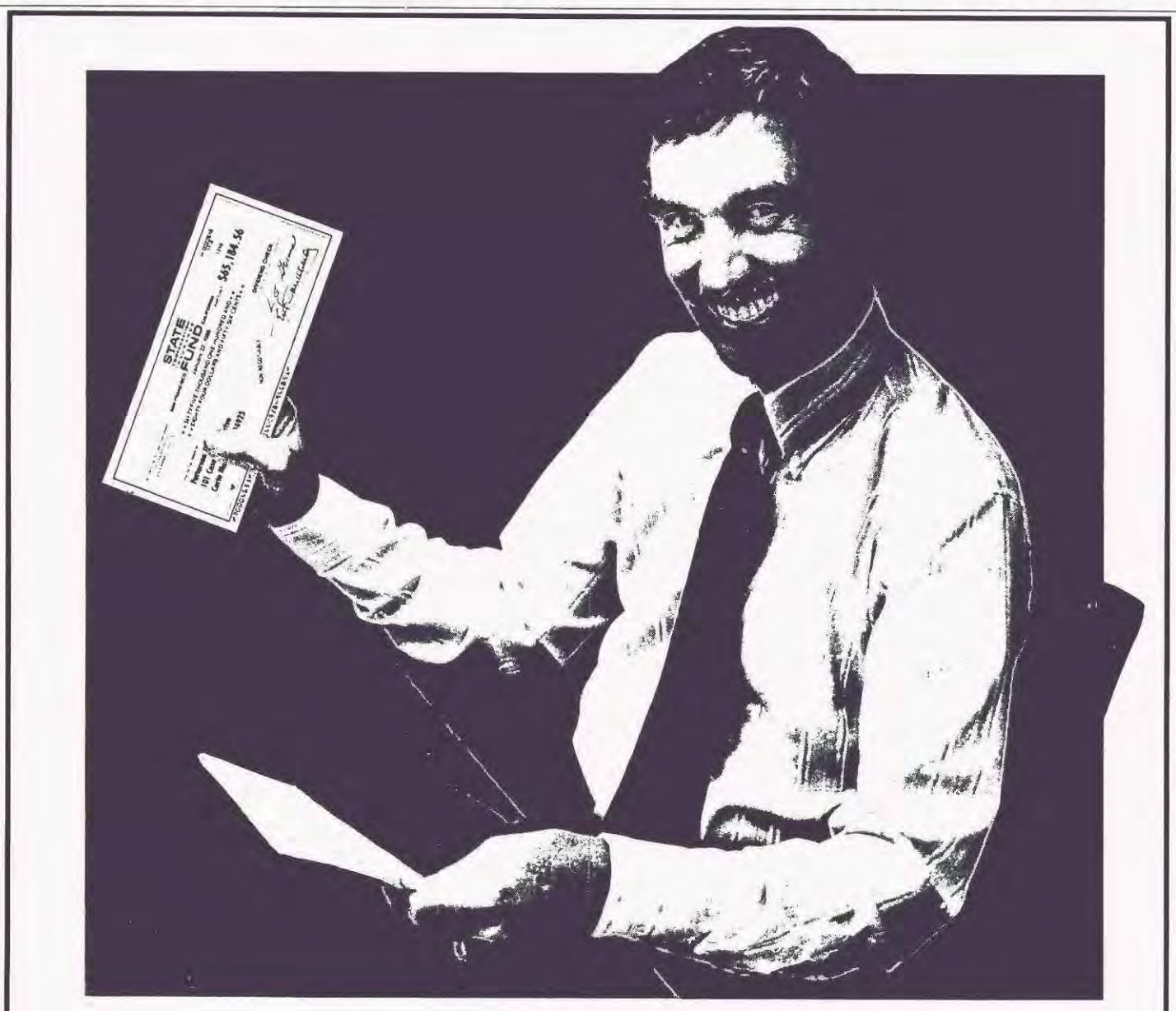
The money was used to create a fund from which the train and bus lines that belong to the Regional Transportation Authority can borrow up to $50 million to cover most liability claims, including claims stemming from: accidents involving commercial vehicles; sudden and gradual pollution incidents; directors, officers and public officials errors and omissions; workers compensation; and the Federal Employers' Liability Act.

After borrowing from the fund to pay a claim, a pool member can repay the fund gradually, explained Mark Snow, assistant vp with broker Rollins Burdick Hunter Co. of Chicago, who managed the consulting project.

"This arrangement differs from a pure self-insurance pool, where all participants share in each other's losses. In this plan, each service board budgets and pays for its own liability losses and does not have any responsibility for another participant's losses," Mr. Snow explained.

Participating in the program are the RTA; the Chicago Transit Authority, which primarily operates buses and trains within the city; Metra, which operates commuter rail service; and Pace, which primarily operates suburban bus service (*BI*, Dec. 9, 1985).

Bond underwriters for the program were L.F. Rothschild, Unterberg, Towbin Inc. in Chicago. ■



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Job stress ruling fuels Ohio comp reform

COLUMBUS, Ohio—The Ohio Manufacturers' Assn. may ask state lawmakers to enact legislation that would clarify a recent Ohio Supreme Court decision in which "job stress" was held to be a compensable injury.

The Dec. 30 high court ruling is "in direct contravention" of workers compensation reform measures enacted last summer by the Ohio Legislature, which say that stress or any psychological problem is not a compensable injury, said Joseph A. Krabach, vp of industrial relations of the OMA.

Attorneys for the manufacturers' association are studying the ruling, especially looking at whether the decision applies only to new cases or also to existing cases, Mr. Krabach said.

The Ohio Supreme Court ruling in *Ryan vs. Connor* involved the death of Russell Ryan, a 64-year-old employee of J.B. Foote Foundry Co. in Fredericktown, Ohio.

In October 1981, officials of the firm made an offer to Mr. Ryan to accept early retirement.

Mr. Ryan, described as "one of these guys married to his job" by his attorney Ronald Koltak, did not take the news well and died the next day while doing yard work.

His widow, Lily Ryan, contends that even though Mr. Ryan had high blood pressure, it was the stress of the retirement news that brought on the death.

But, she was denied death benefits under the state's workers compensation law by Raymond A. Connor, a member of the state Industrial Commission.

Mr. Connor's decision was upheld through several reviews by the commission.

The case, which currently is waiting to be tried in the Knox County Court of Common Pleas in Mount Vernon, was put on hold while the issue of whether a stress-related injury is compensable was taken to the state appellate court and then to the state Supreme Court.

Both courts said stress related-injuries are compensable.

"We. . .hold that a physical injury occasioned solely by mental or emotional stress, received in the course of, and arising out of, an injured employee's employment, is compensable," the high court's majority wrote.

But in a dissent, Justice Robert Holmes said: "The majority in reaching its conclusion is not merely liberally construing the law in favor of the defendant, but is again rewriting and enacting new law in the workers compensation field."

Although the Supreme Court ruled that job stress is a compensable injury, it now will be up to the Common Pleas court to determine whether Mr. Ryan's death was caused by job stress. No trial date has been set.

around the states

Annuity regulations

NEW YORK—The New York Insurance Department is issuing a new regulation to help it monitor the solvency of insurers that offer annuities, annuity benefits and guaranteed interest contracts.

The regulation, which became effective in January, is the first of its type issued by a state insurance department, according to a department spokesman.

Regulation 126 requires insurers that offer these contracts to submit to the superintendent with each annual report an opinion and memorandum from a qualified actuary stating that reserves are adequate, the department spokesman explained.

The regulation requires the actuaries to analyze the cash flow of under varicus interest rate scenarios.

Actuaries also must evaluate the quality of assets supporting the contract obligations.

The regulation also:

- Prescribes the professional qualificaticns of the actuary who signs the opinion and memorandum.
- Specifies the items that must be considered in the memorandum, such as a description of the reserves and the supporting assets being tested in the calculations.
- Presents guidelines for the general form and content of the opinions.
- Descr:bes how the insurer must calculate minimum reserves, which the company must establish if it does not submit an acceptable actuarial opinion and memorandum.

Michigan Blues settle

LANSING, Mich.—Blue Cross/Blue Shield of Michigan will continue to administer health claims for 100,000 state civil servants and retirees under a settlement of litigation between the Michigan Civil Service Commission and BC/BS.

The commission sued in September to end its two-year claims administration contract with BC/BS of Michigan, claiming that the insurer was not administering the plan as specified in the contract, said a spokesman for the commission in Lansing.

For example, "the turnaround time on claims was too long," the spokesman said.

"But, the main issue was whether we were dealing with normal start-up problems," the spokesman added.

The commission's group health plan had been underwritten by Aetna Life & Casualty Co. until the commission began self-funding the plan in the late 1970s, he said. Aetna then administered health claims until the commission contracted with the Blues for health claims administration in October 1985.

The Blues countersued, claiming, "We were to make changes and adjustments to satisfy the expectations of the employees," according to a spokesman for BC/BS of Michigan in Detroit.

"Those adjustments added costs" to the administration of the plan, he explained.

Under the settlement, BC/BS of Michigan will continue to administer the plan until Sept. 31. The contract then could be renewed for a third year, depending on the results of a performance audit conducted by an outside firm, both spokesmen said.

Under the settlement, about 28,000 retirees and surviving spouses will have the option of receiving Medicare supplemental coverage from Aetna, the commission spokesman said.

About 35,000 active employees and their dependents must continue receiving coverage under the self-funded plan administered by the Blues.

Premium overcharge

COLUMBUS, Ohio—The Ohio Insurance Department is ending its investigation into the pricing of municipal liability insurance with one insurer refunding a total of $3.8 million.

The state is asking another insurer to pay $1,500 in penalties as a result of the probe.

The refunds and fines stem from department actuarial studies that found that Ohio municipalities had been overcharged by 50% to 600%.

About 270 Ohio municipalities or counties, which already were entitled to $1.8 million in refunds or credits, collectively will receive an additional $2 million from The Home Insurance Co., following the Insurance Department's investigation of municipalities' complaints of excessive rate hikes.

The New York-based insurer agreed in a Jan. 7 consent order to make the distribution by April 6, either as a credit for premium due or as a direct refund.

The latest order brings to $3.8 million the amount The Home has agreed to refund to Ohio municipalities, including $1.8 million required under a Sept. 15 consent order (*BI*, Sept. 22, 1986; Aug. 25, 1986).

The department said The Home overcharged municipalities for general liability insurance policies with effective dates of April 1, 1985, or later but before Nov. 1, 1986, according to the order.

A spokeswoman for The Home said the insurer is refunding the money to rectify a misunderstanding with the Insurance Department and not because it overcharged customers.

The Home denies that it violated any regulation.

Under the consent order, the Insurance Department denied that its regulations concerning underwriting municipal insurance needed clarification but agreed to issue a bulletin to "put the insurance industry on notice of the department's position."

In addition, National Union Fire Insurance Co. of Pittsburgh, Pa., a New York-based American International Group Inc. unit, was fined $1,500 in total for violating three statutes relating to rate filings.

The fines were imposed in January by the department, following a hearing last year.

An AIG spokeswoman said that National Union is considering appealing the fines.

In a related case, AIG is being sued by the northern Ohio community of Brook Park.

The community obtained a court order staying the insurer's $607,000 premium request for calendar 1986 coverage, which was a 235% increase from the $181,000 premium it paid the previous year.

The community has been operating without liability insurance since Jan. 1, although it has taken steps to begin a self-insurance program early this year, according to David A. Williamson, law director for Brook Park.

Both Home and National Union have requests pending before the department to charge higher rates for municipal insurance, an Insurance Department spokeswoman said. ■

February 2, 1987

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Rhine spill triggers safety measures

BASEL, Switzerland—Chemical manufacturer Ciba-Geigy A.G. is making product storage safety improvements around the world following the massive pollution of the Rhine River in November triggered by a fire at another Swiss chemical manufacturer (*BI,* Nov. 24, 1986; Dec. 29, 1986).

A Ciba-Geigy spokesman said improvements include:

- The closure of 11 of 72 chemical storage depots in Switzerland.

"Most of the closed depots were owned by other companies and used to store our chemicals, but we felt we did not have sufficient control over them," said a Ciba-Geigy spokesman.

- The reduction of stock levels of chemicals worldwide and placement of tighter controls over stored chemicals.

worldwide

- The installation of sprinkler systems in warehouses.
- The enlargement of reservoirs designed to capture spilled toxic substances before they enter nearby rivers and lakes. So far, Ciba-Geigy has enlarged 10 of these reservoirs and is currently making similar improvements at 28 other sites, said the spokesman.

Ciba-Geigy's program to improve safety in its 400 to 500 locations in 70 countries follows the fire at a Sandoz A.G. warehouse in Basel, Switzerland, which caused massive pollution in the Rhine.

A small chemical leak at a Ciba-Geigy plant occurred five hours before the Sandoz spill, but Ciba-Geigy said that leak did not cause severe pollution to the Rhine.

As a result of the Sandoz disaster and the Swiss government's concern about the spill, Ciba-Geigy decided to conduct a companywide safety audit. Also, Swiss President Alphons Egli said the Swiss government plans to tighten regulations concerning the manufacture and storage of harmful substances.

"No one was aware of just how dangerous a threat stored chemicals presented until the Sandoz disaster," the spokesman said.

Disaster report

ZURICH, Switzerland—Catastrophes, including fires, earthquakes, hurricanes and air crashes, have cost insurers more than $36 billion between 1970 and 1985, says Swiss Reinsurance Co.

But, the amount paid by insurers for these disasters accounts for only about 7.5% of the total economic losses caused by catastrophes over the 15-year period, Swiss Re says.

More than 1.5 million people died and nearly 50 million people were left homeless following the 2,305 major catastrophes that Swiss Re researchers recorded during the period.

Only 20% of these disasters have resulted in insured losses, the survey reports.

On average, a major catastrophe loss causing more than $1 million in insured damage occurs every four or five days.

About 44% of all insured disasters occur in North America, 29% occur in Europe and 27% occur elsewhere in the world.

Of the major catastrophes, about 30% were natural disasters, which accounted for more than 94% of the loss of human life and about half of the insured losses.

About 20% of the disasters were major fires, killing about 7,400 people. In addition, about 17.3% of the catastrophes were aviation disasters, killing about 21,000 people.

Catastrophes in the 1970s caused average insured losses of between $15 million and $30 million, while catastrophes in the 1980s caused average insured losses of $50 million to $70 million.

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Argentine losses

BUENOS AIRES, Argentina—The Instituto Nacional de Reaseguros is seeking at least 72 million australes ($55.4 million) from Argentina's insurance companies for losses sustained by INdeR's retrocessional pools that were freely written by the insurers.

And, pool losses for 1985 may be even larger following a new review of the pools' accounts, sources in Argentina say.

INdeR's losses pose severe problems for the Argentine insurance market, since the capitalization of all of the insurers is only one seventh of the total INdeR losses. According to Ronal Gunn, vp of broker Ayling Barrios & Co. in Buenos Aires, the combined capital of Argentina's 270 insurers is only 10 million australes ($7.7 million), sources say.

"For this market, this is terrible," said Dr. Alberto Saenz, technical manager of Grupo Juncal de Argentina in Buenos Aires. "We don't know what will happen when the new figures appear. Those companies facing many problems will not be able to find a solution. There is a big crisis going on."

Arab insurer closes

ABU DHABI, United Arab Emirates—Al-Sagr Insurance Co. is winding up its operations and transferring its entire book of business to British-based General Accident Fire & Life Assurance Corp. P.L.C., confirmed a General Accident spokesman.

The move follows a decision by Al-Sagr's shareholders not to increase the capital of the company to the 10 million dirhams ($2.73 million) required by a 1984 law in the United Arab Emirates, said Trevor Scadeng, general manager of Al-Sagr's U.A.E. operations in Abu Dhabi.

The company—51% locally owned and 49% owned by a group consisting of Hong Kong & Shanghai Banking Corp., Inchcape P.L.C. and New Zealand Insurance Co.—also would have to be 100% locally owned under the law, he said.

Mr. Scadeng vehemently denied that Al-Sagr is shutting its operations because it wrote too much premium without sufficient reinsurance. "There is no truth to these allegations," he said.

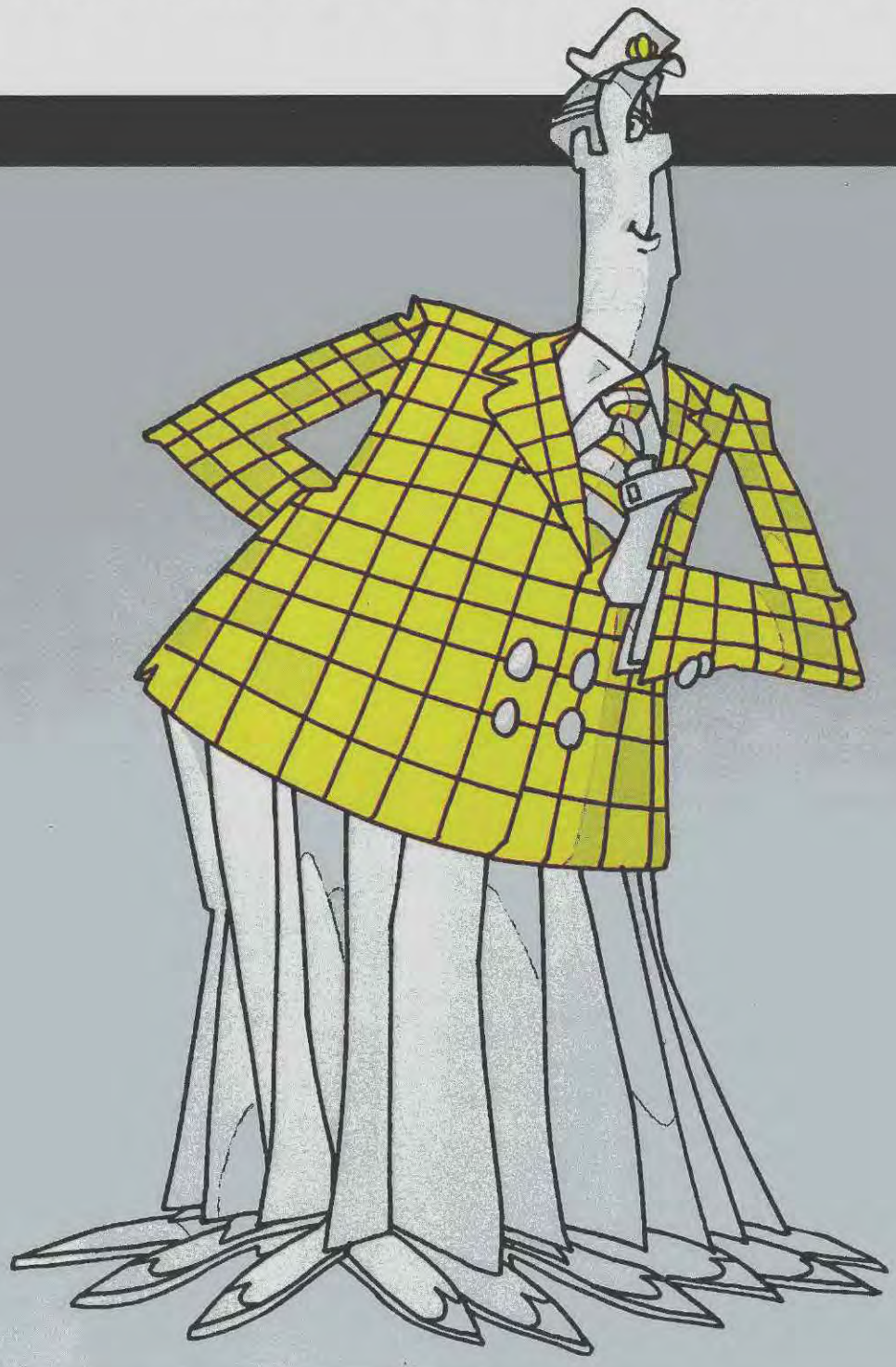
In the meantime, more U.A.E. insurers may wind up operations this year as the Ministry of Economy and Commerce investigates five other insurers.

Since the law was enacted in 1984, the number of U.A.E. insurers has dropped to 50 from 74.

●

Contributors to this week's column are Associate Editor Carolyn Aldred in London and freelancers John Parry in Geneva, Switzerland, and Maria Kielmas in London.

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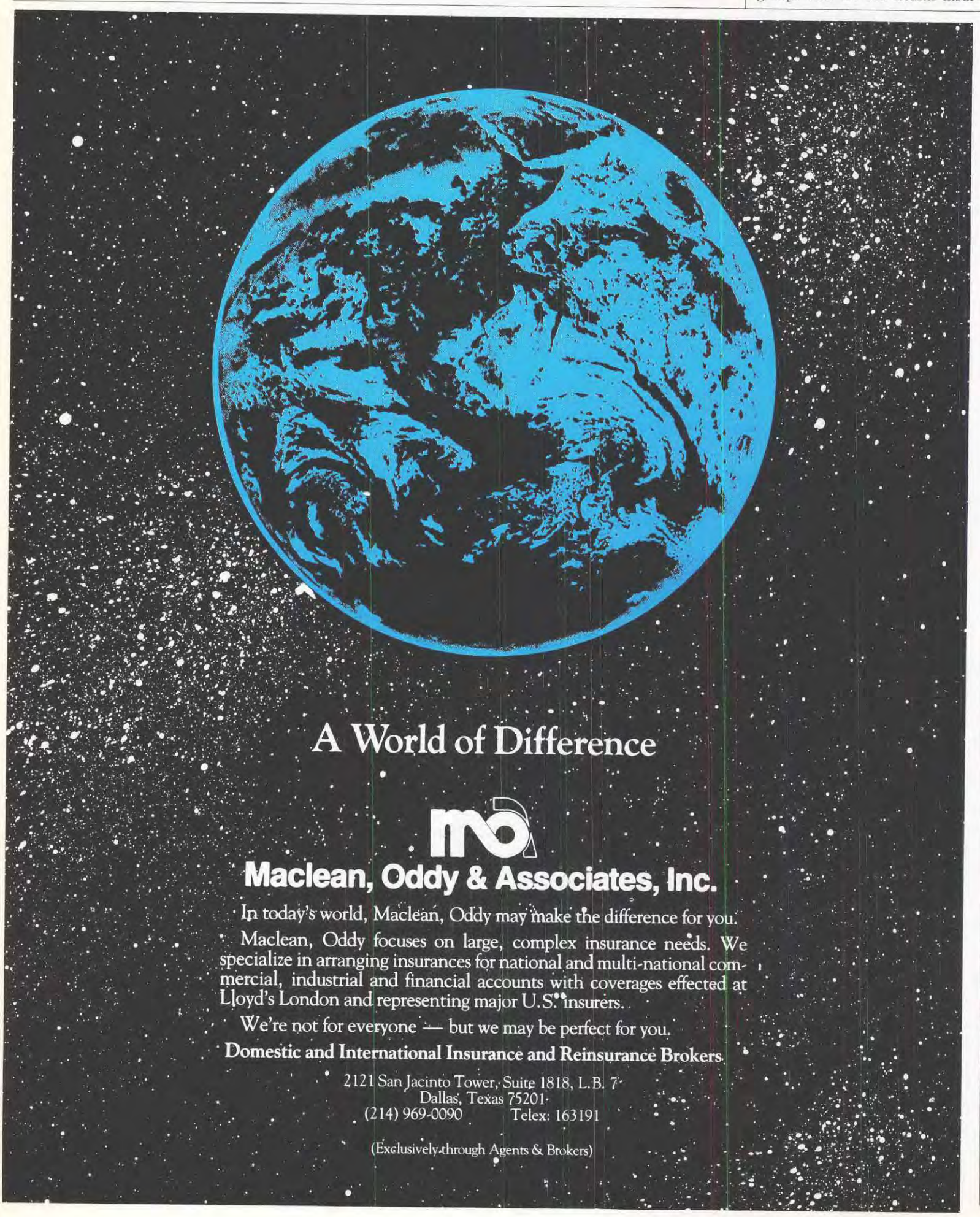
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benefit beat

BC/BS of Illinois offers PPO to its employees

Health plan provider Blue Cross & Blue Shield of Illinois is practicing what it preaches.

BC/BS of Illinois—in an effort to control health care costs while enriching benefits—began offering its own employees health coverage under its hospital preferred provider organization program beginning Jan. 1.

In addition, deductibles under the indemnity plan have been reduced.

The insurer has about 4,000 employees.

"Just as we are doing with the groups that we sell health insurance to, we are offering our employees a PPO—in addition to HMOs—as a replacement for a choice between traditional major medical coverage and an HMO," said a spokesman for the Chicago-based insurer.

"The PPO has richer benefits than the previous major medical plan because if they use participating providers, employees get full coverage of eligible expenses," he added.

The Participating Provider Option program offers employees the same coverage as their previous comprehensive major medical plan, but eliminates the annual deductible and copayment for treatment received in preferred provider hospitals.

Some 180 hospitals throughout Illinois participate in the PPO. The network does not yet include participating physicians, the spokesman said.

If employees do not use a PPO hospital, employees must meet an annual deductible of $100 per person, up to a maximum deductible of $300 for a family of three or more. In addition, if employees do not use a PPO hospital, they must pay a 20% copayment, up to a maximum out-of-pocket expense of $1,000 per individual and $3,000 for a family of three or more.

Previously, employees paid annual deductibles of $250 per person, up to a maximum deductible of $750 for a family of three or more. However, employees paid the same copayment of 20% up to a maximum out-of-pocket expense of $1,000 per person and $3,000 for a family of three or more.

There is a lifetime benefit limit of $1 million per plan participant on inpatient and outpatient health care coverage, the same as previously.

The plan has a $50,000 lifetime limit for inpatient psychiatric and substance abuse care and a $25,000 annual benefit limit on these services.

Also, as previously, employees receive full coverage for outpatient emergency services from any provider and 80% coverage for well-child care up the child's 16th birthday.

Single employees are not required to make premium contributions, but employees must pay $7.40 per month for family coverage.

BC/BS of Illinois employees also are offered a choice of three health maintenance organizations: the Blues' HMO Illinois; Anchor HMO; and Michael Reese Health Plan.

There is no employee premium contribution for single coverage under HMO Illinois. However, employees pay $6.41 per month for family coverage.

Employees who join Anchor HMO do not contribute to the premium for single coverage, but they pay $30.15 per month for family coverage.

In addition, employees do not pay a premium for single coverage under Michael Reese Health Plan, but they pay $17 per month for family coverage.

•

Benefit beat keeps insurance and employee benefit managers informed of benefit changes in other companies and of current developments in the employee benefits field. We'd like to know if you've made any employee benefit plan changes. Write Donna DiBlase, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611; 312-649-5393.

California to consider change in comp premium calculation

By MICHAEL BRADFORD

SAN FRANCISCO—California employers that offer employees flexible spending accounts may soon be paying lower workers compensation insurance premiums.

The Workers Compensation Insurance Rating Bureau of California has agreed to file with Insurance Commissioner Roxani M. Gillespie a request for a change in the California Workers Compensation Manual that would exclude from workers compensation premium computations the amount of a company's payroll contributed to flexible spending accounts.

Currently, California businesses pay premiums based on payroll amounts that include any funds held by the employer as a part of a flexible spending account.

Flexible spending accounts allow employees to defer a portion of their salaries on a pretax basis to pay certain costs that otherwise would not be taxed if they were paid by the employer, such as medical bills and child care expenses.

If approved, the change to the California workers compensation rate manual would extend to all flexible spending accounts established by California employers in accordance with Section 125 of the Internal Revenue Code.

After the commissioner has studied the proposal, she will call for public hearings on the matter before deciding whether to implement the change. If she agrees with the rating bureau's filing, the commissioner has the power to authorize changes to the manual—the part of the state's administrative code that establishes underwriting regulations, classifications and rates for workers comp insurance.

A bureau committee decided last month that the regulation should be changed because it felt it contained inconsistencies, according to Gerald Stephens, assistant to the rating bureau's president.

Mr. Stephens explained that the bureau feels the current regulation governing premium calculations is applied unfairly in some instances.

"It's only when the benefits are a part of the original package and there has been no discussion of a reduction of payroll" that the cost of benefits should be excluded from the computations under current regulation, he said.

For example, the manual states that: "Contributory payments made by the employer in connection with group insurance, stock purchase plans or qualified retirement plans, the exercise of stock options and deferred compensation plans are not to be included in the premium computation."

However, "Employee contributions to such plans which are made by the employer pursuant to a salary reduction plan are to be included in the premium computation," the manual states.

Under the proposal, payments to 401(k) plans would continue to be regarded as part of the basis for work comp premium computations.

While Mr. Stephens noted that he could not predict whether the action, if approved, would require an increase in employers' workers comp rates to generate additional premium, he did say that such "tendencies tend to erode" the base of money available to insurers to pay claims.

The push to change the state's method for calculating workers compensation premiums was spearheaded by William L. Seay of William L. Seay & Associates of Los Angeles, an administrator of flexible spending accounts.

FSAs under his firm's administration allow workers to set aside pretax salary contributions to pay for legal services, reimbursement of medical costs, medical, life and disability insurance premiums or dependant care expenditures, all of which are in accordance with Section 125 of the IRS code.

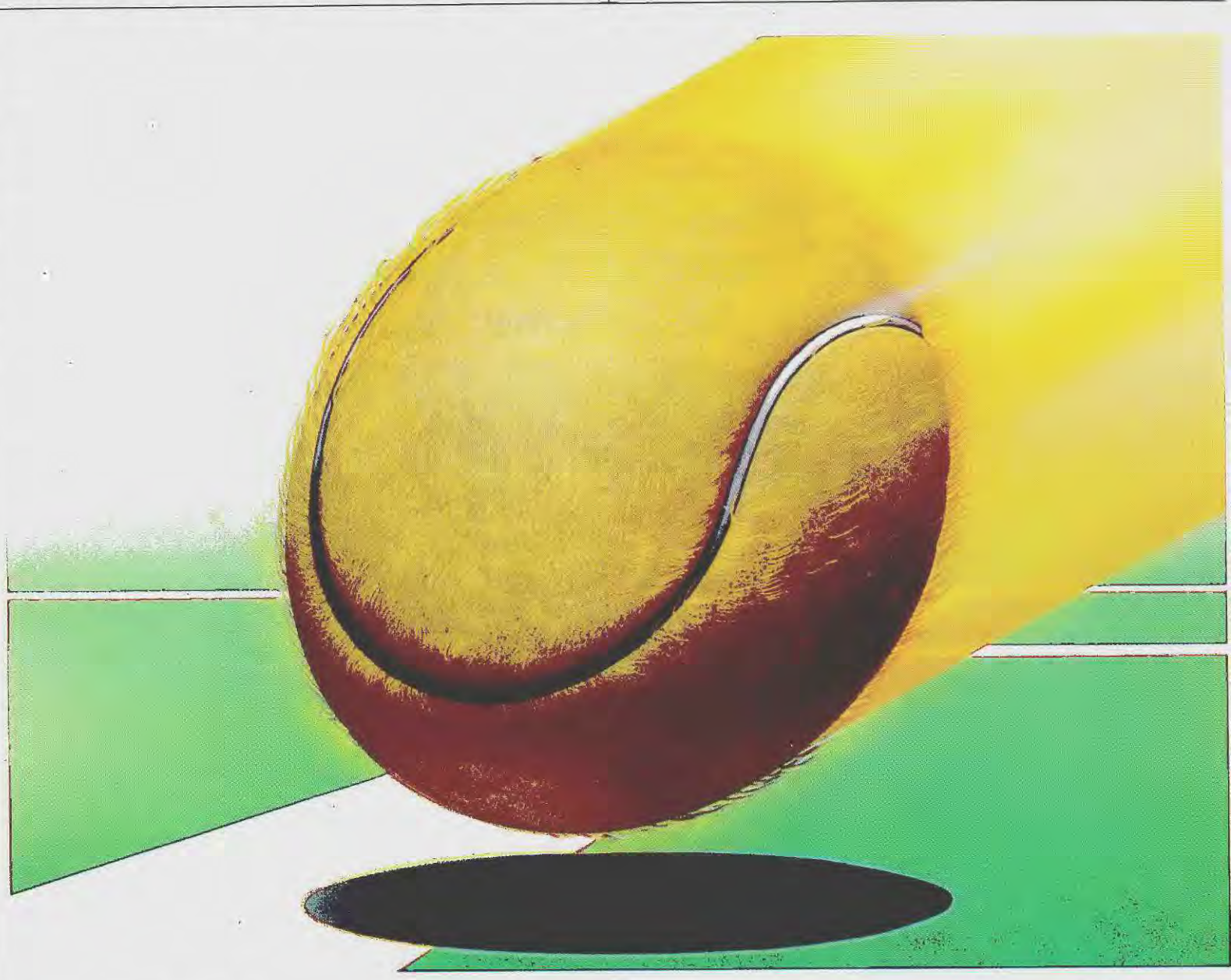
During the last couple of years, money paid to flexible spending accounts "is used as part of the workers comp premium computation," said a spokesman for the National Council on Compensation Insurance in Boca Raton, Fla.

An official at the California Workers Compensation Institute, an industry-supported research group in San Francisco, said the CWCI also did not know about the proposed change and could not comment on its implications. ■

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Payne forming North American brokerage

By CAROLYN ALDRED and STACY SHAPIRO

london

LONDON—Lloyd's of London reinsurance broker E.W. Payne Cos. Ltd. is forming a separate company for North American brokerage business as part of its plan to double its North American revenues in the next two to three years, Chairman Jim Payne says.

The new company—E.W. Payne (North America) Ltd.—will be headed up Peter Foley, an American who currently is managing director of River Thames Insurance Co. Ltd. Previously, Mr. Foley was managing director of non-life operations of now-defunct British National Insurance Co. Ltd.

E.W. Payne and River Thames are both units of Lloyd's broker Sedgwick Group P.L.C.

Mr. Payne will be chairman of the new company, which will take over the North American brokerage and risk management services operations of E.W. Payne (U.K.) Ltd.

The new company will complement Payne's U.S. reinsurance intermediary, Sullivan Payne Co., Mr. Payne noted.

E.W. Payne does not publish its results separately from Sedgwick, but Mr. Payne said the new company should produce 10% of Payne's total revenue next year and 20% within two to three year.

Meanwhile, John Weedon, current director of non-marine underwriting at River Thames Insurance Co., will succeed Mr. Foley as managing director of River Thames.

Lloyd's results

Lloyd's of London will report improved profits when it announces its global results for 1984, predicts Chatset Ltd., a private company that produces tables of Lloyd's results each year.

The Lloyd's marine market "will be as good as" it was in 1983, Chatset says. adding that there are indications that the non-marine market will show "significant improvements."

In addition, Lloyd's aviation syndicate results for the 1984 accounting year will be "almost uniformly better" than in 1983, said the group in a January supplement to its Lloyd's League Tables of syndicates' year-end results, which are published in late summer when Lloyd's global results are reported.

Profits for Lloyd's aviation market fell 8% in 1983 to 23.7 million pounds ($34.4 million at the 1983 year-end exchange rate) from 25.9 million pounds ($30 million) in 1982 (*BI*, Sept. 8, 1986).

Last year, Chatset predicted Lloyd's would report profits of 170 million pounds ($255 million) for 1983, excluding losses from syndicates once managed by PCW Underwriting Agencies Ltd. (*BI*, July 7, 1986).

Not counting the PCW syndicates, Lloyd's produced 1983 profits of 179.1 million pounds ($259.7 million), up 37% from Lloyd's 1982 profits—also not including the PCW syndicates—of 130.2 pounds ($151 million) (*BI*, Sept. 8, 1986).

Chatset explained that the supplement is "no more than a comparative guide as to how a syndicate is faring compared to the same time a year ago." This is the first time Chatset published a supplement to the league tables. "Figures can be distorted by reinsurance recoverables that are not being included in the current settlements; thus those syndicates such as excess-of-loss and war risk syndicates that rely on reinsurance recoverables, will often give a misleading indication of the ultimate result."

Chatset also predicts:

- While Lloyd's marine market will do as well in 1984 as it did in 1983, the year just closed, some of the top 10 syndicates' results will slump. Marine syndicate 418, managed by Merrett Holdings P.L.C., shows "significantly worse" results, although its results may rebound in 1985. Syndicate 741, managed by A.J. Archer & Partners, also shows worsening results. And, syndicate 206, managed by R.W. Sturge & Co., shows a "rather dreary overall improvement."
- While 1983 was an "awful" year for non-marine syndicates, by 1984 "the tide was turning. All the top 10 syndicates show significant improvements on underwriting over 1983." Syndicate 190, managed by Three Quays Underwriting Management Ltd., "shows a startling 40% improvement" which was "badly needed."

The most disappointing improvement among the top 10 non-marine syndicates is syndicate 210, managed by Sturge.

Hogg Robinson

Lloyd's of London broker Hogg Robinson Group P.L.C. has bought a Michigan-based insurance broker for $7 million. It is the group's fifth U.S. acquisition in 15 months.

The acquisition of Globe Agency Inc. is being carried out by Hogg's U.S. subsidiary Republic Hogg Robinson and will expand RHR's existing U.S. network of 31 offices.

Under the terms of the agreement, Hogg is paying $3.95 million in cash and $3.05 million in installments over the next four years, said group Finance Director Andrew Alers-Hankey.

The Michigan-based broker, which reported $1.1 million in pretax profits in the year ending June 30, 1986, specializes in U.S. property/casualty business, which is Hogg's mainstream business in the United States, said Mr. Alers-Hankey.

In the meantime, Hogg is buying a 60% share of Sime Darby Insurance Brokers in Malaysia and a less than 5% share in a new holding company in Singapore called Sime Hogg Robinson Holdings Pte. Ltd.

PWS earnings

Lloyd's of London broker PWS Holdings P.L.C. credits the North American business of the Howard Group for its huge 71% increase in pretax profits last year.

PWS Holdings—formed with the 1986 merger of broker PWS International with The Howard Group, another broker—reported pretax profits for the year ended Sept. 30, 1986, rose 73.5% to almost 8.5 million pounds ($12.6 million at current exchange rates) from 4.9 million pounds ($7.3 million).

The Howard Group contributed 5 million pounds ($7.4 million) to pretax profits, up 51.5% from 3.3

Continued on next page

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Continued from previous page
million pounds ($4.9 million) in 1984-85.

Howard's success was due exclusively to the performance of its North American division that boosted pretax profits 76% to 4.97 million pounds ($7.4 million), said PWS Chairman Malcolm Pearson.

"However, it would be unrealistic to look for a continuing similar rate of growth," he added.

Export credits

The British government's Export Credits Guarantee Department will no longer write credit insurance for British banks that finance the export of foreign goods from one foreign country to another.

Coverage for British "confirming houses"—banks that finance payments to suppliers on behalf of overseas buyers—will no longer be written beginning July 31, said the ECGD in a statement.

The ECGD decided to stop writing Comprehensive External Trade because the coverage has been a money-loser for many years, said the statement.

However, the ECGD will continue to write credit insurance for British manufacturers and merchants that trade overseas under the agency's Comprehensive Short Term Guarantee program, said the statement. This coverage also will be available for British banks financing the export of British goods, the ECGD said.

Alan Clark, the British government's minister for trade, said the "ECGD is obliged to operate at no net cost to public funds and must ensure that the facilities it offers are self-supporting in the long term. The external trade facility has been running at a substantial loss and changes had to be made if cover for U.K. exports was not to continue to be burdened with the costs of support for trade in foreign goods."

Since its inception in 1945, the facility has accumulated a deficit of 197 million pounds ($291.6 million), said the ECGD. Although claims paid for buyer insolvency have fallen in the past five years, premium income also has dropped from 10 million pounds ($14.8 million) to 3.43 million pounds ($5.1 million) in the same period.

Isle of Man

The Isle of Man is coming into the limelight of captive domiciles since the Manx government passed the 1986 Insurance Act in October.

Insurance Supervisor Duncan Neil says seven new captives have been formed on the Isle of Man since Oct. 1, bringing to 38 the total number of captives set up on the island off the Welsh coast in the Irish Sea. Most of the captives have been formed by British-based parents.

Recently formed captives include:

- Jaguar Insurance Ltd., owned by the British auto manufacturer Jaguar P.L.C., managed by Willis Faber (Isle of Man) Ltd., will write liability insurance. Mr. Neil will not comment on the captive's capitalization.
- Standard Chartered Insurance Ltd., owned by the banking group Standard Chartered P.L.C., with paid-up capital of $20 million, will write bank risks.
- British Gas P.L.C., managed by Alexander Stenhouse (Isle of Man) Ltd.
- A nuclear insurance pool known as Nuclear Insurance & Reinsurance Assn., managed by Lloyd's broker Sedgwick Group P.L.C.

Bowes Holdings

Bowes Holdings Inc., the U.S. subsidiary of Minet holdings P.L.C., is acquiring 90% of the issued share capital of Continental Underwriters Ltd. for $4.57 million.

Continental, which is based in New Orleans, is a privately owned marine surplus lines insurance broker. It will operate as a subsidiary of Bowes, adding to Bowes' coverage in the excess and surplus lines fields, particularly its marine capability, Minet said in a statement.

Continental's pretax profits for the year ending Sept. 30, 1986, were $1.7 million.

Comings and goings

Simon Scrope has been appointed chairman of Lloyd's of London broker Richards, Longstaff (Insurance Holdings) Ltd. In addition, **Andrew Bremner** was named managing director and **Nicholas Lund** was named financial director. **John Rayner** will be the divisional director of the broker's marine division, and **Richard Hawkings** will be divisional director of marketing services. ■

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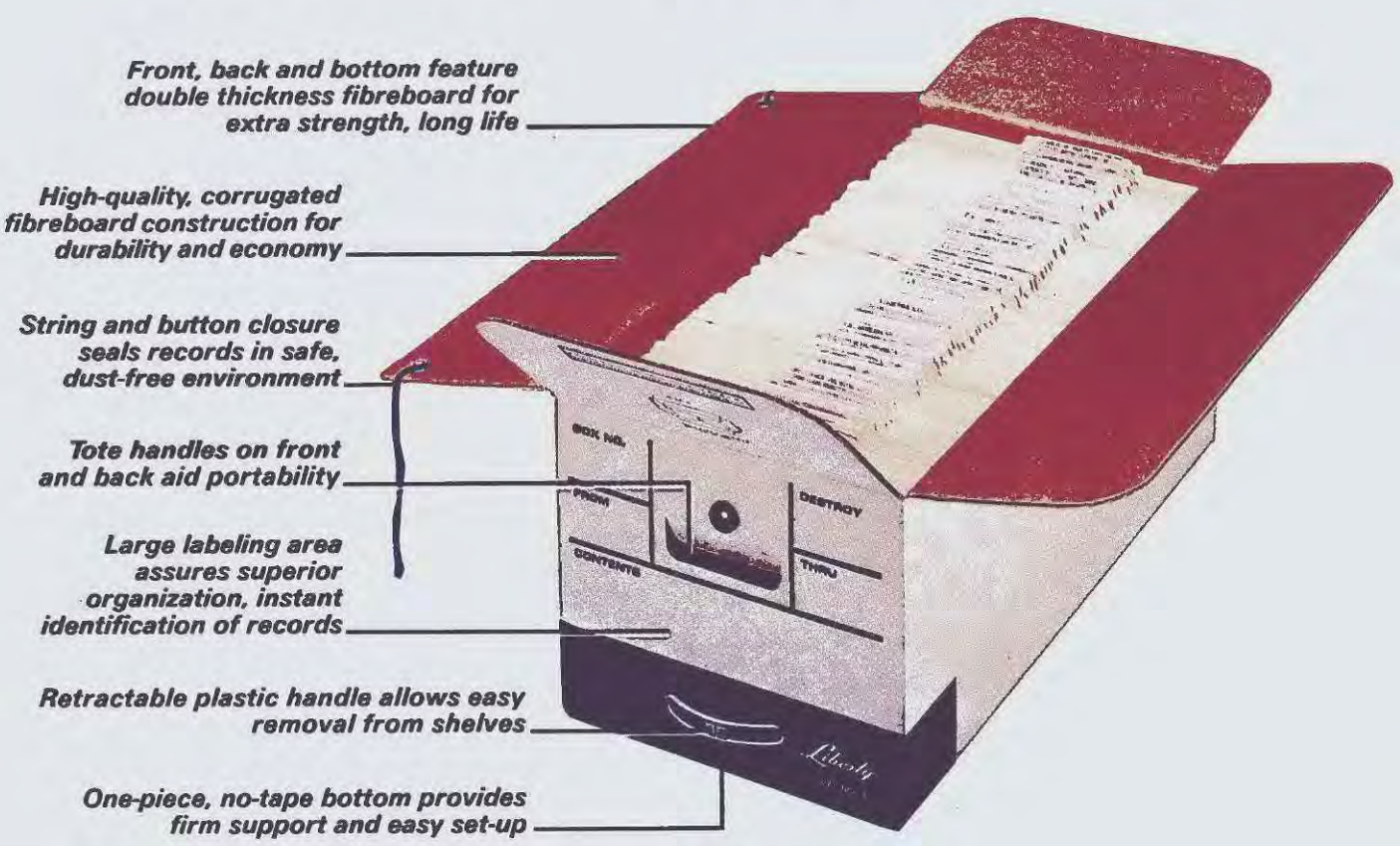
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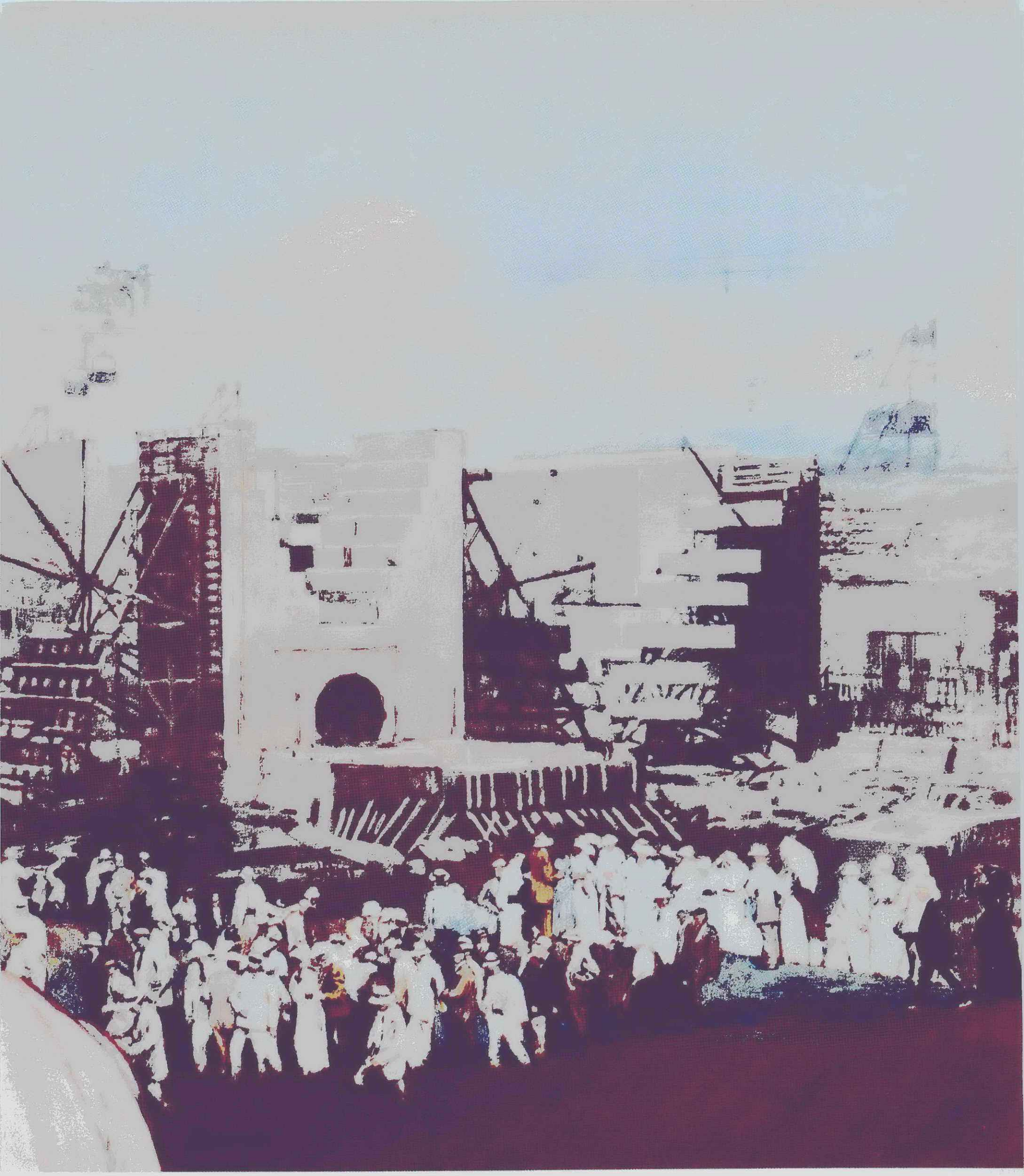
BI-2

In 1914, when the Panama Canal was finally carved out, Al

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ASK A BENEFITS ACTUARY

Fund medical benefits for union retirees in '87

Q **Should retiree medical benefits for union employees be funded in 1987?**

A Employers sponsoring retiree medical benefit plans for employees covered by a collective bargaining agreement should give consideration to funding retiree medical benefits in 1987. Funding is attractive for two reasons.

First, the corporate tax rates in 1987 will be higher than the rates in effect for 1988 (assuming, of course, that Congress does not change the tax law again).

All things being equal, a tax deduction in 1987 is worth more to a tax-paying corporation than is the same deduction in 1988. A contribution to fund retiree medical benefits in 1987 can provide a corporate plan sponsor with a tax deduction not previously utilized to take advantage of the reduction in tax rates.

Second, under temporary regulations currently in effect, many of the disadvantages associated with the funding of retiree medical benefits through a Voluntary Employee Beneficiary Assn. are not applicable to welfare benefit funds (like a VEBA) maintained for unionized employees.

Internal Revenue Temporary Regulation 1.419.A-2T provides that "contributions to a welfare benefit fund maintained pursuant to one or more collective bargaining agreements" are not subject to the otherwise applicable limits of Internal Revenue Code Sections 419(b), 419A(b) or 512(a) (3) (E); these sections of the code will not become effective for welfare benefit funds maintained pursuant to a collective bargaining agreement until the earlier of the expiration of the collective bargaining agreement in effect on the date final regulations are issued or three years after the date of issuance of such final regulations.

The Internal Revenue Code Sections cited above provide many restrictions on funding retiree medical benefits.

For example, Section 419(b) and 419A(b) restrict the tax-deductible contribution to a VEBA for retiree medical benefits so that VEBA assets do not exceed the incurred-but-unpaid medical claims reserve for retirees plus the actuarial reserve method needed to fund retiree medical benefits over the working lives of covered employees.

This reserve is calculated on the basis of current medical costs and should not include any projected price inflation.

Section 512(a) (3) (E) provides for an unrelated business income tax on investment earnings on assets accumulated in a VEBA for retiree medical benefits that are in excess of the incurred-but-unpaid medical claims reserve.

But the funding of retiree medical benefits for union employees apparently would not be so restricted: A tax-deductible contribution could apparently be calculated using projected price inflation in medical costs.

This change alone might double or triple the otherwise available tax deductible contribution.

Furthermore, assets accumulated in the VEBA apparently would not be subject to tax while the temporary regulation is in effect.

In order for a VEBA to be a "welfare benefit fund maintained pursuant to a collective bargaining agreement," certain requirements must be met. These requirements include that:

- The secretary of labor must find that the agreement is in fact a bona fide collective bargaining agreement.
- The benefits provided by the fund must have been the result of arm's length negotiations between employee representatives and one or more employers.
- The VEBA used to fund the retiree medical benefits must have at least 50% of the employees eligible to receive benefits from the VEBA covered under a collective bargaining agreement (90% replaces 50% in the case of a VEBA not in existence on July 1, 1985). Only the portion of the VEBA attributable to employees covered by a collective bargaining agreement is considered to be maintained pursuant to a collective bargaining agreement.

As a consequence of this temporary regulation, it appears that employers sponsoring retiree medical benefits for unionized employees have a window of opportunity while it remains in effect.

With the possibility of large tax-deductible contributions and the prospect of declining tax rates, funding retiree medical benefits through a VEBA for union employees may be attractive for some plan sponsors.

New tax law necessitates multiple pension valuations

Q **Why are multiple pension valuations required in 1987?**

A Many defined benefit plan sponsors will find that their actuary is performing multiple valuations of their pension plan in 1987. These multiple valuations may be performed even where the sponsor uses the same actuarial assumptions for funding and accounting purposes, and where there have been no changes in assumptions or plan amendments.

The multiple valuations will be necessitated by the different treatment of the limitation on benefits under Section 415 of the Internal Revenue Code for accounting and funding purposes.

With the enactment of the Tax Reform Act of 1986, the maximum benefit limitation under Section 415 is $90,000 per year for benefits commencing on Social Security retirement age (age 65 for those born before 1938, but ranging up to age 67 for individuals born after Jan. 1, 1938); the limitation for benefits commencing before Social Security retirement age is based on an actuarial reduction to the limitation at Social Security retirement age. These new limits are generally effective in 1987.

For minimum funding purposes, the enrolled actuary is generally required to value the benefits stated in the pension plan document and, in effect, for the plan year; ordinarily, a change in law (such as the change in the maximum benefit limitation) that has not been reflected in a plan amendment is not recognized in the actuary's minimum funding calculation.

Many defined benefit pension plan documents provide that the maximum benefit for 1987 will be $90,000 per year for benefits that commence between the ages of 62 and 65, and $75,000 per year for benefits that commence at age 55 (the pre-tax-reform limits).

Even though the Tax Reform Act of 1986 reduced these minimums effective in 1987, many plans will not be amended in 1987 to reflect this change in the law.

The act provided that formal plan amendments are not required to be adopted before 1989, provided the plan is operated in accordance with the reduced maximum benefit limitations and the plan is retroactively amended to 1987 to provide for the reduced maximums. Thus, an actuary would ordinarily use the pre-tax-reform limits on benefits for determining a plan's minimum funding requirement.

However, Internal Revenue Service Notice 87-21 provides an exception to the requirement that the actuary value benefits stated in the plan document.

The notice provides that any benefits in excess of the new maximum benefit limitations enacted by tax reform should be disregarded in determining the minimum funding requirement.

As a consequence, an actuary will generally recognize the new maximum benefit limitations in 1987 for determining a plan's minimum funding requirement.

The actuary also will generally recognize the new maximum benefit limitations for determining the maximum tax-deductible contribution for 1987. Internal Revenue Code Section 401(i) states that the tax-deductible contribution for a defined benefit plan cannot take into account any benefits in excess of the limitation actually stated in Internal Revenue Code Section 415 (as opposed to the limitation stated in the plan).

Thus, one set of valuation results—based on the new maximum benefit limitations—will likely be produced for determining contributions to a pension plan in 1987.

A second set of valuation results are possible for the purpose of determining the net periodic pension cost under the Financial Accounting Standards Board's Statement No. 87.

Many pension plan documents provide for an automatic increase in the plan's benefit limitations whenever the Section 415 limits are adjusted for cost-of-living changes.

For determining the net periodic pension cost under FASB 87, most actuaries believe it is necessary to project future increases in the Section 415 limits. If this projection is used in the valuation of the plan, then a second set of valuation results may result.

Not all plan sponsors will be confronted with two separate sets of valuation results. For plans with relatively low benefits, these variations in the maximum benefit limitations may have no material impact upon the valuation.

However, many plan sponsors will see more than one set of results in 1987 for the reasons described above.

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

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



Mr. Miner

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

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

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

Safety abroad

Loss control programs needed at foreign locations

By Jerome Karter

AT HOME AND ABROAD, an appreciable number of corporate assets are going up in smoke every day. And, just as fires are destroying corporate property insurance programs, personnel accidents and liability suits are afflicting the casualty loss ratios of many U.S. multinationals.

Some U.S. multinationals rely solely on commercial insurance to protect personnel and property against losses. But these companies inevitably find that poor or eroding loss experience is matched by restricted market capacity, higher premiums and increased retention.

A well-conceived loss control program is the best way to achieve an acceptable level of personnel and asset conservation. And good loss experience usually translates directly into lower insurance costs.

Unfortunately, foreign managers have been known to resist investing in loss control because local premium savings are often insignificant compared with the required capital expenditures.

Obviously no corporate loss control program can succeed without the wholehearted support of top management on a continuing basis. Top management support must then cascade down to the lowest levels of the organization, especially at foreign locations.

U.S. multinational facility managers are often held responsible for protecting the assets and the earnings of their foreign unit. These managers should be motivated to take reasonable measures to avoid or minimize loss to personnel and property. Employee interest in safety and loss control usually will result from the active interest and continuous support of local management.

Corporate loss control policy should be fully stated, in writing, to provide commonly accepted standards for both management and employees.

How can management motivate employee interest in safety?

First, corporate loss control policy and objectives should be fully stated, in writing, to provide commonly accepted standards for both management and employees. This alerts everyone to the idea that continuity of operations is a corporate priority as well as an individual responsibility. After all, the loss of or serious damage to a facility directly translates into temporary or long-term unemployment.

Next, the local employee needs to take an active role in the implementation of corporate policy. Fortunately, employee involvement in safety can be achieved without major capital expense.

Good housekeeping, effective maintenance and control of welding operations and smoking all are human element issues that can be controlled at the employee level only. Disinterest or lack of control in these areas often results in catastrophic loss.

Employee interest is also vital in plant fire brigade organizations. These in-house fire fighting emergency teams provide the first line of protection until the arrival of a professional fire department. Fire brigade members are expected to act promptly and effectively in all emergency situations including fire, explosion, flood, earthquake and windstorm.

international issues

Legislation in the United States requires that fire brigade members be physically qualified and properly trained in the use of available fire equipment. Otherwise legal liability can ensue if a fire brigade member is injured. Unfortunately, foreign training requirements vary from non-existent to quasi-military. In fact, fire brigades in many foreign countries are viewed simply as a means to reduce local tariff fire rates. Effective loss control in overseas facilities can be improved by taking advantage of the services that a qualified fire brigade team can provide.

Plant self-inspections are another way to involve employees in loss prevention. Essentially, the employees make regular, formalized audits of fire safety equipment to ensure that sprinkler valves are open, water is available and extinguishers are properly located and serviced. Self-inspection also helps to identify new hazardous situations such as poor housekeeping, unsafe handling of flammable liquids, poorly maintained electrical equipment and fire doors that are damaged by marauding forklift trucks.

Employees should tag any impaired fire protection equipment until it is fixed. The plant safety manager should be made aware of any impairment. In addition, the effects of an impairment can be minimized by timely professional help from a broker's or an insurer's loss control consultant.

The human element policy also may include the control of smoking to ensure that smoking will be confined to safe, designated locations within the plant premises.

It takes money to make money, but the modest investment needed to institute a human element loss control program usually pays off in other ways. U.S. risk managers find that a good local attitude toward human element loss control means less opposition to major capital expenditures for risk reduction.

Historically, sprinkler installations have provided the most effective form of property loss control. In general, sprinklers rank far above other protection systems from the standpoint of efficiency and economics.

The immediate, automatic response of a sprinkler system makes it the most efficient way of delivering water to a fire. Simply stated, the response escalates with each opening head. As a result, a fire can be extinguished or, at the very least, controlled.

Now, you're thinking, "We'll install sprinklers backed by suitable water supply and presto! Our losses will disappear or shrink to insignificance." Right? Wrong!

The rules are relatively straightforward when talking about sprinklers in the United States, but each foreign country has its own rules and regulations. Whereas American risk managers and insurers generally prefer National Fire Protection Assn. standards, most foreign countries recognize some form of the British Fire Offices Committee standards.

Sprinkler installations have provided the most effective form of property loss control . . .from the standpoint of efficiency and economics.

A comparison of the two standards reveals a number of conceptual differences in approach. FOC standards are oriented toward the specification of the desired results, i.e., the amount of water over a given area. Yet FOC rules give little guidance about how to achieve the desired results. Instead, FOC sprinkler system design is left to a specified number of contractors approved by the insurance industry. But risks sprinkled to FOC specifications enjoy tariff rate credits.

On the other hand, NFPA standards take a more comprehensive approach. NFPA rules are based on a consensus of diverse disciplines such as insurance, government, sprinkler contractors, private consultants, engineer architects and fire services.

NFPA codes provide a minimum requirement that can be interpreted conservatively or expanded to suit the comfort level of insurers/risk bearers. Unfortunately, the interpretive quality of NFPA standards is dissuasive to foreign insurers that follow rules by the book.

The physical difference in sprinkler designs is less important than the fact that they mollify insurers. FOC standards suit foreign insurers that apply normal tariff conditions to meet the risk involved. But NFPA codes are based on highly protected risk standards that were developed through extensive full-scale fire testing.

Consequently, U.S. underwriters will grant broader coverage and more competitive rates when protection is designed to NFPA standards.

During the days of the soft property/casualty insurance market, the expense of installing costly fire protection equipment was not justified by prospective rate savings. As the property insurance market tightens and rates rise, however, U.S. multinationals are beginning to recalculate their return on investment for protecting foreign facilities.

In tariff-rated countries like Japan, Brazil and Mexico, the return on investment for fire protection is geared to local standards. Thus, the financial incentive is usually eliminated when U.S. standards are applied. U.S. multinationals also find that the financial incentive is reduced when fire protection equipment and components are not manufactured locally.

This is the case in most developing countries where the added cost of imported equipment discourages investment in fire protection systems. Ironically, sprinkler protection is highly important in these countries because public fire services often are inadequate.

When building new facilities, the cost of state-of-the-art fire protection is usually accepted as part of the construction cost. In the design stage, trade-offs are possible between less costly construction and a well-designed sprinkler system. So, think loss control as soon as planning for a new facility begins.

Like property loss control, casualty loss control is best sold on its merits rather than on its potential for achieving premium reductions. Casualty loss control is easier to sell, however, because most managers have had experience in dealing with personnel injuries and accidents.

In many foreign countries, workers compensation losses are the subject of direct government regulation. In countries where workers compensation for work-related injuries is part of the social security system, effective employer loss control programs do not generally result in lower contributions. But casualty loss

Continued on next page



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

Putting a price tag on artistic losses

By The Insurance Institute of America

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

This month's exercise, drawn from the December 1986 ARM-54 national examination, examines the extent to which the traditional analysis of "key person" loss exposures applies to the unique talents of a particular artist.

Q: The Hanson Art Institute is a proprietary art gallery and museum that was founded by and is dedicated to the painting and sculpture of Lars Hanson, widely acknowledged to be one of the world's premier living artists.

The institute draws 30% of its revenue from its museum operations and 70% from sales of Mr. Hanson's newly created works. Mr. Hanson, now 68, has no plans for retirement, but the arthritis in his hands is becoming more severe.

- Describe a proper procedure for estimating the extent of the institute's net income losses if Mr. Hanson's hands become permanently and totally disabled.
- What specific actions could the institute feasibly take, either before or after such disability, to deal with these net income loss exposures through
  - ✔ Loss prevention?
  - ✔ Segregation of exposure units?
  - ✔ Loss reduction (other than through segregation of exposure units)?

A: Traditionally, and quite properly, the net income loss to the institute from Mr. Hanson's disability is computed as the present value of the difference between the pre-disability and post-disability net income of the institute for the period from the beginning of his disability to his retirement.

This difference may result from the effects of his disability on both the institute's revenues and its expenses.

This general valuation procedure for net income loss is applicable here. However, in this particular case, the institute's income or its expense may be either increased or decreased by Mr. Hanson's progressive arthritis—making it unclear, for several reasons, whether this disease will lead to any net income loss.

First, Mr. Hanson's disability may not be premature at his age, when retirement is normal, so that no real "loss" can be identified.

Second, public recognition of Mr. Hanson's declining health may increase the value of the limited supply of his works, thereby increasing their sales revenue value to the institute.

Third, Mr. Hanson, may be able to undertake other activities that require less dexterity—lecturing or writing, for example—that will partially or fully offset the loss of revenue from his growing inability to produce new works.

Fourth, as Mr. Hanson's abilities decline, the institute's expenses supporting his activities may decrease, again tending to lower the resulting net income loss.

- Among the alternatives for dealing with this net income loss exposure: loss prevention involves reducing the likelihood of any net income loss; loss reduction entails reducing the severity or extent of such loss; and segregation of loss exposures focuses on either dividing existing exposures into smaller units or diversifying the institute's activities.
  - ✔ With respect to Hanson's future output, one loss prevention technique would be to obtain excellent preventive, perhaps even restorative, medical treatment for his arthritis and to otherwise maintain his present health.

With respect to the value of his past works still available for sale through the institute, effective loss prevention should be undertaken to protect these valuable works from any physical damage or theft.

- ✔ To segregate its loss exposures, the institute could, first, distribute Mr. Hanson's existing works among separate facilities where they could not all be damaged simultaneously; or reduce its dependence upon Mr. Hanson's individual skills by either training replacement artists in the "Hanson style" or featuring a wider range of other artists' works for sale or exhibition at the institute.
- ✔ If even the best medical care could not maintain Mr. Hanson's health but only slow its decline, this care should be considered loss reduction rather than prevention.

Other techniques for reducing the extent of the institute's net income loss would be to broaden the scope of Hanson's revenue-producing activities (such as through lecturing or writing), and raising the price for which the institute sells existing and any new works by Mr. Hanson.

A.R.M. exercises

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

Comp benefits denied to unmarried companion

legal briefs

An unmarried companion of an employee fatally injured in the course of employment was not entitled to death benefits under the Workers Compensation Act, according to the Utah Supreme Court.

Larry Crenshaw was fatally injured in a highway truck accident in 1983 while in the course of his employment. Mr. Crenshaw had never been married, but had fathered three children, each having a different mother. Death benefit claims were filed on behalf of each of the children. The mother of Crenshaw's youngest child, Stephanie Bridgeforth, also claimed benefits as a dependent mother of Mr. Crenshaw's family, but the Industrial Commission denied any benefits.

On appeal, Ms. Bridgeforth argued that they were living together prior to an expected future marriage and that each bore the "relation of husband and wife" to the other. However, the court said that an "unmarried companion is not considered a member of the deceased's family or related as husband or wife, regardless of the level of personal commitment or the good faith intent to assume a legal marriage relationship in the future." Thus, the court said the commission properly denied benefits to her. *Crenshaw vs. Industrial Commission of Utah*, Supreme Court of Utah, Dec. 16, 1985 (*BI*/03/J.—$5).

Mental disorder covered

The long-term mental problems caused by an operation needed to permit a second operation necessitated by an industrial accident were compensable, the Oregon Supreme Court ruled.

In 1978, Betty Williams was injured while working in a job that required repetitive lifting. A neurosurgeon who recommended a discectomy and spinal fusion noticed an unusual sound in her right carotid artery and concluded that Ms. Williams faced unreasonable dangers in proceeding with the discectomy while the artery was in its current condition. He performed an endarterectomy in September 1979, followed by the discectomy in October 1979.

Soon after the first surgery, Ms. Williams noticed symptoms diagnosed as mild dementia and filed for compensation, but her claims was denied by the Compensation Board and the Court of Appeals.

The state Supreme Court said that both operations were required for total medical treatment and the treatment was necessitated by the original injury. *Williams vs. Gates, McDonald & Co.*, Supreme Court of Oregon, Nov. 26, 1985 (*BI*/05/N.—$10).

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

Safety abroad

Continued from previous page

control programs are becoming increasingly important in countries like Belgium, Hong Kong, Ireland and the United Kingdom, where workers compensation insurance is written by the private sector.

Indeed, workplace safety standards, inspired by the U.S. Occupational Safety and Health Administration, are being voluntarily applied in certain foreign countries. And, certainly U.S. multinational employers are as concerned with employee safety abroad as as they are at home.

Liability laws in many foreign countries hold a management or an individual criminally responsible if a third party is injured through professional negligence. In addition, highly publicized catastrophic events such as the chemical leak in Bhopal or the recent chemical pollution of the Rhine tend to raise corporate sensitivities about the need for foreign loss control measures that parallel those practiced in the United States. Regardless of current trends, U.S. multinationals should develop a safety policy that demonstrates compliance with local laws.

To some extent, local insurance costs can be mitigated through corporate insurance programs that allocate costs by rewarding good loss control and punishing loss leaders. Many U.S. multinationals find that allocations allow fairness in the cost-bearing process by challenging foreign subsidiaries to improve their loss control program and to accept larger deductible levels. The approach is generally well-received by overseas managers who are otherwise sensitive to arbitrary treatment by their "foreign" home office.

A healthy competitive approach to loss control can go a long way toward achieving a successful risk management program. Top management commitment, adequate training programs and regular reinforcement through inspections and audits are the tools for increasing the sense of personal safety awareness on the part of all worldwide employees.

When practiced properly, a good risk management program provides the controls to contain the risks that exist in the workplace. But good risk management never happens overnight—and never happens without teamwork. So enlist your management, your foreign personnel, your insurer and your broker—and make 1987 your year for better loss control practices.

Cost of risk declined in '83, '84: Study

By ALISON KITTRELL

Riding the tail end of the soft insurance market and boosted by strong corporate revenue growth, the cost of risk declined as a percentage of corporate revenues in 1983 and 1984, according to the Risk & Insurance Management Society's latest Cost-of-Risk survey.

However, preliminary information gathered in the survey indicates that the cost of risk started to rise by 1985, reflecting the tightening of the property/casualty insurance market.

The survey, which was conducted for RIMS by the Tillinghast Division of Towers, Perrin, Forster & Crosby, was based on the responses of 473 RIMS member companies that furnished information in 1985 about their property/casualty insurance and risk management programs in 1983 and 1984. Respondents also furnished estimated information for 1985, though information on corporate revenues and assets was given for only 1983 and 1984.

The survey defines cost of risk as the sum of:

- Net insurance premiums, unreimbursed losses, including self-insurance and self-insured retentions.
- Risk control and loss prevention expenses.
- Administrative costs.

According to the survey, the aggregate cost of risk for all respondents declined as a percentage of revenues and as a percent of assets in 1983 and 1984.

As a percent of revenues, the aggregate cost of risk declined to 0.495% in 1984 from 0.502% in 1983. As a percentage of gross assets, the aggregate cost of risk declined to 0.261% in 1984 from 0.265% in 1983.

'Things did turn the corner, and you can sense that in the '85 numbers,' says James Blinn.

The total cost of risk as a percent of revenues increased slightly from the 0.477% for 1982, but it still was below the 0.645% reported in 1980 and the 0.584% reported for 1978, in the previous Cost-of-Risk surveys, released in 1983, 1981 and 1979 by RIMS and Risk Planning Group Inc., now part of Tillinghast/TPF&C.

However, the 1985 survey notes that this decline is more a function of economic growth than a decline in insurance costs: Between 1983 and 1984, average revenues among responding companies increased 9.8%, while the average cost of risk grew 9.2%.

The cost of insurance premiums increased an average of 6.4% between 1983 and 1984.

And, the survey suggests that the more-rapid increases in costs during the post-1984 hard market may have a significant impact on the cost of risk when compared with revenues or assets: Average insurance premiums increased 22.9% between 1984 and 1985, to $3.7 million per company.

James D. Blinn, a consultant with Tillinghast/TPF&C in New York, agrees that after the bulk of the information for this survey was gathered, "Things did turn the corner, and you can sense that in the '85 numbers."

The industry group reporting the highest cost of risk as a percent of revenues in 1984 was the machinery industry, where the cost of risk averaged 2.02% of revenues. The next-highest cost of risk was reported by the health care industry, at 1.64% of revenues.

However, the survey also asked respondents to provide information on the sum of their total premiums plus unreimbursed losses, excluding loss-control costs and administrative expenses.

Using these figures, health care had the highest cost of risk: 1.33% of revenues. The cost of risk for the machinery industry, based on this data, was only 0.61% of revenues, which may reflect the relatively high cost of loss control efforts in the machinery industry.

The industries reporting the lowest cost of risk were the insurance industry, at 0.07% of revenues in 1984, and the telecommunications industry, at 0.10% of revenues. They also reported the lowest total premiums plus unreimbursed losses as a percent of revenue; 0.06% for insurance and 0.09% for telecommunications.

In specific areas, the survey reports:

- Total property insurance premiums increased 7.6% from 1983 to 1984, and 19.7% from 1984 to 1985, based on the estimates for 1985.
- Total liability insurance premiums increased 4.8% from 1983 to 1984, and 24.5% from 1984 to 1985, based on estimates for 1985.
- Spending for risk control increased 21.2% from 1983 to 1984, to an average of $2.7 million in 1984 from $2.3 million in 1983. As a percent of revenues, the spending for risk control remained fairly steady: 0.217% in 1984 and 0.212% in 1983. This is in contrast to the 1983 survey, which showed a drastic decrease in spending for risk control (*BI*, April 16, 1984).
- Risk management departments are growing, in terms of both manpower and budget. In 1984, there were an average of 4.65 employees in the respondents' risk management departments, up from 4.55 employees in 1983. And, the average amount of risk management department expenditures rose 3.8% to $331,076 in 1984 from $319,089 in 1983.

Furthermore, some 65.6% of the risk managers in 1984 reported to the finance or treasury function within their company.

In the area of property insurance, the survey noted a continuation of the trend seen in earlier surveys to use replacement cost rather than actual cash value as a basis for valuation of property limits. In the 1985 survey, 94.3% of the respondents said they use replacement cost valuation, up from 89.8% in the 1983 survey, 84.1% in the 1981 survey and 78% in the 1979 survey.

The survey also noted that property insurance premiums began to reflect the tightening market in 1985. For example, the increase in premiums for property damage and business interruption coverage rose an average of 6.7% from 1983 to 1984, but jumped 20.5% from 1984 to 1985. "This represented the first sign of the 'hardening market' for commercial insurance," the survey authors note.

The cost of property damage and business interruption coverage per $100 of insured value showed similar effects of tightening: It fell to $0.068 in 1984 from $0.075 in 1983, but jumped again to $0.078 in 1985.

In 1985, for the first time, the survey asked specific questions about earthquake and flood coverage. And, the respondents that purchased these coverages reported an average premium increase of 72.7% between 1983 and 1985.

In addition, the survey authors note, "The respondents indicated substantial difficulty in purchasing adequate limits of insurance for California earthquake coverage. Furthermore, respondents reported purchasing insurance that carried a deductible expressed as a percent of total loss (quota share) rather than on a per-occurrence basis. A per-occurrence deductible limits the self-assumed portion of any loss, while a quota-share deductible implies higher self-assumed losses. These were the signs of the difficulty in purchasing insurance in 1984 and 1985."

That difficulty also was evident in liability insurance lines. Total liability insurance premiums paid by the respondent companies increased 4.8% from 1983 to 1984, but they jumped 24.5% from 1984 to 1985.

As a percentage of revenues, liability insurance premiums fell to 0.175% in 1984 from 0.183% in 1983, but the survey does not include revenue figures to make a similar comparison for 1985.

The survey also breaks out the cost of primary liability coverage and the cost of excess liability coverage, revealing that the jump in cost for excess coverage was much greater than the jump in cost for primary coverage as the market hardened.

For example, primary general and auto liability insurance premiums rose 26.6% from 1984 to 1985. But excess general and auto liability insurance premiums skyrocketed 112.4% during the same period.

The survey also broke out costs for directors and officers liability insurance, which has reached a crisis state during the current hard market. From 1983 to 1984, D&O premiums actually fell an average of 26%, but from 1984 to 1985, the cost of D&O insurance rose 73.2% to an average of $107,531 per company.

"This dramatic change in premiums from one year to the next indicated the degree to which directors and officers liability premiums were affected by the soft market," the authors explain.

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Copies of "Cost-of-Risk Survey: 1985" are available for $70 ($40 for RIMS members) from Tillinghast/TPF&C, 722 Post Road, Darien, Conn. 06280; 203-655-9791.

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Three hospital groups launch captive insurers

By JUDY GREENWALD

IRVING, Texas—Voluntary Hospitals of America will capitalize its new Bermuda-based insurance company at $20 million, says a VHA official.

The insurer, VHA Insurance Co. Ltd., will write excess general liability and professional liability insurance for the 719 non-profit hospitals that belong to the VHA hospital system.

The insurer will begin writing policies with limits of up to $2 million, including defense costs, later this month (*BI*, Jan. 26).

Meanwhile, the Hospital Assn. of New York State also is organizing its own captive for member hospitals, while a captive organized by the Connecticut Hospital Assn. already has begun to issue policies.

VHA Insurance Co. will be managed by Marsh & McLennan Inc., said VHA Executive Vp James R. Posner, who recently left M&M to join the hospital system. Policies will be written by Victor O. Schinnerer & Co. Inc., an M&M underwriting management unit.

Mr. Posner said the insurer, which will write coverage on a claims-made form, will write excess of a minimum of $500,000 in underlying insurance or retention.

The insurer has not yet arranged reinsurance support, he said.

Mr. Posner said VHA will contribute $17 million of the $20 million in capitalization. The remaining $3 million will be contributed by hospitals' reserve contributions.

Each hospital purchasing coverage from VHA Insurance will pay a reserve contribution equal to 100% of the hospital's first-year premium and 50% of its second-year premium. No minimum premium has been established.

He noted the insurer's stock is owned solely by VHA and its member hospitals.

In addition to M&M, other companies that consulted on the formation of VHA Insurance include New York-based Stewart Economics; the Tillinghast Division of Towers, Perrin, Forster & Crosby and the Chicago law firm of Mayer, Brown & Platt.

Mr. Posner noted that VHA's newly created VHA Insurance Services unit will provide risk management services to member hospitals, regardless of whether they buy coverage from the new insurer.

Meanwhile, the Hospital Assn. of New York State is forming a captive insurer with the cooperation of the Hospital Trustees of New York State to write directors and officers liability, excess medical malpractice and excess comprehensive general liability insurance.

The association expects to license the company in New York and to begin marketing the program to members in March. Only 24 of the non-profit hospitals and nursing homes that belong to HANY also are VHA members, so there will be little overlap between the two insurers.

Ten small Connecticut hospitals are participating in the Connecticut Hospital Assn.'s Vermont captive, Conn Med Insurance Co., which began issuing policies in October, said Donald Berkowitz, the association's vp of finance.

Mr. Berkowitz said Conn Med is writing primary professional liability and general liability coverage on a claims-made basis. First-dollar coverage of up to $1 million per occurrence/$3 million aggregate is being offered.

Conn Med retains the first $300,000 of risk per occurrence and reinsures the remaining $700,000 with Trenwick America Reinsurance Corp. in Westport, Conn., Mr. Berkowitz said.

Conn Med is capitalized with $2 million collected from its policyholders, he noted, adding that gross premiums written have totaled $3.8 million.

The captive, which was created with the help of Princeton, N.J.-based consultant Donald F. Smith Associates, will be managed by Montpelier-based Vermont Insurance Management Co., according to Mr. Berkowitz. Tillinghast will perform actuarial services, while Arthur Andersen & Co. will serve as auditors and tax adviser.

Claims administration and underwriting are being handled in-house, and the insurer plans to hire a risk management/loss control staff, Mr. Berkowitz said. ■

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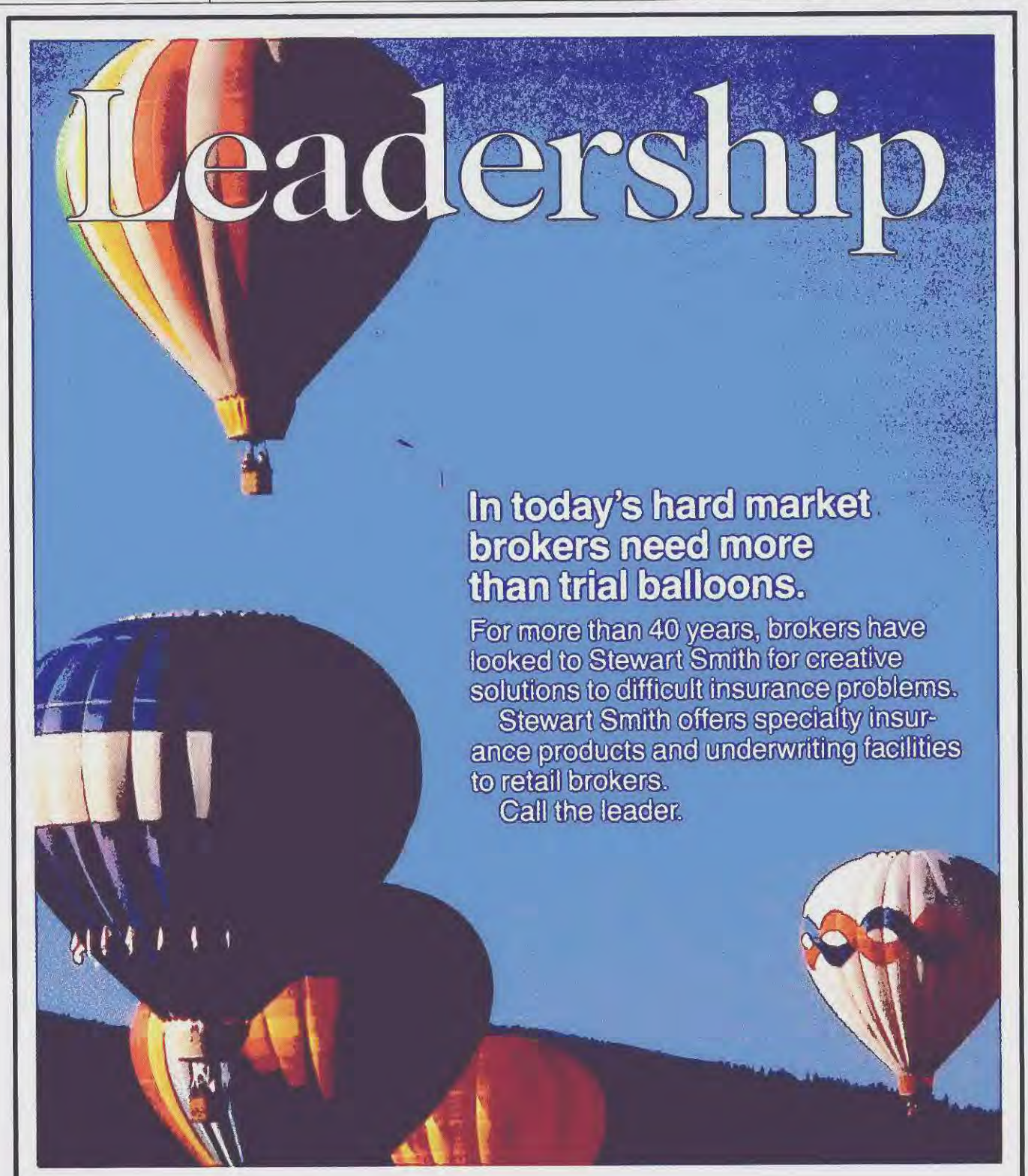
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Florida names Dickinson to head risk management

Lynn Dickinson has been named director of the Division of Risk Management at the Florida Department of Insurance and Treasurer in Tallahassee. Ms. Dickinson will oversee administration of the state's self-insurance program for property/casualty risks. She replaces **Preston Cowie**, who has taken a position with the Florida Medical Malpractice Joint Underwriting Assn. She reports to Bill Gunter, state treasurer, insurance commissioner and fire marshall. Ms. Dickinson served as chief of the state's Bureau of Workers' Compensation since 1984, and prior to that held positions with the Travelers Insurance Co. Ms. Dickinson is a registered nurse and holds a bachelor of science degree in business studies from Charter Oak College of the University of Connecticut in Storrs.


Ms. Dickinson

comings & goings: buyers

* * *

Alton L. Schexnayder, 50, has been promoted to director of risk management at Revco D.S. Inc. in Twinsburg, Ohio. In this position, he will be responsible for risk identification and measurement and will direct loss prevention, claims handling and safety programs for the nationwide drugstore chain. He reports to Lawrence J. Bell, assistant vp-risk management. Mr. Schexnayder joined Revco D.S. in 1975 as manager of insurance and was named director of insurance in 1978. Since 1980 he has served as director of loss prevention. He received a bachelor of science degree from Louisiana State University in Baton Rouge. Mr. Schexnayder is past president of the McKinley Chapter of the American Society of Safety Engineers and a deputy member of the Risk & Insurance Management Society. Also, he holds the Associate in Risk Management designation and the Certified Safety Professional designation.

* * *

Kenneth R. Rado, 32, has been named director-risk management at Reliance Group Holdings Inc. in New York. In this position, he will oversee worldwide risk management functions for Reliance Group, a holding company involved in insurance and real estate. He replaces **Mathew Shefler**, who has been promoted to Reliance's investment group, and reports to Bruce Sokoloff, senior vp-adminsitration. Previously, Mr. Rado was insurance manager for PepsiCo Inc. Prior to that he held risk management positions with Amax Inc. and General Motors Corp., where he was responsible for international risk management as well as GM's offshore insurance subsidiary. He received a bachelor of science degree in electrical engineering and a master of business administration degree from Temple University in Philadelphia. In addition, he is a deputy member of the Risk & Insurance Management Society and a member of the Institute of Electrical and Electronics Engineers.

* * *

Barry L. Zichichi, 34, has been named insurance analyst at MSU Systems Services Inc. in New Orleans. He will be responsible for administering property/casualty insurance for the company, which is the service company for electric utility Middle South Utility Systems. He replaces **E.H. Underwood**, who left the company, and reports to Dan Craven, manager of risk financing. Prior to joining MSU Systems, Mr. Zichichi was an insurance analyst at McDermott Inc., in New Orleans. He holds a bachelor of science degree in management from the University of New Orleans. In addition, he holds the Associate in Risk Management designation.

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We'd like to report on staff changes in your risk management, safety or employee benefits department. Just drop a note to Paul Winston, Assistant Copy Editor, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611, or call 312-649-5442. Please send a photograph, too.

NATURAL DISASTERS

During the Past Few Years, Business and Industry Worldwide has suffered hundreds of millions of dollars of weather-related losses due to arctic freeze, floods, hurricanes, snow overload, tornadoes, windstorm. In addition, earthquakes have contributed their share of damage. For many years, much has been written about controlling man-made losses—arson, operator error, inadequate training—but how about natural disasters? Can anyone develop a program to manage natural emergencies, or is this just so much wishful thinking?

At Industrial Risk Insurers we feel our OVERVIEW management program for loss prevention and control can be used to minimize damage caused by a natural disaster. OVERVIEW may not be able to control the emergency itself (how can you really control a hurricane or tornado?), but the **before** and **after** situations can be anticipated, prepared for, and implemented as appropriate. For example:

Arctic Freeze. Each winter we expect cold weather, but arctic freeze is something else. This phenomenon occurs when the jet stream that circles the earth at high altitudes shifts course and carries an unusual mass of bitterly cold arctic air deep into warmer climates, sustaining subnormal, freezing temperatures for periods of nearly a week. Every state, including Florida and Hawaii, has felt the effects of arctic freeze at one time or another. This winter we suggest you closely monitor weather reports, since a few days warning should be enough time to actuate your pre-emergency plan.

Snow Overload. When a snow or ice storm is on the way, the facility's emergency coordinator should begin monitoring storm advisories, decide when to activate the Emergency Control Center, and assign the tasks of plowing, shoveling, and installing snow fences and markers at hydrants and fire protection control valves. **During** and **after** a storm the coordinator should make sure that snow is continually removed from roofs and that ice is dislodged from roof drains. Otherwise, the roof might collapse.

Spring Floods. Although some of the most disastrous floods have occurred in July and August due to heavy rains or hurricanes, many people associate flooding with springtime. And for good reason, because thawing temperatures in the snow fields and April showers result in abnormal runoff. Rampaging waters are only part of the threat, however, since floods can spread flammable liquids, isolate facilities and disrupt fire protection measures. All too often, what floods leave behind is consumed by fire. Be sure to review the potential flood threat to properties located near bodies of water and plan ahead.

Each of the above situations is discussed in OVERVIEW, IRI's total management program for loss prevention and control. For assistance, contact your servicing IRI loss prevention consultant, or ask Mrs. P.A. Sasso for a complimentary copy of the OVERVIEW brochure: IRI, 85 Woodland Street, Hartford, CT 06102, area code (203) 520-7412.

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'Insurance Today'

Agency's TV show brings insurance topics into consumers' homes

By LINDA J. COLLINS

PENSACOLA, Fla.—Employees at a Pensacola insurance agency are informing area consumers about insurance-related issues—and becoming local TV stars at the same time.

Fisher-Brown Inc. is sponsoring, directing and hosting "Insurance Today," a weekly half-hour cable television program aimed at increasing the public's understanding of the insurance industry.

The program is broadcast on Pensacola's Basic Local Area Broadcasting (BLAB) cable station, operated by Atlanta-based Cox Cable Communications Inc.

Each Wednesday evening since October, one of the program's two co-hosts—both vps of the Fisher-Brown agency who alternate weeks on the program—discusses a specific topic and then opens the show up to call-in questions from viewers.

The host of the program—either Mac L. Bryan, Fisher-Brown's vp of special risks, or Alan D. Moore, vp of marketing—is accompanied by at least one of the agency's producers or marketing staff members with expertise in the topic to be discussed that evening. And, with 85 employees in two offices, the 75-year-old Fisher-Brown agency has a wealth of qualified individuals to tap for that expertise.

While the agency pays for the air time out of his advertising budget, the purpose of the program is to inform consumers about insurance topics and not to attract new business to the agency, says the program's hosts.

"We are very careful not to solicit business on TV," Mr. Moore said. "We want consumers to feel that we are offering our services to the public."

While Mr. Moore and Mr. Bryan host the show, Braden Kirk Ball, vp and general manager of Fisher-Brown, coordinates the shows, supervises production and selects the topic for each show. Topics include a wide variety of personal lines, commercial lines and other insurance related issues (see story, next page).

"I arrange for specific people from the agency to be on the show, and help prepare them by giving them materials that would be good to review prior to the show," Mr. Ball explained. Those materials, which are furnished to the hosts and guest speakers at least two weeks before each show's broadcast date, include industry bulletins, company underwriting guides and articles published in trade or general news publications that Mr. Ball accumulates. The material gives participants a quick overview of a particular subject.

The host for the evening also helps prepare the guests.

"As a host, I meet with the guest hosts for an hour to an hour and a half on the afternoon prior to the program," Mr. Bryan said. "I ask sample questions, which they answer" to make sure they are prepared, he added. At that time, the hosts also prepare a set of backup questions.

"If we have a lag in calls, I ask the pre-determined questions to get the program going," said Mr. Bryan. But those questions are only used if necessary, he commented. "We try to take as many calls as we can."

The show's format is simple, Mr. Moore explained. "We start each show with a brief discussion of the topic itself. Then, as host, I might pose two or three questions that would be typical of what the public might ask. Then we open the show up for phone calls."

But calls are not limited to the evening's topic, Mr. Bryan explained. In fact, when the topic is not personal-lines oriented, "at least 50% or more of the questions are not related to the topic," he said. "We get more questions on perscnal lines than on anything else."

Approximately 30% of the callers ask commercial lines questions, Mr. Bryan added. Other questions concern life and health insurance or insurance market conditions in general, such as: "Why are prices going up?"

While the agency has pre-planned topics for each show, the format is not rigid. According to Mr. Moore, "With the market in a constant state of change like it is, our format is flexible."

For example, if "Insurance Today" were scheduled to devote one evening's program on workers compensation topics and a hurricane were spotted off the coast before the show aired, the focus might be shifted to windstorm and flood insurance, Mr. Moore explained.

And, if a particular topic draws a large viewer response, "We have devoted another week to the same subject," said Mr. Bryan.

Some viewers have called in questions about the Florida insurance regulation and tort reform law passed last year, Mr. Bryan noted. The reforms, which mandated insurer rate rollbacks, prompted many admitted insurers to stop writing new business in that state (*BI*, June 16, 1986). Insurance trade associations and admitted insurers have challenged the constitutionality of the reform law (*BI*, Nov. 3, 1986; Dec. 15, 1986; Dec. 22, 1986).

"We do get questions regarding the tort/insurance reforms here. Unfortunately, the general public in Florida doesn't have a real understanding" of the reforms, Mr. Bryan commented.

An average of between seven and 10 consumer questions

Continued on next page

'Insurance Today'

Continued from previous page

can be answered per show, Mr. Ball said. "If we can't answer all of the callers' questions on the air, we ask the people to stay on the line and we answer the questions after the show."

"If we cannot easily answer callers' questions, we will tell them to call our office the next day so that we have time to find out the answer for them," Mr. Moore added.

Many caller questions are basic. "Most questions result from the callers' own personal experiences," Mr. Bryan said. But some callers do pose more sophisticated questions, such as the caller who asked why the McCarran-Ferguson Act excludes insurers from federal regulation, he said.

Sometimes viewers call in with questions regarding their own insurance policies, said Mary Jane Lord, personal lines department manager for Fisher-Brown and a frequent guest on the show.

"We have to try to keep our answers very brief and as general as possible. We can't give callers specific details on how they can handle their own situation without seeing their specific policy" or knowing more about the individual circumstances, Ms. Lord commented.

"I think people are a little more informed" about insurance than they were in the past, she added, "or else they are more interested in becoming informed."

Tom Provost, manager of Fisher-Brown's Fort Walton, Fla., office said he was "intrigued" with the idea of participating on the program and feels it enhances both the agency's image and the industry's image in the eyes of the public.

"The program is a good vehicle for providing public information. Anything we can do in that regard helps us in our job," Mr. Provost said. He explained that insurance agents often "find themselves more educators than salesmen" in their dealings with clients and prospects, and "Fisher-Brown is trying to fulfill that need."

Mr. Provost, who has been a guest twice on "Insurance Today" and will participate on future programs, says he spends from 2½ to three hours reviewing the materials and rehearsing his delivery before meeting with the show's host.

At the beginning of each show a disclaimer is superimposed over the agency's logo that reads: "Comments on this program do not contain full insurance policy terms and conditions. Read your policy for specific details."

And, Mr. Ball explained that if he or Mr. Moore feel that any comments made early in a show need viewer clarification, they will clarify the statements after a 90-second commercial break in the middle of the program.

Fisher-Brown became interested in the concept of a television talk show after a Pensacola law firm—Levin, Warfield, Middlebrooks, Mabie, Thomas, Mayes & Mitchell P.A. —successfully launched a daily, hour-long public information call-in program called "Law Line" on BLAB, Mr. Ball explained.

"We observed what was being done with 'Law Line,' " Mr. Ball said. "We wanted to have the opportunity to sit in folks' living rooms and talk about insurance."

However, while the agency's principals "had given such a program some thought in discussing our total advertising and public relations program, we had sort of discarded" the idea, Mr. Bryan said.

But the television station then came to the agency directly and asked if it would be willing to host an insurance program, according to Mr. Bryan. "They said they had shows featuring lawyers, accountants, doctors, financial planners, landscape gardeners, etc., and they wanted us to do insurance," he explained.

Viewership studies conducted by the cable system concluded that of 45,600 subscriber households to Cox Cable, 77% of the households view the BLAB network to some degree and 44% of the households are regular viewers, according to Mr. Ball. When the service is expanded into Santa Rosa County, BLAB predicts it will pick up another 6,500 viewers, he said.

While neither the co-hosts nor Mr. Ball had previous television broadcast experience, it has not proved to be a major hindrance, they explain. The station helps the agency with the technical aspects of production, such as when to prepare for break and when to conclude and how to operate the phones properly, Mr. Bryan said.

"I was nervous at first. I still am at the very opening of each show," he said, though he added that after the first minute or two, that nervousness disappears.

"Everyone from our agency who has been on the program has performed well," Mr. Bryan added.

Other insurance agencies in the area have since told the agency that "they wished they were doing the program, and some have volunteered to be on our program, if asked," Mr. Bryan commented.

Mr. Moore added: "We feel at this point, with the market like it is, that. . .the insurance industry has yet to make a statement to the general public explaining its market position. We saw the show as an opportunity for us to reach 35% of our market on a personal basis once a week."

The co-hosts explained that while the agency pays for $350 per show for air time out of its advertising budget, Fisher-Brown does not use the show to blow its own horn.

"We refer consumers to the Yellow Pages listing of agents when they ask us who they should call," Mr. Ball added.

The agents admit the program does serve to bring new business to the agency because it emphasizes their knowledge of the industry, but consumers make the decision to contact Fisher-Brown on their own.

"We can identify some additional business, but we haven't gotten a rush of new business as a result of the show. That's not what we were looking for. We were hoping to help the public understand the insurance industry," Mr. Ball said.

Fisher-Brown does advertise its upcoming "Insurance Today" programs on BLAB and on the agency marquee.

The program also gets a plug on the lawyers' program on the cable station. When callers contacting "Law Line" ask the attorneys hosting that show to answer insurance-related questions, "they refer those calls to us," Mr. Ball said.

"They are not reluctant to refer calls to us and we would not be reluctant to refer legal calls to them," he added.

The most important thing the program provides Fisher-Brown is added respect from its clients.

"Customers have acknowledged that they've seen us on TV," Mr. Moore added. "We have gotten positive feedback that they are glad to see us doing this type of thing."

"It is certainly viewed as a service to the community and it puts our agency's name out there," said Ms. Lord. ■

TV show covers it all

PENSACOLA, Fla.—Among the topics that have been discussed on "Insurance Today" or those planned for future broadcasts are:

- Automobile insurance, including personal injury coverage, bodily injury and physical damage liability and uninsured motorists coverage.
- Homeowners insurance.
- Condominium insurance.
- Workers compensation insurance.
- General liability insurance.
- Liquor liability insurance.
- Business interruption insurance.
- Employee dishonesty.
- Directors and officers liability insurance.
- Flood and windstorm damage coverage.
- Risk management topics.
- The procedures agencies use to market a commercial account to underwriters and the underwriting information required by insurers.
- Differences between claims-made and occurrence liability policy forms.
- The regulation of insurance, with a representative from the Florida Insurance Department participating on the program.
- Life and health insurance, with a focus on the universal life policy.
- A panel on tort reform, including representatives from the insurance industry, regulators and attorneys.
- Self-insurance, focusing on the expansion of the federal Risk Retention Act, how self-insurance works, association programs that are available on the marketplace, what is needed for an individual self-insurance program and self-insuring out-of-state exposures.

Agents need to use caution in selecting wholesale brokers

By LINDA J. COLLINS

CHICAGO—An independent agent should be discriminating when selecting the excess/surplus lines brokerages with which he or she deals, a wholesale brokerage executive advises.

Thomas S. O'Brien, a Chicago-based senior vp of Swett & Crawford Group, outlined several criteria for agents to use in selecting excess/surplus lines brokerages at a seminar on marketing hard-to-place accounts conducted by Crittenden Research Inc.

Many retail agents simply call someone they know who is a wholesale broker when they need to contact a surplus lines market, without considering whether that company is the best wholesaler to work with, he said.

Or, if the agent does not know a surplus lines broker personally, he or she may contact a wholesaler that an associate or competitor has praised as having expertise in a particular class of business, Mr. O'Brien explained.

However, there is a more methodical approach to selecting a surplus lines broker, he said.

For instance, an agent first should examine "the quality and depth of the personnel" at each wholesaler considered, Mr. O'Brien stressed.

"Hopefully, we would all deal with a quality broker who knows what he's doing and who has relationships with the (necessary) markets," Mr. O'Brien said.

"But what about the other personnel in the office?" he asked. "What happens when the person you want to deal with is not there, on vacation or leaves?"

If the agent relies upon his or her relationship with one broker at a wholesaler and that person is not available, the agent may encounter inadequate or unsatisfactory service on the accounts placed by other individuals through that brokerage, Mr. O'Brien warned.

"You have to feel comfortable that if the broker you chose to deal with is no longer at that house, your business will be dealt with properly," Mr. O'Brien explained.

Next, an agent should examine the financial integrity of the surplus lines brokerage, he said.

Agents should find out if the brokerage has adequate errors and omissions insurance and investigate the depth of the wholesaler's financial backing, according to Mr. O'Brien, adding that few agents ask these questions.

And, "If the broker is using binding authority, ask to see the letter of authority," he cautioned.

Third, an agent should examine the "quality and depth of the relationships the wholesaler has with surplus lines markets and the spread of the markets," he said.

Mr. O'Brien suggested that retail agencies try to develop relationships with two, three or perhaps four wholesale brokerages, then select from among them the best wholesalers for different types of risks.

However, when an agent plans to submit a particular account to the surplus lines market, he should contact no more than two of those brokerages, he stressed.

He explained that when a particular piece of business is "submitted to more than two wholesale brokers. . .the account will get the reputation of being shopped around, which does no one a service. There is a finite market in the E&S industry," he said.

And, if the retail agency is not located in a metropolitan area, the agent should find out whether the wholesalers under consideration have nearby branch offices, Mr. O'Brien pointed out.

Broker sees limited capacity for surplus lines reinsurance

By LINDA J. COLLINS

CHICAGO—The treaty reinsurance market is stabilizing for casualty risks and softening somewhat for property risks, according to one reinsurance broker.

But, while some new reinsurers and new capacity have entered the reinsurance marketplace, reinsurance capacity for excess/surplus lines risks will not increase significantly, said Paul R. Davies, president of Reinsurance Agency Inc. in Chicago.

"Most of the new reinsurers—and the new capacity that's coming into the treaty reinsurance market—are basically looking for first layers (of coverage) and layers within the first $5 million," Mr. Davies told attendees of a seminar on marketing hard-to-place accounts conducted by Chicago-based Crittenden Research Inc.

In the near future "I don't think you're going to see a return to people having $25 million in capacity under their treaties. To get that type of capacity you have to go into Lloyd's, and Lloyd's is so restrictive with regards to its terms that most companies are not buying E&S reinsurance treaties in Lloyd's," he said.

Many large admitted insurers dropped their first layers of reinsurance over the past 2½ years and are now retaining up to $5 million in coverage, Mr. Davies said.

Insurer "retentions have definitely gone up. For the most part, most companies have eliminated their first layers because of the high cost of reinsurance," he explained.

Since large admitted insurers are assuming higher retentions, they have an advantage in competing against small surplus lines underwriters, he said.

Large admitted insurers "can provide pricing and forms that some of the smaller E&S companies cannot provide, because the reinsurance that they're buying is too limited," Mr. Davies said. Those reinsurance limitations include such things as loss ratio caps and sunset clauses, which Mr. Davies objects to.

"I feel that reinsurers overreacted to the marketplace. What they're doing now is taking a percentage of the premium based on the exposure, but limiting their exposure," Mr. Davies said.

"We have not accepted things like sunset clauses. I think down the road it could bankrupt some of the smaller E&S companies," he added.

According to Mr. Davies, managing general agents can arrange reinsurance on behalf of surplus lines insurers if the MGA can gather the proper information "and deal through the company with the broker intermediary, or with the direct reinsurer."

However, reinsurers are now requesting very detailed information. And, while surplus lines insurers can readily compile information such as client loss histories and limits profiles in their computer data bases, MGAs do not always have this information available to them, Mr. Davies explained.

"In the near future, it will be difficult for producers to get a reinsurance treaty unless they have the necessary information at their fingertips. A big part of that information is what companies they plan to use and at what retention levels they're going to attach," he commented.

On another topic, Mr. Davies said some surplus lines underwriters still are writing liability coverages on an occurrence form.

Although many excess/surplus lines insurers indicated during the past year and a half that they intended to switch completely to a claims-made form, many of them are "falling back now to a claims-made and occurrence combination," he said, explaining, excess liability insurers are "trying to convince the treaty reinsurers—and they've done so—that the market is just not ready for a complete claims-made approach."

Bank ruling could affect insurance, officials say

By LINDA J. COLLINS

WASHINGTON—A recent U.S. Supreme Court decision on national banks' interstate activities will indirectly affect the insurance industry, some industry officials say, even though the ruling does not specifically apply to banks' ability to sell or write insurance.

In an 8-0 decision, the Supreme Court ruled Jan. 14 that discount securities brokerage offices owned by banks are not considered bank branches because they do not accept deposits, provide checking accounts or make loans. Therefore, the court ruled, such offices do not fall under federal restrictions that limit a national bank's branches to its state of domicile.

The Supreme Court decision upheld the Comptroller of the Currency's approval in 1982 of an application by Security Pacific National Bank in Los Angeles to open a subsidiary called Discount Brokerage and to market its services within and outside of California.

The high court said that the McFadden Act of 1927, which limits interstate bank branch activities, does not need to be interpreted as governing all areas of business engaged in by a bank, but rather "can plausibly be read to cover only those activities that are part of the bank's core banking functions."

The decision's "direct impact on the insurance industry will be limited," said Paul E. Equale, vp of government affairs for the Independent Insurance Agents of America in Washington.

However, the ruling "portends, to some degree, the attitude Supreme Court on issues relating to the power of the comptroller that are not encouraging," he said.

According to Mr. Equale, while the securities industry might be the first industry to feel banks' push for expanded powers following the ruling, "insurance, real estate and other powers are obviously on their list" for future thrusts.

"It is incumbent on the insurance industry to get its act together and truly speak with one voice on the expanded powers of banks issue. This is only the banking industry's first step. . .and if the insurance industry ignores this issue, it's at its peril," Mr. Equale said.

"Whenever the Federal Reserve Board or the Comptroller of the Currency or Congress considers broad-based banking authority beyond singular and true banking functions, we look upon that with concern," agreed Patricia A. Borowski, vp of government and industry affairs for the National Assn. of Professional Insurance Agents in Alexandria, Va.

However, she pointed out that there are significant distinctions between a bank performing securities brokerage functions and a bank performing insurance functions, because whenever a bank secures a loan, there is always a need for a certificate of insurance to accompany that loan. That makes coercion an issue if a bank also offers insurance, Ms. Borowski stressed.

A spokesman for the American Bankers Assn. said the decision would not have "any major immediate impact" on the insurance industry "because there are not that many banks that have the authority to sell insurance."

However, the spokesman added, "We would certainly hope this decision would have applicability to insurance activities of banks as well. We would hope that insurance would also be considered a non-core banking function."

The primary lobbying focus of insurance trade groups trying to keep banks out of the insurance industry is on regulations spelled out in the Garn-St. Germain Act of 1982 and the Federal Bank Holding Company Act, rather than the McFadden Act, sources point out.

Nonetheless, "this is an important case," said Barbara S. Haugen, director of federal affairs for the National Assn. of Insurance Brokers in Washington.

According to Ms. Haugen, the question remains: "What is going to happen on Capitol Hill? This ruling may force Congress to define the appropriate roles for the financial services industry," she said. ■

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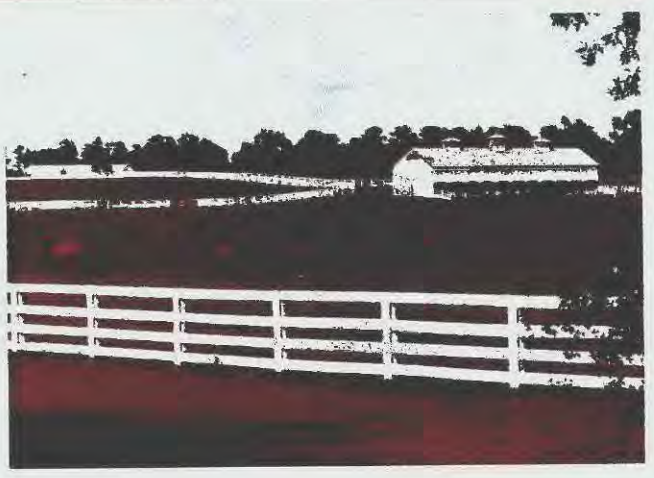
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Beware of the new tax bite

Many tax law changes to pinch agents, brokers

By Robert Feinschreiber and Margaret Kent

TAX REFORM HAS now become law. The changes in the Tax Reform Act of 1986 are so substantial that they constitute a new tax code, the first in 32 years. Many of these tax changes have a detrimental effect on insurance brokerages and agencies.

This article examines the new business tax rules that affect you in your professional capacity. We are not addressing the personal tax rules that affect you as an individual investor and member of the public.

• Business meals.

The new law has tightened the standards for deducting business meals and has reduced the amount allowable. These provisions have an adverse impact on insurance brokerages' and agencies' business entertainment.

Now, only 80% of business expenses for food and beverages are generally deductible. Moreover, stringent criteria must now be met. The meal expenses must be ordinary and necessary business expenses and the meal must take place in an atmosphere conducive to a business discussion. Also, you must discuss business before, during or after the meal.

Under the prior law, it was sufficient if you and your meal guest had a business relationship. There was no requirement that you discuss business during, before or after your meal.

In other words, you could take a client to lunch just to touch base and see if he was generally happy with your product or your service, or to discuss generalities of the business world. Now the business connection requirement necessitates that there be a bona fide business discussion associated with your agency or brokerage.

Needless to say, you cannot deduct meals that are considered lavish and extravagant. The 80% rule applies after you eliminate this excess.

Let's assume that you spend $150 for lunch and the Internal Revenue Service decides that $60 is the acceptable amount. You may deduct 80% of $60, or $48, but not the entire $60.

What is lavish and extravagant is largely up to the IRS, but you had better be prepared for stricter substantiation of even a $25 tab, since the Treasury Department has been instructed to adopt stricter substantiation requirements.

If you reimburse meals for your employees, they can deduct 100% of the business meal as long as all the other requirements mentioned above were met. You, the employer, are then subject to the 80% rule.

The substantiation and record-keeping for travel and entertainment expenses will place an additional burden on insurance brokerages, agencies and others. Time that could otherwise be spent productively must now be used to generate additional paperwork just to satisfy the IRS.

Japan allows very liberal meal and entertainment deductions. Britain is very stringent. By these new tax rules, Congress and the administration have demonstrated which economic model they want the United States to follow.

• Capital expenditures.

The new tax law sharply discourages capital expenditures by an insurance brokerage or agency for equipment and facilities. Under prior law, these assets qualified for investment tax credits, large depreciation deductions or both. Now the investment credit is repealed and the depreciation allowance is reduced.

Real estate investments are especially hard-hit. An office building is now depreciated over a 31½-year period using the straight line method, so the annual write-off is about 3% of the building cost. Until recently, buildings qualified for an annual write-off that was nearly twice as great.

• Automobiles.

Many insurance brokerages and agencies use one or more cars as part of their business. They are adversely affected by the repeal of the investment tax credit and the slowing down of depreciation on automobiles.

The new tax law discourages the purchase of medium-priced automobiles as well as more expensive automobiles. Under the old law, a $12,800 car could be depreciated in three years (the typical depreciation period) and a $22,400 car could be depreciated in five years (the maximum period most people would own a car). Under the new law, a $9,110 car can be depreciated in three years and a $12,060 car can be depreciated in five years (see chart A).

Thus, the new law will discourage the purchase of cars costing between $9,110 and $12,800, and will severely discourage the purchase of cars costing between $12,060 and $22,400, as well as more expensive cars.

Expensive automobiles are especially hard-hit under these new tax provisions, as the table below demonstrates. (See chart B).

If Congress and the Administration had the trade deficit in mind, they would have set the three-year maximum at the price of the most expensive car made in North America, but international considerations appear to be absent from this tax law. ■

Robert Feinschreiber is a certified public accountant and attorney in Key Biscayne, Fla., who writes and lectures on tax and non-tax matters. Margaret Kent is an attorney in Key Biscayne who writes and lectures on taxation and other topics.

Auto depreciation chart A

Year	Old law depreciation	New law depreciation
1	$3,200	$2,560
2	$4,800	$4,100
3	$4,800	$2,450
4	$4,800	$1,475
Later	$4,800	$1,475

Auto depreciation chart B

Price	Old law depreciation period	New law depreciation period
$12,000	3	5
$15,000	4	7
$20,000	5	11
$25,000	6	14
$35,000	8	21

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Guaranty fund laws outdated: IIAA panel

a/bt briefs

SCOTTSDALE, Ariz.—Existing insolvency and guaranty fund laws are outdated, do not meet the needs of the public and should be modified, says Donald C. Brain, chairman of the Independent Insurance Agents of America's Committee on Insolvency and Guaranty Fund Laws.

The flaws and inadequacies in most state guaranty fund laws became "particularly obvious" as insurance company insolvencies escalated in the last several years, Mr. Brain told industry representatives attending the IIAA's first state government affairs symposium in Scottsdale, Ariz.

Among the committee's concerns are:

- State guaranty funds that continue to apply arbitrary deductibles to claim payments, even when a claim exceeds the deductible. Many funds set such deductibles to eliminate the costs of processing small claims.
- The continuing application of the guaranty fund laws of the state in which an insolvent insurer is domiciled to claims due a policyholder from another state. The committee feels that, at minimum, a policyholder should be able to decide which statutes govern the processing of his claim—those of his own state or those of the state in which the insolvent insurer is domiciled.
- The need for "clear and concise" procedures to be established for informing agents and policyholders of an insurer's insolvency and of the guidelines necessary for filing claims.
- The lack of regulations governing the time frame in which claims are paid by guaranty funds.

According to Mr. Brain, state insurance commissioners should be granted the authority to impose penalties for delays in claims payments due policyholders. In addition, the committee advocates that claims be paid on a priority basis, beginning with workers compensation claims.

- A need to eliminate ambiguities in definitions of key concepts and terms that affect guaranty fund claims procedures.
- The lack of emphasis on rehabilitating insurers as an alternative to declaring them insolvent.

Insurance foundation

ALEXANDRIA, Va.—The National Assn. of Professional Insurance Agents has set up an independent Insurance Foundation that it hopes will become a leading center of insurance research and consumer education.

The foundation is initially housed in the PIA's headquarters in Alexandria, Va., and PIA staff members are operating the foundation. Plans call for the foundation to eventually be independently staffed.

The primary focus of the foundation will be to fund research projects that could have substantial impact upon agents and the industry. At a later date, the foundation plans to develop an insurance course designed for public high schools across the country and to award scholarships to college students considering a career in insurance.

Half of the initial funding for the foundation came from the PIA and the remainder from an independent trust, the amount of which the association would not divulge.

While the PIA will remain a major financial backer, the foundation is now seeking funding from a variety of other sources, such as insurers, trade associations and consumer groups.

One-stop shopping

NEW YORK—The majority of insurance executives and investment bankers do not expect to see one-stop financial services shopping in the future, according to results of a survey commissioned by the Insurance Information Institute and conducted by Cambridge Reports Inc. of Cambridge, Mass.

However, most commercial bankers, analysts, consultants, risk

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a/bt briefs

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managers and regulators disagree.

Only 35% of the insurance executives and 38% of the investment bankers polled expect to see one-stop financial shopping, in contrast to 85% of commercial bankers, 71% of analysts/consultants, 69% of risk managers and 63% of regulators.

When questioned about whether they feel banks should be permitted to sell insurance, only 29% of the insurance executives, 35% of the regulators, 37% of risk managers and 50% of the analysts/consultants polled said yes. On the other hand, 84% of the commercial bankers and 62% of the investment bankers feel banks should be allowed to sell insurance.

In addition, 64% of the insurance executives polled predict that brokerage commissions and fees will continue to be paid as a percentage of premiums in tomorrow's property/casualty industry, compared with 50% of investment bankers, 45% of risk managers, 43% of analysts/consultants, 38% of regulators and 36% of commercial bankers.

Only 29% of the insurance executives polled support the idea of flat-fee instead of commissions, along with 17% of investment bankers, 36% of analysts/consultants, 43% of risk managers, 46% of regulators and 53% of commercial bankers.

Agents E&O program

NEW YORK—The Independent Insurance Agents of America Inc. has expanded its agents errors and omissions program (*BI*, Oct. 20, 1986).

The association has added an alternative market to meet the needs of members that do not qualify for the conventional program because of their size, loss ratio or involvement in surplus lines business.

The IIAA's conventional program is underwritten by Employers Reinsurance Corp.

The alternative market is United National Insurance Co. in Philadelphia, which will provide IIAA members with limits of up to $5 million and will accept agencies that are licensed in excess/surplus lines. Deductibles for the claims-made coverage vary.

For further information, contact the IIAA, 100 Church St., New York, N.Y. 10007; 212-285-4250.

IVANS network

WHITE PLAINS, N.Y.—The Insurance Value-Added Network Services Corp., an insurance industry-sponsored organization created in 1983 to provide a vehicle for multicompany computer interface, now has 2,500 agency users with multicompany interface capabilities.

IVANS currently has 30 insurance company owner members. In addition, 63 insurance companies and vendors of insurance-related products and services are network subscribers.

According to IVANS President Robert Barham, the network currently has 127 local connection nodes in place that provide 600 localities with local access. And, IVANS plans to install 100 additional nodes during 1987.

For more information on the network, contact IVANS, 1 N. Broadway, White Plains, N.Y. 10601; 914-682-0800.

Automation info

AUSTIN, Texas—The Independent Insurance Agents of Texas is providing a free referral program to members considering the purchase of automation hardware or software.

While the IIAT does not endorse specific systems, vendors or services, it will provide prospective buyers with a printout containing the names of other IIAT-affiliated agencies that are using the automation equipment in question.

Members with questions regarding this service should contact IIAT, P.O. Box 1663, 1005 Congress, Suite 620, Austin, Texas 78767; 512-476-6281.

New office

SAN FRANCISCO—The Independent Insurance Agents and Brokers of California have a new office in the Federal Reserve Bank Building at 101 Market St., Suite 702, San Francisco, Calif. 94105; 415-957-1212. ■

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Merritt Manual service adds 10 states

The Merritt Manual service, a reference guide that reviews more than 80 insurance coverages, has been expanded for use in 10 additional states.

The new states in which the service is available are: Connecticut, Georgia, Indiana, Iowa, Kentucky, Louisiana, Minnesota, Missouri, Oklahoma and Wisconsin. The manual has been available in Illinois, Ohio, Massachusetts, Michigan, New Jersey, New York and Pennsylvania since July 1985.

The four manuals, which are modified to comply with the rules of each state in which the service is offered, detail underwriting, eligibility, coverage, endorsements, extensions, and rates.

Volume 1 discusses account handling and includes reference guides on risk management, classification guides for more than 1,600 different risk and insurance programs for 11 different industry groups.

Volume 2 covers commercial casualty insurance; Volume 3 deals with commercial property insurance; and Volume 4 covers personal lines account handling.

The subscription price for the manual, which includes a year's update service and a quarterly producer newsletter, is $249. Producers can arrange for a free 30-day trial period with no obligation, according to the publisher.

To order the manuals or request the trial offer, contact The Merritt Co., Department 7A705, P.O. Box 955, Santa Monica, Calif. 90406; 800-638-7597.

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CGL videotapes

Two videotape packages describing the new commercial general liability policies are available from the National Assn. of Professional Insurance Agents, in conjunction with the Insurance Services Office.

One package is designed for consumers, while the other is for agents, brokers, underwriters and other insurance professionals, according to the PIA.

The consumer package, which costs $120, includes a 30-minute tape describing the history and development of the CGL policy. In addition, it compares the new and old forms and briefly explains how the changes will affect coverage.

The package for insurance professionals includes three two-hour tapes describing the differences between the claims-made and occurrence forms, changes in classifications and rules, and how the two new forms compare with the old forms. It also includes periodic updates and a term reference book for a total of $169.50.

Both sets of videotapes are available in Beta or VHS formats.

To order, contact the PIA Marketing Department, 400 N. Washington St., Alexandria, Va. 22314; 703-836-9340.

Sales management

A computerized sales management "tool" for insurance agencies has been developed by the Market Planning Group of Boston.

The tool, called the Selkirk Correspondent, is a computer software system that generates personalized direct mail to target groups, tracks sales activity, stores a comprehensive data base on prospects and customers, creates reports consolidating vital sales information and schedules follow-up sales calls.

In addition, information from list vendors such as Dun & Bradstreet, can be directly loaded by disk into the system.

The system, which also includes word processing capabilities, can be used with the IBM Personal Computer or compatible hardware.

Total cost of the system—including software, a user's manual and a half-day consulting session with an MPG marketer—is $1,250.

The software package has already been endorsed by Austin, Texas.-based Associated Risk Managers International Inc., a marketing organization with 550 independent agency members in the U.S. and Canada, for use by its members involved in target marketing.

To order, write: The Market Planning Group, 80 Boylston St., Suite 860, Boston, Mass. 02116; 617-542-4417.

Retirement planning

Fireman's Fund Insurance Cos. is marketing a pre-retirement financial planning package to agents and brokers that also can be offered to commercial clients.

The package, originally developed by Fireman's Fund for its staff, includes a three-part videotape presentation on investments, taxes and estate planning, as well as a workbook prospective retirees can use to plot personal financial strategies.

Fireman's Fund is offering the program because "retirement is something many working people find difficult to face, but it's a transition just about everyone has to confront sooner or later," said Robert Flagg, a retirement planning consultant. "Like most events in life, it works best if there's a plan."

The cost of the videotape, available in VHS or Beta format, is $500. Workbooks are $5 each for orders up to 500, and $4 apiece for 500 or more. The agent or employer logo can be imprinted on the workbook.

Copies of the tape and workbook are available for a two-week preview from Fireman's Fund's personnel department at P.O. Box 777, Novato, Calif. 94998; 415-899-2000.

Marketing plan

A new Marketing Plan Workbook is now being offered by the Independent Insurance Agents of America.

Authored by agency consultant John Jaques, the guide helps agents:

- Identify profitable target market segments.
- Evaluate both product lines and company relationships.
- Decide which sales strategies would work best for their agency.
- Set up activity schedules for implementing those strategies.
- Devise a system for monitoring agency results.

Cost of the workbook is $39.95. It can be purchased from the IIAA, Agency Services Division, 100 Church St., New York, N.Y. 10007; 800-221-7917. ■



Amid the many reference tools available, there is one unique source book that identifies the major buyers in the commercial insurance industry.

The 1986 Business Insurance Directory of Corporate Buyers of Insurance, Benefit Plans and Risk Management Services, which features listings on more than 2,000 U.S. corporations, is just off the press.

The BI Directory provides an expanded list of the major buyers by name and title ... plus corporate address and phone, information on company sales volume and employee population. Access to data is easy with complete alphabetical listings and condensed indexes by size of company and geographic region.

Buyers and sellers alike use the BI Directory. As a buyer, the directory helps you identify your corporate counterparts; and as a seller, you can pinpoint these influential buyers and reach them easily.

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Work comp rates

Continued from page 3

mercial work comp insurers.

And, some state fund administrators already are pessimistic about the future, even though state fund rates normally are not adjusted until summer.

"For the next three or four years, comp is not going to be a profitable line of business," said Dave Elenburg, commissioner for the Oklahoma State Insurance Fund, reiterating a prediction made last year by NCCI President Kevin Ryan.

"Workers compensation is being asked almost annually to embrace more injuries," added P.D. Fleming, executive vp of California's State Compensation Insurance Fund.

The NCCI's Mr. Fein also noted that courts are expanding the types of compensable injuries, leading to increased workers compensation costs, despite employers' cost-containment measures.

Mr. Fleming added: "Rates are apt to go up; costs are not going down anywhere."

In fact, pending workers compensation rate filings in five states seek rate increases:

- Louisiana, where insurers are asking for an average 71.1% increase.
- Rhode Island, where insurers are requesting an average 45.8% increase for the assigned risk plan and an average 17.4% rate hike for the voluntary market.
- New Hampshire, where an average 24.6% rate hike is being sought.
- The District of Columbia, where insurers are seeking an average 14.4% increase.
- Maine, where insurers are seeking an average 10% rate hike.

The 10% increase requested in Maine, however, is grossly inadequate, noted Mr. Fein. A 10% rate hike is the maximum allowed under a state workers compensation reform measure that took effect July 1, 1985.

NCCI statistics show that rates in Maine are about 290% inadequate, he said.



Mr. Fein

Such cumulative rate inadequacies—combined with increasing medical care costs and a downswing in the economy—lead to the need for higher work comp rates, Mr. Fein said.

Medical costs now account for about 40% of workers compensation costs, Mr. Fein said. "Across the board, medical costs are going up faster" than payroll, on which workers compensation premiums are based, he said.

Mr. Fein also noted that in areas of the country where the economy is on the downswing, particularly in the oil patch, workers compensation costs tend to increase. As employers cut back their workforce, the number of workers compensation claims filed tends to increase, as well as the duration of the injury or illness, as workers soon to be laid off attempt to collect work comp benefits during their unemployment.

Economic slumps also affect rates in rural states, such as Rhode Island, where there is a perennial need for additional premiums, Mr. Fein said.

To pay additional claims, insurers need to raise rates, he said.

However, workers compensation rates will not increase in all states during 1987, Mr. Fein said.

Workers compensation insurance rates in Washington state, where work comp coverage is written by a monopolistic state fund, decreased Jan. 1 by an average of 1.3%. It's the first time in seven years that rates dropped in that state, according to Dick Davis, director of the state Department of Labor and Industries.

Mr. Davis attributed the rate decrease to strong safety programs that helped get injured workers back to their jobs, thereby reducing workers compensation costs.

In addition, a rate filing pending in Maryland calls for an average 1.1% decrease in workers compensation rates.

And, in states with open rating laws for workers compensation, insurers—in order to compete—often offer lower prices to employers with good loss experience.

In some states without open rating laws, insurers can offer rate deviations and scheduled credits, which lower workers compensation insurance costs for employers with good loss experience.

In those states in which deviations or scheduled credits are allowed, rates were adjusted an average of 5% below manual rates for policies written in 1985, Mr. Fein said. Despite predicted rate hike filing, he expects this level of downward deviation to continue.

Mr. Fleming adds: 'Rates are apt to go up; costs are not going down anywhere.'

Mr. Fein advises employers to continue to develop safety programs to reduce their losses and, thus, hold down the cost of workers compensation insurance.

But, the new tax law, which is expected to put new pressures on insurer profits during 1987, may reduce the ability of insurers to offer competitive rates.

ISO's Mr. McNamara, citing a recent ISO study, said that while the pricing impact of the new tax law may be small for all lines of insurance combined, it will drastically affect long-tail commercial casualty lines of insurance, including workers compensation.

For instance, workers compensation combined ratios must be lowered four to seven percentage points to produce the same after-tax earnings as under the old tax law, Mr. McNamara said (*BI*, Jan. 26).

While some employers with good experience have been benefiting from rate deviations, many employers—especially those in states where rates have been exorbitantly low for some time—have been forced to purchase workers compensation coverage from the state's assigned risk plan.

"When rates are not adequate, that's where risks are being placed," Mr. Fein said.

NCCI statistics show that the annual total premium written through assigned risk plans across the nation increased 135% from 1985 to 1986. The previous year, premium written through assigned risk plans jumped 110%.

This is a significant signal of severe problems in the workers compensation insurance market, Mr. Fein said, explaining that for the four preceding annual periods, total premium in the plans dropped each year.

And, this trend will continue unless rates are increased in a number of states so that insurers can make a profit on workers compensation business.

For example, more than 85% of employers in Maine purchase workers compensation insurance from the assigned risk plan, he said.

"Maine is a good example of a state with a high benefit system, but a state that cannot afford to pay that level of benefits," he said.

A study committee appointed by the state's new governor, John McKernan, is looking not only at changing Maine's rating law, but at the state's entire workers compensation system. ■

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during

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CertiFacts automatically keeps an online diary that tracks the case from its onset. It flags and confirms significant dates for the reviewer, including admis-





Nationwide cuts back commercial writing

COLUMBUS, Ohio—Nationwide Group currently is not writing any new commercial business in Florida and is cutting back its commercial insurance underwriting across the country.

The decision is not related to Florida's new rate regulation, a Nationwide spokesman said, and does not involve Employers of Wausau, which merged with Nationwide in November 1985 after Nationwide provided a capital infusion.

Instead, Nationwide has set ceilings on its commercial lines underwriting around the country to control premium growth, the spokesman said.

Premiums written by Nationwide in Florida were "tremendously over quota" last year, explained the spokesman.

markets

Nationwide, which wrote $140 million in commercial lines gross premiums in Florida in 1986, has set a premium ceiling of $112 million for 1987.

Nationwide is attempting to reduce its gross premium volume for commercial lines by 15.4% this year to $1.1 billion from $1.3 billion in 1986, the spokesman said. The volume figures do not include business written by Wausau.

Nationwide instituted a moratorium on most new commercial lines underwriting in April 1986.

"We were writing more than we could handle for the size company we are," the spokesman said. As a result, the insurer will be more selective about the risks it accepts in 1987, he said.

The spokesman said whether Nationwide stopped writing new commercial business in other states depends on premium quotas set for different areas and how regional managers decide to meet those quotas.

"I would say it will be difficult for a new customer to buy commercial coverage from Nationwide in 1987 in any state," said the spokesman. "But that doesn't mean we won't necessarily be selling new coverage. Each region is given an allocated ceiling. It is up to them to determine how to accomplish that goal."

And "because of substantial losses," Nationwide has been "raising rates substantially," the spokesman noted. He said the higher rates should cause buyers to seek coverage from other companies and reduce Nationwide's exposure "by attrition."

In 1985, Nationwide alone wrote net premiums of $3.2 billion on $1.8 billion of policyholder surplus.

Including premiums generated by Wausau, Nationwide reported $4.3 billion in net written premiums through the first nine months of 1986. Policyholder surplus for the period was $2 billion for Nationwide and Wausau combined.

A&A benefit unit

Alexander & Alexander Services Inc. is reorganizing its employee benefit consulting unit into separate consulting and brokerage operations.

The unit, formerly known as Human Resource Management Group, the nation's seventh-largest benefit consultant, will operate as two units in the United States: Alexander & Alexander Consulting Group, which will be involved exclusively in employee benefits consulting; and Alexander & Alexander Benefits Services, which will handle employee benefit brokerage activities. The two units will be part of a new entity called The Alexander Consulting Group.

"This new structure offers our clients access to a worldwide network of talent," said A.M. D'Alessandro, president and chief executive officer of The Alexander Consulting Group. "This new structure will enhance both our consulting and brokerage thrusts by giving each a distinct identity," he added.

The organization will operate in Canada, the United Kingdom and Australia as The Alexander Consulting Group Ltd.

The Alexander Consulting Group's home office is located at 22-08 Route 208, Fair Lawn, N.J., 07410; 201-797-8822.

Benefits consultant

Carson Hampson Ehrlich & Callahan is a new actuarial and employee benefits consulting firm based in King of Prussia, Pa.

The firm assists employers in designing and administering various compensation and benefit plans, including 401(k) savings plans, defined benefit pension plans and health benefit programs such as flexible benefit plans and health care cost-containment programs, said Albert L. Hampson, a partner with the firm.

The firm will concentrate on serving employers in the Pennsylvania, New Jersey and Delaware area, but also will be available to employers nationwide, he said.

Carson Hampson Ehrlich & Callahan is located at Valley Forge Square, Suite 310, 681 Moore Road, King of Prussia, Pa. 19406; 215-354-0666.

New IIE broker

New York-based reinsurance broker Andrew Edwards & Co. Inc. has become a broker member of the Illinois Insurance Exchange.

And, although it has specialized in placing property and casualty reinsurance on a treaty basis, the broker now is offering facultative reinsurance brokerage services through Andrew Edwards Facultative Intermediaries Inc.

The new division is located in the Renaissance Tower, 1201 Elm St., Suite 5250, Dallas, Texas 75270; 214-744-5250.

Acquisition

Partners National Health Plans has acquired Minneapolis-based health maintenance organization **American MedCenters Inc.** American MedCenters operates HMOs in Minnesota, Washington, North Dakota and Wisconsin, with a total enrollment of about 300,000. The HMO company will now operate as a wholly owned subsidiary of Partners, an Irving, Texas-based joint venture of Aetna Life & Casualty Co. and VHA Enterprises Inc.

New office

The **Reinsurance Assn. of America** has relocated to 1819 L St. N.W., Seventh Floor, Washington, D.C. 20036; 202-293-3335. ■

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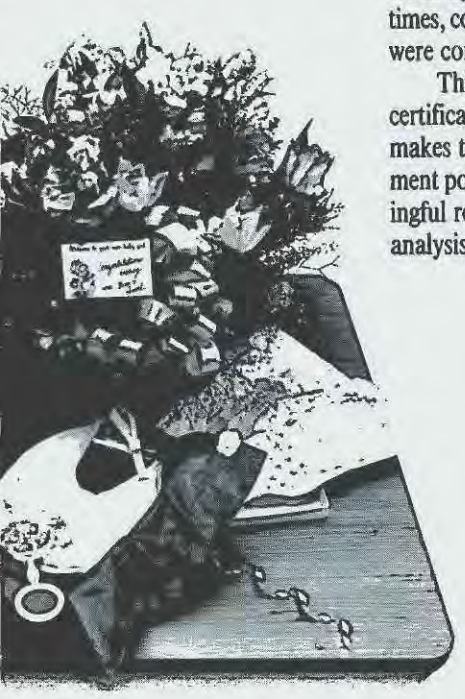
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Pollution exclusion

Courts issue differing coverage rulings

By STEPHEN TARNOFF

CHICAGO—Two recent state court decisions take differing views on whether the pollution exclusion clause in general liability insurance policies bars coverage for pollution incidents.

In Pontiac, Mich., Oakland County Circuit Court Judge Steven N. Andrews ruled last month that Upjohn Co. is entitled to defense and indemnification from some of its insurers for suits arising from a toxic chemical leak in Puerto Rico.

But in Cook County Circuit Court in Chicago, Judge Arthur L. Dunne ruled that insurers do not owe International Mineral & Chemical Co. defense or indemnification for a pollution lawsuit brought in New Hampshire.

The decisions are among the latest in cases being litigated across the country over whether liability insurers must provide defense and indemnification for policyholders sued for costs related to pollution (see story, page 3).

The Michigan case involved the manufacture of an antibiotic at Upjohn's Puerto Rico plant.

Distillates created by the manufacturing process—including the carcinogen carbon tetrachloride—were pumped into an underground tank on Upjohn's premises. Holes in the tank were later discovered and about 15,000 gallons of distillate were lost, contaminating nearby wells and leaving several communities without drinkable water.

Upjohn spent more than $6 million on a cleanup campaign to extract as much of the toxic substance as possible before it could seep into the water table.

Upjohn's property insurers paid approximately $3 million for the cleanup costs.

In 1985, Upjohn and the property insurers—including Lloyd's of London underwriter John Russell Butler, First State Insurance Co. and The Home Insurance Co.—sued Upjohn's liability insurers to pay for the entire cost of the cleanup.

The liability insurers included New Hampshire Insurance Co., Granite State Insurance Co. and Insurance Co. of the State of Pennsylvania, all units of American International Group Inc., and Northbrook Excess & Surplus Insurance Co., an Allstate Insurance Group unit that no longer is writing business.

First State, a Hartford Insurance Group unit, also wrote liability insurance for Upjohn, thus placing First State in the unusual position of being both a plaintiff and defendant in the case.

New Hampshire and Granite State wrote general liability insurance policies for Upjohn from 1979-1982 with aggregate limits of $1 million. Northbrook wrote $5 million in excess liability coverage during the same period.

Insurance Co. of the State of Pennsylvania and First State wrote policies with unknown limits from Sept. 30, 1982, until Sept. 30, 1985.

Judge Dunne commented. . .that the pollution exclusion has been construed too broadly in favor of policyholders by other courts. Other courts have given the term 'sudden and unexpected' a 'strained, unrealistic definition,' he said.

A major issue in the case was whether the pollution exclusion clause contained in all of the policies precluded coverage.

In general, the policies required the insurers to indemnify the policyholder for all costs it is obligated to pay for bodily injury or property damage caused by an "occurrence," which was defined as an accident—including continuous or repeated exposure to conditions—that results in bodily injury or property damage neither expected nor intended by the policyholder.

In addition, all of the liability policies contained a pollution exclusion, which excluded coverage for bodily injury or property damage arising from the discharge, dispersal, release or escape of toxic materials, unless the pollution is "sudden and accidental."

The liability insurers contended that the leak of the distillates was not an occurrence. And, if the court determined the leak was indeed an occurrence, the insurers then argued that coverage was precluded by the pollution exclusion clause.

However, the court ruled that the leak was an occurrence and is covered by some of the policies.

Judge Andrews noted that in all of the policies, "occurrence" is defined as an "accident," which the Michigan Supreme Court previously had construed to mean something that is unanticipated, unforeseen and unexpected.

"Upjohn neither expected nor intended this to happen and defendants have presented no evidence to the contrary," Judge Andrews said. "The court therefore finds that the incident was an 'occurrence' within the meaning of the policy."

In addition, because the discharge was "sudden and accidental," the pollution exclusion clause did not apply, Judge Andrews ruled.

"Both the discharge of the distillate into the ground and the damage to the aquifer were unexpected, unintended and accidental," Judge Andrews said. "The initial release occurred unexpectedly when the tank sprung a leak and the subsequent discharge occurred immediately with each transfer of distillate to the tank.

"The court thus finds that the discharge of the distillate was both 'sudden and accidental.' "

Judge Andrews found, however, that the policies written by First State and Insurance Co. of the State of Pennsylvania did not have to respond to the loss, because they did not take effect until Sept. 30, 1982, about three weeks after the chemical leak at the site was contained.

Julius Denenberg, an attorney for Upjohn with the Flint, Mich., firm of Denenberg, Tuffley, Bocan, Jamieson, Black, Hopkins & Ewald, said Judge Andrews' ruling "could be a very significant decision and very favorable to Upjohn and its property insurers."

An attorney for New Hampshire and Granite State said that New Hampshire probably would not appeal, but that Granite State had moved for reconsideration of the case.

New Hampshire and Granite State contend that only one of the two insurers' policies apply, not both, said William Selinsky with the Detroit-based firm of Zamplas, Paskin, Nagi, Baxter, Johnson & Walker.

The International Mines Corp. case decided in Cook County Circuit Court in Chicago involved a dispute over coverage for defense and indemnification costs stemming from a suit brought against IMC by the U.S. Environmental Protection Agency and the state of New Hampshire.

The suit concerned pollution at a Kingston Steel Drum Co. site, which IMC purchased in 1973 and sold in 1976 to Great Lakes Carbon Co.

The EPA originally sued Great Lakes in 1980, but in 1983 amended the complaint to include IMC as a defendant.

Following a trial on the issue of liability, a federal judge in Dec. 1985 found IMC liable for the pollution at the site from 1973 until 1976. The damages portion of the trial is scheduled to begin this week.

IMC says it has expended more than $2 million in defense costs in the New Hampshire litigation.

In April 1984, IMC sued its two primary liability insurers, Continental Insurance Co. and National Union Fire Insurance Co. of Pittsburgh, Pa., and various excess insurers over their duty to defend IMC.

Continental and National Union, another AIG unit, separately wrote four policies for IMC between 1973 and 1976.

The insurers denied a duty to either defend or indemnify IMC because of the pollution exclusion, among other reasons.

However, IMC's arguments included that the pollution exclusion clause is ambiguous and should not apply in its case.

In his decision from the bench, Judge Dunne noted that the duty to defend is broader than the duty to indemnify.

However, after considering the allegations in the underlying complaint, the pollution exclusion clause and various other factors, "This court finds that based on the four corners of the complaint, the insurance companies in this case have no duty to defend this cause of action."

Judge Dunne also found the insurers had no duty to indemnify IMC for any damages that may be assessed in the New Hampshire trial because they're not the the type of damages that are covered under the policy.

Judge Dunne commented when he issued his ruling that the pollution exclusion has been construed too broadly in favor of policyholders by other courts.

Other courts have given the term "sudden and unexpected" a "strained, unrealistic definition, which clearly is beyond the plain meaning of the words in the exclusion," he said.

"I do not believe it is the function of an appellate court or a trial court in the interests of insurance coverage to elasticize words that have a plain and ordinary meaning," he added.

An attorney for IMC said the company would appeal. "I think it is a very important case," said Eugene A. Schoon with the Chicago-based firm of Sidley & Austin.

"It is important for our client and it is important for others in similar situations who, despite sound waste practices, are being subjected to potential liability" under federal statutes.

"This was not a case of deliberate active pollution," he pointed out, noting that IMC was very circumspect in its practices and often went beyond procedures required by state law.

Philip McGuire, an attorney with the Chicago firm of Dowd & Dowd, who represented National Union and various other insurers in the litigation, said that the decision will "cause a lot of consternation among insureds."

The excess insurers involved in the case include Employers Mutual Insurance Co., American Home Assurance Co., Lexington Insurance Co., Liberty Mutual Insurance Co., Affiliated FM Insurance Co., Aetna Casualty & Surety Co., American Motorists Insurance Co., Lumbermans Mutual Casualty Co., Prudential Insurance Co., California Union Insurance Co., Columbia Casualty Co., Continental Casualty Co., Indemnity Insurance Co. of North America, International Insurance Co., Central National Insurance Co. and The Home Insurance Co. ■

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Pollution suit

Continued from page 3

although insurers have won some cases.

The coverage dispute stems from a lawsuit filed by the state of New York against Beaver, Woodbourne and their principal stockholders and officers for violations of the Superfund Act.

The state alleged the so-called Beaver defendants—which operated a business that melts and reclaims scrap metals—deposited large quantities of ash at the plant site between 1970 and 1981.

The state contended that, since December 1982, the defendants knew or should have known that the ash constituted hazardous waste, that its disposal resulted in release of waste to the environment and that adequate measures had not been taken to prevent such a release.

Woodbourne owned the property in question, while Beaver conducted operations at the site.

The state is seeking cleanup costs, damages for injury to natural resources due to the alleged violation of state environmental law and a mandatory injunction that the Beaver defendants abate the nuisance and pay penalties of $25,000 for each day of statutory violation—since 1978.

National Grange and CNA wrote primary and excess general liability insurance policies for the Beaver defendants between 1967 and 1984, according to court papers.

In addition, CNA wrote an excess environmental impairment liability policy for the defendants between August 1983 and August 1984, according to court papers.

After being notified of the Superfund suit, the Beaver defendants asked National Grange and CNA to defend them. However, both insurers refused.

In July 1985, National Grange filed a declaratory judgment action in federal court in New York against the Beaver defendants and CNA, seeking a ruling that it was not obligated to defend the Beaver defendants. In addition, CNA filed a cross-claim against National Grange and the Beaver defendants, contending it, too, was not required to provide a defense.

In a counterclaim and across-claim, the Beaver defendants contended both National Grange and CNA were obligated to pay defense costs and requested reimbursement for past and future legal expenses incurred in defending the Superfund lawsuit.

According to an attorney for the Beaver defendants, less than $1 million in defense costs has been incurred so far.

Subsequently, National Grange settled the defense cost issue with the Beaver defendants. The insurer agreed to pay the Beaver defendants defense costs under 1970-1976 policies, but not to indemnify Beaver if the state won its suit.

Following the settlement, National Grange asked the court to rule that CNA also was obligated under its policies to defend the Beaver defendants. National Grange also argued it was entitled to reimbursement from CNA for its "pro rata" share of defense costs.

In addition, the Beaver defendants argued that National Grange and CNA were "jointly and severally" liable for legal fees and expenses incurred in the Superfund litigation.

However, CNA argued that, according to the wording in the pollution exclusion clause in the general policies and also under prior case law, it was not liable for the companies' defense costs.

The pollution exclusion clause in the CNA policies excludes coverage for "bodily injury or property damage arising out of the discharge, dispersal, release or escape of smoke, vapors, soot, fumes, acids, alkalis, toxic chemicals, liquids or gases, waste materials or other irritants, contaminants or pollutants into or upon land, the atmosphere or any water course or body of water." However, the exclusion does not apply if a discharge is "sudden and accidental."

CNA argued that New York state's suit against the Beaver defendants alleged it was the companies' "policy and practice" to use the site to dump ash generated by Beaver's operations.

The complaint also alleged the Beaver defendants knew or should have known that the ash contained hazardous substances; that the material constituted hazardous waste; that the disposal method would result in release of such wastes into the environment; and that adequate measures had not been taken to prevent such release.

Based on these allegations and the wording of the pollution exclusion clause, CNA alleged that the discharge was not "sudden and accidental," and, therefore, coverage for defense costs was barred.

In his decision, Judge Weinfeld noted he was bound to apply New York law and cited previous state appellate court decisions that interpreted the "sudden and accidental" wording in the pollution exclusion in favor of policyholders.

One of the decisions he cited said that whether an incident is "accidental" is to be viewed from the policyholder's perspective, and that if the policyholder did not intend to cause harm, any injury resulting from ordinary negligence was considered an accident. This court also found that "sudden" need not refer to an instantaneous happening.

Another decision cited by Judge Weinfeld's referred to the deference New York courts have given policyholders when determining whether the pollution exclusion is warranted. This decision also said the language of the pollution exclusion is ambiguous.

Judge Weinfeld also noted the Beaver defendants said they considered the ash to be harmless and said they never knowingly or intentionally released any hazardous material into the environment nor intended or expected to cause any damage to the environment.

"The court holds that: (1) based upon the economic and factual setting in which these policies were written; (2) that the insureds paid premiums over the more than 11-year period described in the state's complaint; and (3) that during that time span both the state and the insurers made periodic inspection of the insured property without suggesting to the insured the existence of any pollutant problems, the Beavers, as average businessmen, would have thought themselves insured against the claims now asserted in the state's action," Judge Weinfeld said. "Accordingly, the Beaver defendants are entitled to a declaratory judgment that CNA, as is National Grange, is required to defend them in the state's Superfund action under the comprehensive liability and umbrella insurance policies."

Judge Weinfeld also ruled, however, that CNA was not required to provide a defense to the Beaver defendants under the EIL policy.

This policy did not contain a pollution exclusion clause and obligated CNA to indemnify the Beaver defendants for "losses" caused by pollution damage even if not sudden and accidental. Loss is defined as including "cost, charges and expenses" incurred in the "investigation or defense of claims in such environmental damages. . . ."

However, the policy also did not expressly obligate CNA to defend the Beaver defendants, but provided the company has the right—but not the duty—to designate legal counsel to investigate the claim and defense of suits.

"Thus, while it was within CNA's discretion to associate itself with the actual defense of the suits, it was not obligated to do so," Judge Weinfeld said. "Accordingly, CNA, in the instance of this policy, is. . .not required to defend."

Judge Weinfeld reserved until completion of the Superfund litigation brought by the state whether CNA has a duty to indemnify the Beaver defendants for "costs, charges and expenses" incurred in the defense of the state's claims under the EIL policy.

On the issue of how defense costs were to be apportioned, Judge Weinfeld ruled that CNA must pay past and future defense costs stemming from the Superfund suit on a pro rata basis with National Grange.

In addition, he said Judge Weinfeld made clear that defense costs should be apportioned between National Grange and CNA based on the limits that each insurer wrote for the Beaver defendants, according to Peter Sheft, an attorney for National Grange with the New York firm of Sheft, Wright & Sweeney.

"CNA's limits were far greater than National Grange's," said Mr. Sheft, though he would not comment on the limits.

However, Mr. Rivkin, the attorney for CNA, contends that pro rata apportionment means that both insurers should pay 50% of the defense costs. CNA is seeking clarification of the order.

Finally, Judge Weinfeld ruled that CNA was not required to reimburse the Beaver defendants for attorneys' fees and litigation incurred in defending CNA's cross-claims.

"National Grange brought this action against both the Beaver defendants and CNA," Judge Weinfeld said. "While both parties cross-claimed against each other, it is clear that under New York law, the Beaver defendants cannot recover against CNA for the costs of prosecuting their cross-claim."

An attorney for the Beaver defendants said the companies are happy with the ruling.

"We're very pleased with the decision," said Philip H. Gitlen, with the Albany, N.Y., firm of Whiteman, Osterman & Hanna. "The message in New York at least is that the pollution exclusion clause is not a defense to an insurance company's duty to defend a Superfund claim."

However, Mr. Rivkin called the decision "very narrow."

"I think the court was dead wrong on the facts of this case," he said.

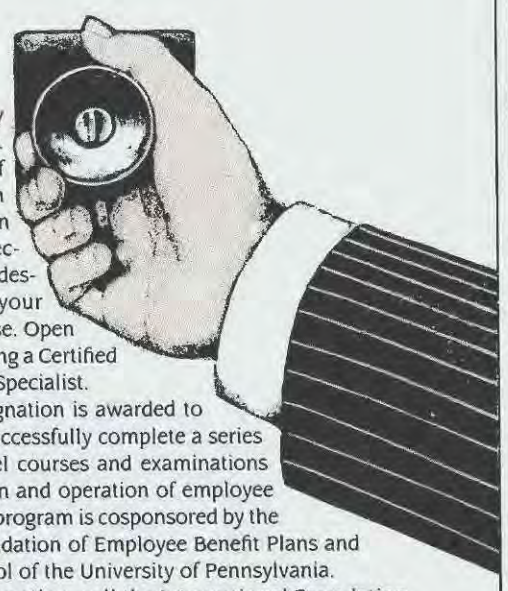
He also said National Grange "did a complete flip-flop" with respect to its position on the pollution exclusion clause. "I think it was a rather shortsighted position just for purposes of this case."

However, Mr. Sheft said: "I don't think there's been a change in position. Our position on the application of the pollution exclusion clause remains that same. We only resolved the issue of the duty to defend."

Under New York law, insurers have a very broad duty to defend, much broader than the duty to indemnify, explained Mr. Sheft. To be relieved of that duty to defend on the basis of a policy exclusion, the insurer must demonstrate that all of the allegations against the policyholder in the underlying complaint "are solely and entirely within the policy exclusion and, further, that all the allegations are subject to no other interpretation," he explained.

Recognizing that there was a broad duty to defend, National Grange settled with the Beaver defendants and sought contribution from CNA, Mr. Sheft added. ■

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Commercial Consumers

Administrative:	
CEO's Presidents and Owners	2,803
Vice-Presidents, General Managers and Other Administrative Personnel	2,601
Financial:	
Chief Financial Officers and Vice-presidents of Finance	1,890
Secretaries, Treasurers, controllers and other Financial Personnel	6,127
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	7,471
Sub-total	**20,892**
Associations	477
Government, Unions and Educational Institutions	1,357
Commercial Consumers Sub-total	**22,726**
Insurance Agents and Brokers	10,795
Insurance Companies	7,168
Financial Institutions	897
Actuaries, Attorneys, Adjusters, Appraisers and Consultants	4,536
Others Allied to the Field	1,505
TOTAL	**47,627**

* Source Business/Occupational breakdown of qualified circulation, May 26, 1986 issue, as submitted to BPA for June 1986 BPA Publisher's Statement.

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Retiree health costs

Continued from page 3

care carve-out" plan, in which retirees receive the same coverage as active employees, after Medicare payments are subtracted.

- The median composite annual health care cost per retiree was estimated at $1,113, compared with $1,678 per active employee.
- Only about half of the companies that provide retiree health care coverage have instituted cost-containment mechanisms in their plans, but two-thirds of the companies would like to take some action—or increased action—to control the costs of retiree health care.
- More than 80% of all benefit managers surveyed said that a federal policy that would allow employers to create tax-deductible or tax-exempt medical care Individual Retirement Accounts for their employees would help companies manage the cost of retiree health care.

However, only 38% of the benefit managers surveyed said that requiring employers to disclose their unfunded liability for retiree health care benefits would help manage the cost of those benefits.

Assessing the prevalence of retiree health care benefits, the survey found that 45% of the companies surveyed contribute to the cost of health care coverage for their retirees while they are under age 65, while 38% contribute to the cost of health care for those who are over age 65.

Only about half of the companies that provide retiree health care coverage have instituted cost-containment mechanisms in their plans.

And, larger companies were more likely than smaller companies to contribute to both types of coverage. Among companies with 500 to 1,000 employees, 26% contributed to health care coverage for under-65 retirees, and 20% contributed to over-65 retirees. But, among companies with 5,001 employees or more, 61% contributed to coverage for early retirees and 49% contributed to coverage for those over age 65.

In addition, 93% of companies that contribute to retiree health care coverage also contribute to coverage for retirees' spouses and dependents, and 79% continue the coverage for spouses and dependents after the retiree dies.

And most of these companies pay more than 75% of the cost of coverage for retirees, spouses and dependents.

The most common type of coverage provided is a "Medicare carve-out" plan, in which retirees receive the same coverage as active employees, after subtracting any Medicare payments. This coverage was provided by 72% of the companies that provide retiree health care for retirees age 65 and over.

The next most common plan, provided by 46%, was the Medicare supplement plan, which coordinates with Medicare to provide up to 100% coverage of medical expenses.

Twenty-six percent of the companies that provided health care coverage for retirees used an "exclusion plan," in which Medicare payments were subtracted before applying deductible and copayment provisions of the corporate plan.

Eight percent had coverage that paid for only those specific benefits not covered by Medicare, and 15% had some other type of coverage.

Some 53% of the companies providing retiree health care benefits offered more than one type of plan.

Corporate benefit managers that offer retiree coverage report that median annual health care costs in 1985 were lower for retirees—$1,113—than for active employees—$1,687.

And they estimate that retiree health care costs average about 16% of their companies' total health care costs.

However, 43% of the benefit managers were not sure of their 1985 per-employee health care costs, and 56% were not sure of their 1985 per-retiree health care costs. But, the survey authors note that "constraints imposed by telephone interviews may have contributed to this."

Almost half—46%—of the benefit managers whose companies provide retiree coverage say that retiree health care costs are growing at about the same rate as health care costs for active employees.

Only 23% estimate that retiree costs are growing at a faster rate, and 17% say the rate of growth is slower for retiree health care costs than for active employees.

In fact, no more than 23% of the benefit officers said that health care cost inflation is out of control for either retirees or active employees.

However, as the survey authors note, "total corporate costs for retiree health benefits are currently under control because of Medicare and the small average number of retirees covered per company."

But several trends, such as a reduction in Medicare coverage, an increase in the retiree population and growing health care costs, "may produce a huge liability for companies which promised health care coverage to large numbers of retirees and their dependents."

And, the benefit managers appear to be aware of this potential liability: Some 47% of those providing coverage for retirees age 65 and over said the cost of that coverage will become a major problem for their companies within the next 10 years, and an additional 37% said the cost will be a minor problem.

No more than 23% of the benefit officers surveyed said that health care cost inflation is out of control for either retirees or active employees.

Yet, only 31% of benefit managers claim their company has projected retiree health care costs beyond 1986. And, 64% of the benefit managers said their company has not conducted any such financial projections and an additional 5% said they do not know whether their company had conducted such a projection.

"Many employers recognize that the cost of retiree health benefits may pose a serious problem for their company in the near future.

But they are woefully ignorant about the potential size of these costs," the survey authors said.

Some corporate benefit managers, however, report that their companies are trying to combat increasing health care costs for retirees: Fourteen percent said they have changed retiree plans a great deal during the last three years to control costs, and 27% said they have changed the retiree plans somewhat.

Changes include instituting utilization review, instituting or increasing the deductible and copayment, and offering a second-opinion plan.

However, only 25% of the benefit managers administering retiree health care coverage said these changes, which are common among plans for active employees, were very effective in combatting the rising cost of retiree health care.

Still, 63% of the benefit managers whose companies provide retiree health care would like begin to take steps—or take more extensive steps—to control retiree health care costs.

However, many fear opposition to cost control efforts by unions or active employees as well as litigation—which already has been pursued successfully by retirees in several attempts by companies to cancel or change coverage.And, Equicor's survey of employees and retirees indicates those fears are justified.

When asked to consider several steps the federal government could take to help companies manage their retiree health care costs, 82% of all the benefit managers surveyed said that allowing employers to set up a tax-deductible matching fund account, or medical IRAs, for their employees would be very helpful or somewhat helpful.

Health and Human Services Secretary Otis Bowen recommended offering tax incentives to contribute to medical IRAs as a means of encouraging individuals to prefund some of their long-term health care expenses (*BI*, Dec. 1, 1986).

Some 72% suggested giving Medicare patients more financial incentives to join more cost-efficient health maintenance organizations. And, 61% said the government should allow full tax-exempt status for contributions to Voluntary Employee Beneficiary Assns., or 501(c)(9) trusts, to fund retiree health care benefits.

Fifty-seven percent said it would be very helpful or somewhat helpful to allow employers to end their open-ended commitments to retirees and replace them with specified dollar amounts, "in effect creating separate health care 'pension' plans."

But, only 38% of the benefit managers said it would be helpful to require employers to disclose in their financial statements their unfunded liability for retiree health care benefits, a proposal currently being reviewed by the Financial Accounting Standards Board.

The survey authors note, "One interpretation of these findings is that employers lend the most support to government policy changes that would require the smallest financial commitment of them, or allow them to greatly reduce the liability for future retiree health costs.

"Conversely, the least popular policy changes would require increased cash commitments through prefunding vehicles, or expose them to the greatest scrutiny of their liability for these costs."

●

Copies of the survey, "The Equicor Health Care Survey VI: Looking to the Future of Retiree Health Benefits," are available free from Maria Cruz, National Marketing, Equicor, 195 Broadway, New York, N.Y. 10007.

Employees value retiree health benefits

By ALISON KITTRELL

Both retirees and active employees value employer-provided retiree health care coverage, although many of them are very uninformed about the potential cost of medical expenses in retirement, according to a recent survey.

Both retirees and active employees rate employer-provided medical care benefits as second in importance only to their pensions. Some 85% of retirees who receive such benefits said they were very important, and 79% of active employees who expect to receive retiree health care benefits rank them as very important, according to the survey, "The Equicor Health Care Survey IV: Looking to the Future of Retiree Health Benefits," conducted for Equicor by Louis Harris & Associates.

The survey of 1,005 active employees, 501 retirees and 500 corporate benefits officers at companies with at least 500 employees, reveals that, "managing the future cost of retiree benefits will be a daunting task," according to its authors.

The questions asked of benefits managers revealed a serious lack of awareness of the potential impact of retiree health care costs and ways to meet them (see story, page 3).

The retirees and active employees also appear to be unprepared for the potential cost of health care in retirement. For example, according to the survey, only 21% of retirees say they have given a lot of thought to the possibility that they might need to enter a nursing home someday.

And, only 15% of retirees—and only 3% of active employees—say they worry a great deal about how they would pay for such care.

The survey also shows that employers that plan to cut their ultimate cost for retiree health care by passing some of that cost on to their retirees may face a tough battle.

Some 48% of the retirees said they had heard of changes to health care plans made to contain costs, while 52% were unaware of cost-containment changes. And, of those retirees who had heard of changes, only 62% said they thought such changes were necessary.

Only 21% of retirees say they have given a lot of thought to the possibility that they might need to enter a nursing home someday, according to the recent Equicor survey.

"Employers should not count on shifting a large burden of future health costs to retirees without encountering considerable resistance," the survey authors said. "These findings reveal some room for increased cost-sharing by retirees, but not much."

Three main cost-containment options were found to be acceptable to only a minority of the retirees who received employer-provided health care benefits: Increasing the retiree's premium contribution was acceptable to 41%, while 47% are against a shift in premium contributions; increasing copayments was acceptable to only 15%, with more than three-quarters—79%—against such an increase; and increasing retirees' copayments was acceptable to 36%, compared with 53% against increased deductibles.

The only cost-containment plan that met the approval of a majority of the retirees was instituting a wellness program, which was acceptable to 69%.

But, the survey shows that one possible way of managing costs—encouraging retirees to join a health maintenance organization—has potential.

Some 60% of the retirees said they were not at all familiar or not very familiar with HMOs, and only 6% of the retirees reported being a member of an HMO.

However, among those retirees who do not belong to an HMO, 17% said they would be very interested or somewhat interested in joining.

And, when the HMO was linked to the retiree's doctor of choice, the interest level rose to 32%.

Similar findings were reported when retirees were questioned about preferred provider organizations. Some 96% said they did not use a PPO, but 17% of those said they would be either very interested or somewhat interested in using a PPO.

"These findings demonstrate a clear potential for enrolling more retirees in managed health care plans," the survey authors said, stressing that employers must first raise retirees' familiarity with HMOs.

The survey's other findings include:

- Some 51% of all the active employees surveyed said they expect to need health insurance coverage in addition to Medicare after they retire. Of those, 43% expect their current employer to provide the coverage, 23% think they will have to buy it themselves, and 19% expect it to come from some other source. Fifteen percent said they are not sure where it will come from.
- Only 30% of active employees and 34% of retirees said they ever received any information from their employer about how they would pay for health care after retirement.
- Five percent of the active employees said they would be very interested, and an additional 32% said they would be somewhat interested in reducing some of their current benefits in exchange for their employer providing coverage for part of the future costs of nursing home care.
- Although relatively few retirees are worried about entering a nursing home, 55% said they have thought about the possibility, although not often.

But even those who have given the matter some thought may have misconceptions. For example, 15% expect the cost of nursing home care to be paid by Medicare—but Medicare does not cover nursing home care.

"These findings," the survey authors note, "reveal a great deal of ignorance among both retirees and employees about the extent of coverage provided by private and government insurance plans. Medicare does not cover the cost of nursing home care, and Medicaid only covers these costs for people who have almost no assets."



Photo: AP/Wide World

A product liability lawsuit filed in Nevada alleges that the 'mesmerizing' music of heavy metal band Judas Priest caused two young men to shoot themselves, one fatally.

Heavy metal lyrics spark suit

Continued from page 3

"there has been a similar case involving CBS and a different performer."

The performer in that case was Ozzy Osbourne, the former lead singer for the 1960s rock group Black Sabbath who later began a solo career and penned heavy metal pieces, including "Bark at the Moon."

Mr. Osbourne once gained notoriety for biting the head off of a live bat during a performance.

"As I understand it, that case was also substantially a products liability case," said Ms. Fulstone.

The case, which also involved a listener who committed suicide after hearing the hard rock music, was eventually dismissed by a California judge.

A CBS spokesman confirmed that the record company was involved in the Ozzy Osbourne case and indicated it was dismissed when the judge cited protection of freedom of expression guaranteed by the First Amendment to the U.S. Constitution.

Ms. Fulstone said an attempt to have the Judas Priest case dismissed on the grounds of First Amendment protection failed. However, the same defense will be used if the case goes to trial, she added.

While Ms. Fulstone could not say whether CBS has insurance coverage that would pay an award that might result from the case, she did say:

"I am keeping the insurance people advised. But they are not providing a defense."

Pension ruling

Continued from page 2

ties of the COLA fund for active employees.

However, employees did not dispute that they must equally share the burden of COLA fund contribution increases necessitated by future liabilities, based on actuarial projections.

As a result, the city's new contribution rates, which were established by actuaries at Towers, Perrin, Forster & Crosby, are expected to be implemented July 1, said Henry Paulsen, Fresno's deputy controller.

Coates, Herfurth & England Actuaries Inc., the San Francisco firm that disclosed the shortfall in 1980, has since been replaced by TPF&C as the city's pension actuary and consultant.

Mr. Oeser said the ruling has a "potentially serious impact" on other municipalities.

As he interprets the ruling, if other cities offer a retirement plan that is not part of the state Public Employee Retirement System and plan administrators split employees' contributions into basic pension and COLA fund contributions, then the plan sponsor must make up for unfunded liabilities for plan participants' past service through tax assessments.

Edwin Oeser, Fresno assistant city attorney, says the ruling has a 'potentially serious impact' on other municipalities. However, the plaintiffs' attorney in the case says the court did not break any new ground in its ruling.

Fresno will not pursue the case further, Mr. Oeser says.

The plaintiffs' attorney in the case, however, said the court did not break any new ground in its ruling. Plaintiffs' attorney Barry Bennett of Bennett & Sharpe in Fresno said that the court strove to limit the implications of the decision beyond this case.

The case began in June 1982, when employee bargaining units sued the city when it tried to bolster the pension plan's underfunded COLA fund by withholding additional monies from the paychecks of the nearly 2,200 actively employed plan participants, according to the appellate court's opinion. The pension plan also covers about 1,000 retirees.

For some employees, the amounts withheld were double and even triple their regular contributions to the plan, Mr. Oeser said. The employees charged that withholding those additional amounts was an unconstitutional impairment of contract.

The city quickly abandoned that course and returned the withheld funds, plus interest, until the matter could be resolved, Mr. Oeser noted.

Coopers & Lybrand recently completed a study of possible alternative ways to operate the city's pension plans. C&L's recommendations are now being discussed by city labor relations personnel and union leaders, reports Mr. Paulsen, the deputy controller. ■

London reinsurers drafting pollution liability exclusions

By CAROLYN ALDRED

LONDON—Marine underwriters in London are finalizing the wording of several exclusions they hope to introduce to excess-of-loss liability reinsurance contracts beginning March 1.

In anticipation of huge pollution liability claims, member companies of the Institute of London Underwriters and marine syndicates at Lloyd's of London are drafting these exclusions applying to land pollution and non-marine casualty liability risks, said David Lowen, chairman of the institute.

Meanwhile, the 104-member institute reported that 1986 was a good year for London marine underwriters because both ship and jet airliner losses were less than the previous year.

"The problem of seepage pollution in the U.S. is growing all out of proportion and future claims arising out of the dumping of chemical waste are going to be horrific," Mr. Lowen told *Business Insurance*.

Land pollution and non-marine casualty risks began to be included in insurance "packages" offered by marine underwriters, mainly in energy-related fields, when capacity in these areas fell dramatically and brokers found it increasingly difficult to market their risks, Mr. Lowen said.

Although these risks recently have been accepted only on a claims-made basis, Mr. Lowen predicts that many marine underwriters will be hit by "massive" product liability and pollution claims.

However, the problem is not as great as excess-of-loss underwriters think, he said, because most marine underwriters in the London market have stopped accepting non-marine risks.

Speaking at a reception before the institute's annual general meeting early last week, Mr. Lowen also expressed concern over the percentage of marine business flowing back into excess-of-loss markets in London, and Lloyd's in particular.

'Seepage pollution in the U.S. is growing out of proportion and claims arising out of the dumping of chemical waste are going to be horrific,' Mr. Lowen says.

"Too high a velocity of recycling of the market's premium, together with the market's absorption of its own catastrophe cover, is not healthy. . . .When underwriters rely on (excess-of-loss reinsurance) to the extent that it dictates their original direct underwriting, then obviously the effect could be serious for London as the major marine offshore market," he said.

According to the institute's report on 1986:

- 156 ships totaling 1.2 million gross tons were lost last year, compared with 189 ships totaling 1.29 million gross tons lost in 1985.
- 98 vessels were hit by air and sea strikes by Iraq and Iran in the Persian Gulf—double the number in 1985.
- With 50% of the world's drilling rig fleet inactive, the offshore insurance industry is suffering from "plunging demand and gross overcapacity," which is predicted to continue.
- In the aviation market, 15 Western-built aircraft with a total value of $119 million were lost in 1986, three of which represented 50% of the total loss. This compared with 1985's loss of 18 aircraft valued at $400 million, the worst year on record. In 1986, eight of the total losses involved 392 passenger deaths, compared with 1,534 passenger deaths in 11 total losses in 1985. ■

Dar Allen denies allegations

Continued from page 2

The agency is not named in Walton's lawsuit against ACIC and Mead Re. In denying the Walton allegations last week, Dar Allen noted that "not one instance has been shown of premium misappropriation as speculated in Walton's statements."

The agency also said that its "reserving practices are consistent with industry norms," and that like "many other leading insurers and reinsurers, Dar Allen did not establish specific reserves for loss adjustment expenses."

In addition, "many claims were ultimately settled for sums significantly below the reserve level established by Dar Allen," the agency said.

Though medical malpractice was specifically excluded from the retrocessional agreements from 1976 to 1978, then-Walton President Veere Palmer approved the writing of this class of business in a telex to Dar Allen on Oct. 12, 1978, according to Mr. Butler.

Mr. Butler added that he was not aware that Dar Allen had ever delegated underwriting authority to any intermediary.

Mr. Butler declined to elaborate on other allegations in the Walton complaint beyond what was contained in a written statement.

The agency's statement concluded that:

"Dar Allen is confident that when the current Walton management thoroughly reviews the history of its affiliation with Dar Allen from 1977 to date and further interviews Walton's former officers, it will retract the allegations which have been made during Walton's attempt to withdraw from certain segments of the insurance marketplace." ■

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Mutual Fire rehab

Continued from page 1
financial status also must be made available when it is completed.

- Requests for additional financial information that are denied by the Insurance Department can be sought by filing an application for the information with the court.
- A Feb. 10 hearing be held in the judge's chambers to "consider the status of any outstanding motions and/or objections" concerning the rehabilitation plan.
- Objections to the rehabilitation plan be filed by March 6.

The Insurance Department, however, may have difficulty notifying all Mutual Fire, Marine policyholders. No centralized list of policyholders exists, according to Sun Coast and Federal Realty.

"It appears that neither Mutual Fire nor the Department possess a list of Policyholders. Rather, the names of Policyholders are in the custody of Mutual Fire's managing general agents, some of which now are defunct."

And, the policyholders, ask: "Is it prudent or legal for a mutual insurance company not to maintain a comprehensive list of its policyholders and owners? How can managing general agents that no longer are in business be expected to provide names of policyholders for purposes of notice in these proceedings?"

The department says it does not know how many Mutual Fire, Marine policyholders there are, but that it estimates 5,300 existing and former policyholders now have claims against the insurer.

Mutual Fire, Marine placed itself under the voluntary supervision of the department on June 13, 1986, and was later placed under suspension in an effort to protect its assets while it worked on a plan for rehabilitation (*BI*, July 28, 1986).

The primarily surplus lines insurer stopped writing policies in April 1986.

Sun Coast and Federal Realty said in their motion for a policyholder committee that "communication of information regarding the (rehabilitation) plan with and among policyholders has been virtually non-existent."

On the objections filed by Sun Coast and others, the court found notice of the rehabilitation plan untimely and inadequate and did not approve the plan Dec. 18.

The Risk & Insurance Management Society filed an amicus curiae brief supporting the policyholder committee proposal.

The Pennsylvania Insurance Department had opposed the policyholders' efforts in a memorandum filed with the court, contending the policyholder committee would "seek to usurp the duties and functions of the statutory rehabilitator."

'It seemed to us that separate representation of policyholder interests was needed,' says Richard A. Brown, an attorney representing Sun Coast and Federal Realty.

The department's memorandum, filed by Deputy Chief Counsel Albert J. Strohecker, also argued that paying the committee's expenses from Mutual Fire, Marine's assets "must be denied. It is not allowed by statute and could, ultimately, defeat the success of the plan of rehabilitation."

Further, the department contended that "the committee of policyholders cannot be formed to represent the interests of all policyholders but only policyholders who request membership. By statute, the commissioner is the representative of the policyholders, creditors and public generally who have not asked to be members of the committee are not represented by the committee."

However, the motion said the insurance commissioner "welcomes (policyholders) participation in an advisory capacity."

The committee initially will include representatives of policyholders that urged the judge to order formation of the group. In addition to Sun Coast and Federal Realty, members will represent Healthdyne Inc. of Marietta, Ga.; Calder Race Course Inc. in Miami; and Rite Aid Corp. in Harrisburg, Pa.

The ruling says the court may expand the committee if other policyholders apply for membership.

The committee "shall consult with the statutory rehabilitator on the administration of this matter and advise those represented as to the proposed plan," the judge's order says.

Richard A. Brown, an attorney with Baynard, Harrell, Mascara & Ostow in St. Petersburg, Fla., which represents Sun Coast and Federal Realty, said, "I assume the policyholder committee will work with the Department of Insurance to develop a plan of rehabilitation that will serve the interest of policyholders and other creditors."

Policyholders sought a committee because "it seemed to us that separate representation of policyholder interests was needed and that a policyholder committee was the most cost-efficient and administratively efficient method for representing policyholder interests," Mr. Brown said.

Policyholders' interests could differ from the interests of other creditors, Sun Coast and Federal Realty

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Vermont captive

Continued from page 2
a license to operate in other states or use a fronting insurer.

While MEDMARC's Mr. White said Bermuda was the perfect domicile when the captive was organized in 1979, MEDMARC's rapid growth during the hard market was the key factor in its decision to come ashore.

"With our size, management and communications are easier in the U.S. than offshore. You have improved control and access," Mr. White said.

MEDMARC was licensed in Vermont with $10 million, up from $6 million in capital and surplus in Bermuda a year ago.

MEDMARC's premium volume could hit $20 million in 1987, up substantially from $1.3 million in 1984, Mr. White said.

And, MEDMARC's current 335 policyholder-owners, which manufacture a wide variety of medical devices like pacemakers and syringes, represent a nearly tenfold increase in policyholders from 35 in 1984.

"We are the largest (product liability) insurer of the medical device industry," Mr. White said. He predicted that within five years MEDMARC could have 500 participants producing an annual premium volume of $50 million.

The passage of the amendments to the Risk Retention Act gave MEDMARC an added impetus to come ashore, he said, even though MEDMARC currently provides only product liability coverage, which could be written by risk retention groups under the old law.

And, despite MEDMARC's new status as a risk retention group, policies continue to be fronted by National Union because members felt more comfortable if coverage was written by a commercial insurer, Mr. White said.

Also, "there was a distinct reluctance" on the part of insurers to write excess coverage over primary insurance written by a risk retention group, he said.

While MEDMARC currently provides product liability coverage, Mr. White said MEDMARC someday may begin offering other types of liability coverage, including directors and officers liability insurance.

MEDMARC's growth is the result of a sound, consistent underwriting philosophy, Mr. White commented.

"We don't engage in class underwriting. We look at each risk and its experience and set the premium accordingly," Mr. White said.

"We proved the wisdom of our founding members in 1979 by providing a stable market through the sharp cycles of the commercial insurance market," said MEDMARC Chairman Richard Eschrich.

The average premium for a $1 million MEDMARC policy is $50,000, with premiums ranging from $23,000 to $340,000, according to Mr. White.

To participate in MEDMARC, a policyholder must make a capital contribution of $7,500 or 20% of the policyholder's first-year premium for $1 million of coverage, whichever is greater. Capital contributions are returned over a five-year period starting the first year after a policyholder leaves the program.

In addition, MEDMARC uses a profit-vesting formula under which members are vested in their share of the captive's yearly profits at a rate of 20% per year.

M&M Insurance Management Services Inc., a unit of Marsh & McLennan Inc., in Burlington, Vt., manages MEDMARC, while the national law firm of Baker & McKenzie provides legal counsel. GAB Business Services Inc. adjusts claims.

The formation of more risk retention groups in Vermont and other states also seems certain.

In Vermont, Lincoln Miller, president of Vermont Insurance Management, a Montpelier-based captive manager, says he currently is working with six organizations interested in charting risk retention groups.

In Delaware, another risk retention group could be licensed next month, state Insurance Department officials say. Delaware already is the domicile of C-PAC-O, the first risk retention group licensed under the new law.

C-PAC-O provides coverage to small and medium-sized accounting firms under the newly expanded law (*BI*, Dec. 8, 1986).

"Not a day goes by in which someone doesn't call asking for information about the Risk Retention Act," a Delaware Insurance Department spokesman said.

"Our office gets at least one feeler a day on setting up a group," said Brady Young, a consultant in the Darien, Conn., office of the Tillinghast Division of Towers, Perrin, Forster & Crosby.

"There could be a significant number of risk retention groups formed in 1987," Mr. Young said.

In addition, brokers like Alexander & Alexander Inc. and Johnson & Higgins are organizing risk retention groups in Illinois and Vermont, respectively, to provide environmental impairment liability insurance (see story, page 6).

And, several colleges and universities are establishing a Tennessee-based risk retention group to provide educators legal liability coverage. ■

update

Rocket designer sues Thiokol

Continued from page 2
satory damage and $1 billion in punitive damages.

The suit accuses Thiokol of defamation of character; negligence; racketeering; securities fraud; untruthful testimony to the investigating commission; unintentional manslaughter or criminal homicide; and insurance fraud. It alleges that Thiokol and NASA withheld information concerning the defects from insurers, astronauts and investigators studying the explosion.

Mr. Boisjoly, now on long-term disability leave, was diagnosed as suffering from "post-traumatic stress disorder coupled with severe and chronic depression" because he was publicly discredited and his warnings were ignored, said his attorney, Robert N. Levin, with the Washington firm of Silver, Freedman & Taff.

"We believe that this suit is without merit," said Thomas Russell, vp of corporate development and strategic planning for Thiokol.

A spokesman for NASA would not comment.

Groups seek clearer bank laws

WASHINGTON—New legislation is needed to clarify the intent of current laws limiting the insurance activities of banks, a U.S. senator and a member of a coalition of insurance producer trade groups told the Senate Banking Committee late last month.

Some large bank holding companies regulated by the Bank Holding Company Act are attempting to circumvent the act's restrictions on their insurance activities by setting up state-chartered bank subsidiaries in states that permit those banks to sell insurance, said Sen. William V. Irons, chairman of the National Assn. of Life Underwriters' Financial Institutions Task Force and a Democratic senator from Rhode Island.

"We do not believe that federal laws are subject to repeal by compliant state legislators," he stressed.

The coalition also called for legislative action to "uphold the distinction between banking and insurance" under the National Bank Act. A provision in that act permits a bank branch located in a town with fewer than 5,000 people to sell insurance in that community. But the comptroller of the currency has interpreted that provision to mean a bank can sell insurance to anyone as long as it has a branch in a small town (*BI*, Nov. 3, 1986).

In addition to the NALU, members of the coalition include: the Independent Insurance Agents of America; National Assn. of Professional Insurance Agents; National Assn. of Insurance Brokers; National Assn. of Casualty & Surety Agents; and National Assn. of Surety Bond Producers.

Magistrates to hear comp cases

LANSING, Mich.—A major piece of Michigan's 1985 workers compensation reform law takes effect Feb. 9 when about half of the newly appointed magistrates take their seats, replacing administrative law judges at the Bureau of Workers' Compensation Disability. The other half are expected to take their seats later.

The Jan. 26 appointment of 29 of the 30 magistrate positions by Gov. James J. Blanchard had been delayed for more than a year while the ALJs fought the legislative change in the Michigan Supreme Court, claiming their positions were secure under the Civil Service system (*BI*, Sept. 9, 1985).

But the high court last year upheld the legislative changes that also call for the replacement of the Board of Appeals in 1989 with an Appellate Commission.

Under the new law, the magistrates will be the final fact-finders in contested workers compensation claims. Many of the 33 administrative law judges who did not receive magistrate appointments will be become mediators at the bureau under another section of the new law that establishes a small-claims process for medical-only cases or cases that already have been closed.

Industry plans education tactic

CHICAGO—Five leading insurance trade organizations will cooperate on an educational crusade to answer public criticism of the insurance industry's return to profitability and to try to stem the threat of more insurance regulation.

"Our cooperative effort will be to explain to the public that we have to be profitable," said William S. Sirola, regional manager in Chicago for the Insurance Information Institute. Joining the III in this campaign will be the American Insurance Assn., the National Assn. of Independent Insurers, the Alliance of American Insurers and the Insurance Services Office.

Insurers are fearful of public criticism of their 1986 return to profitability. Recently released preliminary results show operating income in 1986 for the insurance industry was $4.5 billion, up from a $5.6 billion loss in 1985 and a $4 billion loss in 1984.

Briefly noted

U.S. Rep. Patricia Schroeder, D-Colo., will introduce legislation this week requiring employers to provide employees with up to 18 weeks of **unpaid family leave** for the birth, adoption or serious illness of a child or parent and 26 weeks of unpaid leave for workers who are seriously ill. . . .A lawsuit seeking to delay the average **17.7% workers compensation rate increase** approved in December by the Texas State Board of Insurance was filed by Texas Attorney General Jim Mattox. . . .Broker Johnson & Higgins Willis Faber Ltd. is organizing a new policyholder-owned insurer, **Canadian Directors & Officers Insurance Co.**, to cover the liabilities of directors and officers in Canada with limits of at least $10 million Canadian ($7.5 million U.S.) either on a primary or excess basis. . . .**The Insurance Exchange of the Americas** is waiting for the Florida Insurance Department's approval of proposed amendments that would afford some protection to new syndicates' contributions to the IEA guaranty fund.

Aviation rates

Continued from page 1

Brokers and underwriters agree rate competition will reappear among aviation underwriters this year, especially for hull risks.

"Barring any unfortunate experience, I think that 1987 will give us the first rate reductions we have seen in a little while. . .although I can't see rate reductions exceeding 10%," said A&A's Mr. Tyrone.

"Hull rates have certainly gone flat, although we are waiting for major airline renewals to come up," said Michael Hughes, chairman of the aviation division of Lloyd's of London broker Alexander Howden Ltd.

Mr. Hughes said liability rates are "anybody's guess, but they will keep pace with inflation."

"There is more than enough pressure on renewal rates. But, underwriters remember the losses, and they do not want to reduce rates," said Wally Corbett, underwriter and manager of Minster Insurance Group in London.

However, some underwriters believe rate reductions could be delayed by a string of aviation losses last month. Aviation underwriters reported five losses in the first 10 days of January, including the loss of a $35 million Nigeria Airways DC-10 that crashed during a training flight. No one aboard the jetliner was killed.

"Losses at the beginning of the year may delay the expected rate reductions in the aviation insurance market," said one Lloyd's aviation underwriter.

But, many market observers say it would take the crash of several wide-bodied jets in the United States—with a large number of casualties—to delay reductions in hull insurance rates and moderation in liability insurance rate hikes.

"We are at a watershed," said Mr. Bolton. "Unless there are major airline incidents in the first quarter of this year, rates will go down" for hull coverage. "The market is still looking to increase liability rates worldwide, but on hulls there is less conviction to increase rates."

Underwriters and brokers agree that increased capacity is creating the downward pressure on rates.

New insurers are coming into the market and old players are writing risks they formerly refused to consider in light of the phenomenal profits earned by aviation underwriters last year, market observers say.

According to the Stewart Wrightson statistics, aviation insurers recorded a $920 million underwriting profit on airline business during 1986.

"Capacity for 1987 will be up and rates will be under pressure because 1986 was marvelous," said John Palmer-Brown, chairman of Stewart Wrightson Aviation. "Underwriters made a stack of money."

"Last year was an exceptional year for lack of losses," added Mr. Hughes, who said aviation insurance capacity now may be double that of last year.

"That means overcapacity. . .There is too much capacity available," he said. "Last year, people couldn't buy what they wanted. This year, anything you want to buy you can. A broker can market it two times over."

Some of the new capacity is coming from Lloyd's of London aviation syndicates, whose premium capacity rose at the beginning of the year. In addition, Lloyd's marine syndicates now are interested in writing aviation hull insurance, though not liability coverage.

And, insurers in Europe, the United States and the Far East are increasing their capacity, observers say. For instance, Skandia International Insurance Corp. in Stockholm has increased its capacity, "although not by a vast amount," confirmed Hans Sandstrom, vp of Skandia International.

Munich Reinsurance Co. and Swiss Reinsurance Co., which write facultative reinsurance for airline risks, also confirm that they are considering aviation risks this year that they may have turned down before because the rates were not adequate. However, neither giant is increasing its capacity per airline.

"We agree with the general opinion that there is increased capacity in the market," said Dr. Alfred Bai, executive manager of Swiss Re's aviation division in Zurich.

"But, we haven't (increased capacity) at Swiss Re. We are just writing risks now which were not adequately rated before. . . .We participate in more airline risks than in the past."

And, the International Air Transport Assn.'s new mutual insurer—Airline Mutual Insurance Ltd., which started operations last month—is beginning to write 5% of some member airlines' hull and liability insurance (*BI,* Nov. 17, 1986).

Bermuda-based AMI, managed by Thomas R. Miller & Son (Bermuda), has received commitments from 14 airlines, said Tony Kelly, the IATA's assistant director for industry monetary affairs in Geneva, Switzerland. Premium volume will total $3 million this year, he said.

Mr. Kelly hopes that AMI's premium volume will increase to between $7.5 million and $10 million by next year.

So far, though, AMI only is writing coverage for Royal Jordanian Airline Corp., which renewed its aviation coverage on Jan. 1, Mr. Kelly confirmed. But, he said he is confident that AMI will write coverage for the other major airlines that have committed to join the mutual when their aviation insurance programs renew later this year.

Sources say that among the airlines which have given commitments are Lufthansa German Airlines and Gulfair, a consortium owned by Middle Eastern nations. Both airlines renew their coverage on April 1.

Mr. Kelly also says the mutual has found adequate reinsurance in the London market "to protect members' needs."

However, Swiss Re has refused to write reinsurance for AMI, said Dr. Bai.

"We did not like the proposal," because AMI is not retaining enough of the risk, he said. "We insist on a substantial retention from any (ceding company), so this proposal did not look attractive to us."

While several major airlines renewed their aviation insurance in December and January, these renewals have not necessarily set a trend for renewals later this year, observers say. They added that underwriters will wait until April 1 to make firm commitments on rate reductions.

However, so far in the last two months:

- Texas Air Corp., the largest U.S. airline with an $8.8 billion fleet, received a minor cut in hull insurance rates, but a 46.5% increase in liability insurance rates, according to sources in the market.

Texas Air bought up to $60 million in hull coverage for each aircraft and up to $600 million of liability coverage.

Sources say that Texas Air's liability rate increase may be due to the amalgamation of several airlines, including People Express Airlines Inc., late last year.

The placement for Texas Air—which now owns People Express, New York Airlines Inc., Continental Airlines Inc. and Eastern Air Lines Inc.—was the largest single aviation insurance placement on record, said Oren Tomlinson, director of risk management and employee benefits at Eastern.

The airline renewal coincided with Eastern's renewal date, as some observers predicted last year (*BI,* Nov. 3, 1986).

Mr. Tomlinson, who confirmed that he placed the Texas Air coverage on Dec. 1, would not comment on the details of the renewal. But, based on his own experience, he said, "As a buyer, I am an optimist. Certainly rates are at a sustaining level.

"But our placement is too complex to comment on. It is hard to compare because no placement has ever been as big."

Frank B. Hall & Co. and its London affiliate, Leslie & Godwin P.L.C., brokered the coverage.

- Pan American World Airways Inc., which renewed its coverage on Jan. 1, saw its hull insurance rate fall 7.5% and its liability insurance rate increase 9.2%, based on quotes from U.S. aviation insurers.

The airline bought a maximum of $65 million in hull limits and $600 million in liability limits.

In addition, Pan Am retains the $10 million deductible first agreed to in 1984 for hull and liability losses on top of the standard per-occurrence deductibles for partial hull losses. Airlines traditionally have not paid deductibles for liability losses (*BI,* July 28, 1984).

Officials at Pan Am would not comment on the renewal.

- Turkish Airlines Inc., which renewed Jan. 1, received a 22% hull insurance rate reduction and a 2% liability insurance rate increase in the French market. British aviation insurers cut Turkish Airlines' hull rate by 10% but increased its liability rate by 5.5% sources say.

The maximum insured hull value is $55 million per aircraft. The airline purchased $500 million in liability limits.

Turkish Airlines had been charged significant rate increases in the past, but the airline has had a good loss record in the last few years "so they got a rate reduction," said one underwriter.

Turkish Airlines this year switched its account to London broker Willis Faber P.L.C. from Leslie & Godwin.

In addition to these three airlines, several air carriers—including Lufthansa, Egyptair and Kuwait Airways Corp.—have decided to switch their renewal date to April 1 from Jan. 1.

British Airways, which is currently being sold to the public by the British government, also is pushing its renewal date to April 1. However, minimum hull and liability rate increases already have been quoted for the airline for the 15-month period, underwriters say. British Airways is seeking a maximum hull insurance limit of $140 million, up from $105 million last year, and is seeking $700 million in liability limits, the same as last year.

Neither British Airways or its broker, Sedgwick Group P.L.C., would comment. ■

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Aviation products capacity up

LONDON—Capacity for aviation manufacturers' product liability insurance is more plentiful this year.

And, while rates for aviation product liability coverage are still rising, the rate increases are only about half of last year's rate hikes.

Major aviation manufacturers can still find up to $1 billion of product liability insurance, as they could last year, sources in London say.

"Aviation products is still difficult. . .(but) we are not short of capacity," said Michael Hughes, chairman of the aviation division of Lloyd's of London broker Alexander Howden Ltd.

Most aviation manufacturers buy coverage from a London line slip, known as the Aircraft Builders Council. The slip, which was renewed Dec. 1, can provide up to $500 million in limits, the same as the previous year.

Last year, however, Lloyd's broker Minet Holding P.L.C., which assembles the slip, had a hard time finding enough underwriters to write the $500 million limit, sources say.

This year, however, the sources say Minet had a much easier time completing the slip, which is led by the Ariel syndicate at Lloyd's of London, Orion Insurance P.L.C. and British Aviation Insurance Co. Ltd.

In addition, minimum rate increases this year range from 20% to 25%, compared with 50% to 60% last year, sources say.

However, underwriters participating on the slip currently are excluding post-launch space risks from aviation manufacturers' product liability coverage, though they are considering offering a separate $50 million policy to cover these risks (*BI,* Jan. 26). ■

Mutual Fire rehabilitation

Continued from page 37

pointed out in their motion. "Policyholders. . .are interested in prompt collection of amounts owed Mutual Fire. This interest may not entirely be shared, for example, by retrocessionaires and others against whom Mutual Fire may have claims."

Mutual Fire, Marine's attorney was not as enthusiastic about the formation of a policyholder committee. Thomas Manisero, with the firm of Wilson, Elser, Moskowitz, Edelman & Dicker in New York, said policyholders were left out of the early stages of the rehabilitation proposal because their rights are protected by the commissioner under state law.

"There is no provision for formation of a policyholder committee" in an insurance company rehabilitation under Pennsylvania law, said Mr. Manisero. Instead, the commissioner is charged with protecting policyholders, he said.

He acknowledged that the insurer concentrated on working with ceding companies and reinsurers to develop a rehabilitation plan.

In addition to seeking a policyholder committee, Sun Coast and Federal Realty filed a separate motion urging the court to hold a conference to address the "myriad procedural issues that are presented in this insurance rehabilitation proceeding" and establish a procedural schedule to avoid the "predictably catastrophic results of the frantic and ad hoc approach thus far taken by Mutual Fire" in developing the rehabilitation plan.

Among the issues that should be addressed early in the proceedings, according to the policyholders, are:

- Is the insurer truly insolvent?

"It appears that no claims files of Mutual Fire have been audited by regulatory authorities, independent auditors, or Mutual Fire personnel and that the bulk of such claims files are in the custody of managing general agents or outside claims adjusters," Sun Coast and Federal Realty charge in papers filed with the court. "To what extent can Mutual Fire's claims reserves be considered reliable until an independent audit of Mutual Fire's claims files is conducted?"

- What duties of utmost good faith and fair dealing do the MGAs owe the insurer?

Sun Coast, an osteopathic hospital, holds two professional liability insurance policies written on an occurrence basis by underwriting manager Shand, Morahan & Co. Inc. on behalf of Mutual Fire, Marine. Since the policies were issued on a surplus lines basis, Sun Coast would not be covered by Florida's guaranty fund if Mutual Fire, Marine lacks sufficient assets to pay claims.

Federal Realty, a real estate investment trust, holds an umbrella liability policy also written on an occurrence basis and on a surplus lines basis. Federal's policy, with a $5 million limit, covers personal injury, property damage, and advertising liability. The policy was issued by a managing general agent other than Shand. The MGA is not named in court documents.

Incurred claims under the two Sun Coast policies are estimated at $300,000, while incurred claims under the Federal Realty umbrella policy are estimated at $1 million.

Mutual Fire, Marine—which ranked as the fifth-largest surplus lines insurer in 1985 based on $72.9 million in nonadmitted premiums in 1984—suffered large losses from defaults by limited partnerships on loans Mutual Fire, Marine had guaranteed and reinsurance business it assumed.

The financial guarantee business was written by managing general agents in 1983 and 1984 and involved issuing surety bonds securing repayment of loans by investors primarily in oil and gas and real estate partnerships. Last July, Mutual Fire, Marine reported losses of around $60 million on the business, with a potential loss exposure of $180 million.

'There is no provision for formation of a policyholder committee' in an insurance company rehabilitation under Pennsylvania law, according to Mr. Manisero

Premiums totaling $13.4 million under the program were written to cover bonded exposures of $435 million in principal and interest.

In addition, insurers ceding business to Mutual Fire, Marine have reported losses and incurred-but-not-reported loss reserves of around $160 million. Around $140 million of that is secured by the insurer in the form of letters of credit or trust funds.

Mutual Fire, Marine's direct book of business, written mostly on a surplus lines basis, faces potential losses before reinsurance recoveries of $270 million to $300 million, according to court papers.

Under the proposed rehabilitation plan, the insurer would issue surplus notes in the amount of obligations due lenders in the financial guarantee program and insurers that ceded business to Mutual Fire, Marine.

The notes would earn 10% interest and would be paid in quarterly installments beginning in 1992.

However, payments could only be made from funds the insurer has in excess of legal surplus requirements and would be made on a pro-rata basis to both lenders and ceding companies.

Another part of the plan allows insurers ceding business to Mutual Fire, Marine to make recoveries directly from Mutual Fire, Marine's retrocessionaires.

The current proposal to pay claims filed by direct policyholders in full as submitted is new since the insurer first began devising its strategy for avoiding liquidation.

Under its original proposal, Mutual Fire, Marine intended to sell its direct book to an unrelated insurer.

Mr. Manisero said the direct business is considered to have two components: professional liability coverage written by Evanston, Ill.-based Shand, a subsidiary of Alexander & Alexander Services Inc.; and policies written by a group of MGAs other than Shand.

William Wall, executive vp and corporate secretary at Shand, said the insurer's outstanding liabilities connected to Shand-produced business amounted to $102 million as of March 31, 1986. Shand wrote medical malpractice and other professional liability insurance, mostly on a claims-made basis, he added.

Shand is negotiating to provide Mutual Fire, Marine with a "hold-harmless indemnification" arrangement that would cover "bad reinsurance" and "adverse development" relating to business written by Shand.

While he said no figures have been finalized, Mr. Wall said the arrangement would cover up to "a limited amount," uncollectible reinsurance on business written through Shand and adverse claims development on insurance Shand wrote for Mutual Fire, Marine.

"This commitment would be on a paid-loss basis only, based against (Mutual Fire, Marine's) reserves" as of March 31, 1986, he said.

Mr. Wall said Shand is still negotiating with the Insurance Department concerning the arrangement and he could not say what, if any, liabilities Shand might be released from in return for the hold-harmless arrangement.

Shand decided to offer the arrangement "because we believe it is in the best interest of the policyholders with insurance arranged through Shand," according to Mr. Wall.

Apart from Shand's proposal to provide financial support, Mutual Fire, Marine is asking reinsurers to pay claims based on claims reports and before the insurer pays claims.

Mr. Manisero explained this plan involves "going to the reinsurers behind the direct business and collecting the recoverables due," if the rehabilitation plan is approved. The recoverables would then be available to Mutual Fire, Marine to begin paying claims, he said.

"If enough reinsurers put up money, the claims can be adjusted and settled quickly," he remarked. "Hopefully, they can be settled below what they are reserved at."

He said the pre-funding would involve reinsurers both on the business written by Shand and other MGAs. The funds for both categories of direct business would need $15 million to $20 million each "to get the mechanism moving," according to Mr. Manisero.

As part of its plan to raise cash to meet its obligations, Mutual Fire, Marine subsidiary UMI Holdings Inc. sold UMI Reinsurance Co. to newly formed Underwriters Management Corp. The new company was capitalized through a private placement of its stock arranged by Citicorp Investment Bank.

While the sale of the reinsurer was projected to generate around $3.7 million, Sun Coast and Federal Realty said in court filings that the sale probably only netted $600,000 because about $3.1 million of cash and cash equivalents were sold with UMI Re.

And, after deducting the approximately $200,000 in legal and accounting fees connected with the sale paid by Mutual Fire, Marine, the policyholders estimated the sale only generated about $400,000 in net benefits.

Under terms of the sale, Underwriters will be managed by officers and employees of UMI Holdings and senior officers of Mutual Fire, Marine "who joined Mutual Fire or rose to positions as senior officers of Mutual Fire long after the events which caused its current hazardous financial condition," according to the proposed rehabilitation plan.

If the rehabilitation plan is approved and the insurer is not liquidated within 120 days of approval, employees of Underwriters will be able to purchase up to 30% of the company's stock.

Mr. Manisero said Mutual Fire, Marine will pay Underwriters a management fee that cannot exceed $1.7 million during the first year for running off the insurer's business. The fee will be adjusted in future years to reflect the actual cost of managing the company.

In another effort to improve liquidity, Mutual Fire, Marine also sold its 50% interest in 1760 Market Street Associates, a limited partnership that holds title to the UMI Building where the insurer is headquartered. That sale generated around $3.5 million for the insurer.

Counsel for parties interested in attending the Feb. 10 hearing to consider outstanding objections to the rehabilitation plan must contact John K. Gordon at the Robert N.C. Nix Sr. Federal Building, Chestnut St. at Ninth, Philadelphia, Pa. 19107, or by calling 215-560-5740 no later than noon, Feb. 9.

The Feb. 10 hearing will be at 2:30 p.m. in Room 2070 of the federal building.

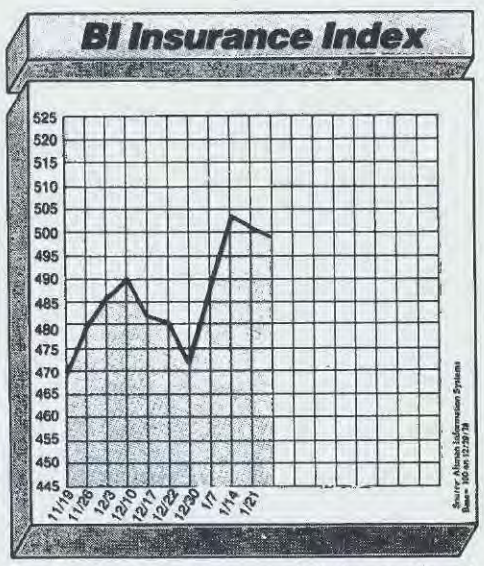
Objections to the rehabilitation plan must be made in writing to the chief clerk of the Commonwealth Court of Pennsylvania, Room 624, South Office Building, Harrisburg, Pa. 17120. ■

BI Industry Stock Report

January 28, 1987 1/22/87 thru 1/28/87

Brokers		Price	% Chg.	P/E	$ Div.	% Yld.	High	Low	Vol.(000)
Alexander & Alexander Svcs	NYSE	26.75	0.0	382.1	1.00	3.7	26.75	26.00	714.6
Baldwin & Lyons Inc	OTC	21.00	0.0	17.1	0.20	1.0	22.00	21.00	2.0
Corroon & Black Corp	NYSE	34.00	-3.2	15.4	0.65	1.9	34.63	33.75	409.1
Gallagher Arthur J & Co	OTC	26.88	-11.2	19.2	0.20	0.7	30.50	26.88	326.9
Hall Frank B & Co Inc	NYSE	15.13	-4.0	0.0	0.00	0.0	16.50	15.13	140.8
Marsh & Mclennan Cos Inc	NYSE	71.50	7.3	22.8	1.90	2.7	71.50	67.50	1,080.2
Poe & Assoc Inc	OTC	12.25	-2.0	15.5	0.32	2.6	12.50	12.25	4.7
AGENTS/BROKERS	AVERAGE			21.8		2.2			
Conglomerates & Holding Cos.									
Anderson Clayton(Ranger/PanAm)	NYSE	65.63	0.0	18.8	0.00	0.0	0.00	0.00	0.0
Amco Inc	NYSE	6.38	10.9	0.0	0.00	0.0	6.38	5.75	1,436.0
Berkley W R Corp	OTC	29.00	6.4	16.0	0.24	0.8	29.50	27.75	437.7
Berkshire Hathaway Inc Del	OTC	3025.00	0.0	175.5	0.00	0.0	3065.00	2980.00	1.9
CIGNA Corp	NYSE	60.50	1.0	0.0	2.60	4.3	60.50	59.00	1,317.6
CNA Finl Corp (CNA)	NYSE	55.25	-1.6	13.9	0.00	0.0	56.38	54.88	364.1
General Re Corp	NYSE	58.50	3.3	25.2	0.88	1.5	58.75	57.50	1,891.3
ITT (Hartford Group)	NYSE	60.75	5.2	25.0	1.00	1.6	60.75	58.63	4,361.8
Sears Roebuck & Co. (Allstate)	NYSE	45.75	1.7	12.5	1.76	3.8	45.75	44.63	5,115.9
Transamerica Corp (Occidental)	NYSE	37.00	0.0	10.4	1.76	4.8	37.00	36.13	896.7
CONGLOMERATES/HOLDING COS.	AVERAGE			87.7		0.2			
Insurers									
Aetna Life & Cas Co	NYSE	61.38	1.4	10.7	2.64	4.3	61.75	61.38	1,660.4
American General Corp	NYSE	41.75	1.8	11.5	1.12	2.7	41.88	40.75	2,202.9
Amern Heritage Life Invt Co	NYSE	40.50	0.6	14.5	1.32	3.3	40.75	40.00	2.0
American Indty Finl Corp	OTC	18.50	0.0	0.0	1.12	6.1	18.50	18.50	11.7
American Intl Group Inc	NYSE	69.38	4.9	19.8	0.25	0.4	69.38	66.75	1,927.5
Aneco Reins Ltd	OTC	2.88	9.5	0.0	0.00	0.0	2.88	2.63	27.6
Avemco Corp	NYSE	33.50	8.1	16.4	0.50	1.5	34.00	31.13	19.0
Business Mens Assurn Co Amer	OTC	28.00	-0.9	0.0	1.10	3.9	28.00	27.75	12.6
Chubb Corp	NYSE	61.63	3.1	24.7	1.68	2.7	61.63	60.75	1,480.8
Combined Intl Corp	NYSE	59.25	-0.8	11.1	2.24	3.8	60.25	59.25	155.7
Continental Corp	NYSE	49.00	-0.8	233.3	2.60	5.3	50.13	48.13	605.9
Crown Life Ins Co	OTC	355.00	0.0	12.3	6.40	1.8	355.00	355.00	0.5
Durham Corp	OTC	43.00	4.2	13.1	1.36	3.2	43.00	42.50	13.8
Farmers Group Inc	OTC	43.75	0.6	14.6	1.00	2.3	44.25	43.00	1,341.9
Fairmont Finl Inc	AMEX	17.88	1.4	14.3	0.00	0.0	18.00	17.50	134.3
Fireman Fd Corp	NYSE	36.25	2.1	15.4	0.30	0.8	36.25	35.13	1,541.4
Fremont Gen Corp	OTC	17.63	6.8	0.0	0.48	2.7	17.63	16.50	193.3
Great West Life Assurn Co	OTC	700.00	0.0	14.4	18.00	2.6	700.00	700.00	0.0
Home Group Inc	AMEX	20.13	-7.5	32.5	0.00	0.0	21.25	20.13	343.1
Hanover Ins Co	OTC	68.25	-0.4	14.5	0.56	0.8	68.75	68.25	68.0
Harleysville Group Inc	OTC	16.50	2.3	10.5	0.32	1.9	16.50	16.13	45.2
Hartford Steam Boiler Insptn	OTC	55.00	2.8	14.0	1.60	2.9	55.00	53.00	128.8
Kans City Life Ins	OTC	26.75	-4.5	11.1	0.87	3.2	28.00	26.75	8.4
Kemper Corp	OTC	30.00	5.3	12.0	0.60	2.0	30.00	28.75	1,262.4
Liberty Corp S C	NYSE	38.00	-3.8	12.8	0.72	1.9	40.00	38.00	11.9
Lincoln Natl Corp Ind	NYSE	50.50	1.5	11.6	2.16	4.3	51.75	50.00	592.0
Mission Ins Group Inc	PAC	1.50	0.0	0.0	0.00	0.0	4.38	1.25	11.6
Monumental Corp	OTC	55.63	0.0	18.8	0.00	0.0	55.63	55.63	1.1
Nac Re Corp	OTC	28.75	1.8	0.0	0.00	0.0	28.75	28.00	72.0
Nobel Ins Ltd	OTC	17.75	0.0	13.3	0.37	2.1	18.00	17.25	41.8
Northwestern Natl Life Ins	OTC	31.00	-2.4	10.3	0.86	2.8	31.63	31.00	226.3
Ohio Cas Corp	OTC	43.00	-47.2	16.2	1.50	3.5	83.50	42.00	356.8
Old Rep Intl Corp	OTC	30.88	2.1	12.0	0.78	2.5	30.88	30.13	236.4
Orion Cap Corp	NYSE	26.63	-9.0	0.0	0.76	2.9	29.88	26.63	71.3
Protective Corp	OTC	21.00	3.7	11.5	0.70	3.3	21.00	20.25	71.8
Provident Life & Acc Ins Co	OTC	24.63	-2.5	9.3	0.84	3.4	25.25	24.63	129.1
St Paul Cos Inc	OTC	43.75	2.0	13.5	1.50	3.4	44.25	43.00	1,225.4
SAFECO Corp	OTC	57.75	-1.3	12.0	1.70	2.9	60.00	57.75	627.4
Scor U S Corp	OTC	13.00	2.0	26.0	0.00	0.0	13.00	13.00	164.0
Seibels Bruce Group Inc	OTC	16.13	-2.3	0.0	0.80	5.0	16.13	15.75	31.9
Selective Ins Group Inc	OTC	21.50	-5.5	42.2	0.92	4.3	22.75	21.50	45.3
Statesman Group Inc	OTC	4.75	-2.6	0.0	0.05	1.1	5.00	4.75	24.2
Tokio Marine & Fire Ins Co	OTC	69.88	4.9	78.5	0.17	0.2	69.88	67.00	81.7
Torchmark Corp	NYSE	28.88	-0.4	11.0	1.20	4.2	29.63	28.88	733.5
Travelers Corp	NYSE	49.38	2.1	11.8	2.28	4.6	49.38	48.13	5,093.9
Trenwick Group Inc	OTC	18.25	0.0	140.4	0.00	0.0	18.25	18.25	15.8
United Fire & Cas Co	OTC	30.50	-0.8	14.3	0.80	2.6	31.00	30.00	8.9
United States Fid & Gty Co	NYSE	43.88	2.3	50.4	2.32	5.3	44.38	43.25	1,221.0
Unum Corp	NYSE	29.75	-1.2	8.8	0.40	1.3	30.50	29.50	684.1
Uslife Corp	NYSE	46.50	0.5	12.0	1.20	2.6	47.25	46.00	116.6
Washington Natl Corp	NYSE	30.88	-3.5	14.0	1.08	3.5	32.13	30.63	57.5
Zenith Natl Ins Corp	OTC	22.63	-8.6	27.3	0.80	3.5	24.75	22.63	205.8
INSURANCE COMPANIES	AVERAGE			14.4		2.5			

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The *Business Insurance* stock index continued a downward trend, closing at 498.6 on Jan. 28, down 2.3 points from 501.0 on Jan. 21. Twenty-nine stocks posted gains, while 23 declined and 10 were unchanged. The leading gainers were Aneco Reinsurance Co. Inc., up 9.5%; Avemco Corp., up 8.1%; Marsh & McLennan Cos. Inc., up 7.3%; Fremont General Corp., up 6.8%; and W.R. Berkley Corp., up 6.4%. The largest losses were reported by: Arthur J. Gallagher & Co., down 11.2%; Orion Capital Corp., down 9.0%; Zenith National Insurance Corp., down 8.6%; and The Home Group Inc., down 7.5%. The *BI* index performed worse than leading stock averages, dropping 0.5%. The NYSE composite rose 2.5% and the Dow Jones 30 Industrials rose 3.3%.

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