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update

Manville faces property claims filed by government entities

NEW YORK—School districts and other local government entities hurried last week to beat the deadline for filing claims against Manville Corp. for alleged property damage in buildings containing asbestos.

According to Manville, more than 3,500 claims had been filed as of Jan. 28.

The local governments, which are seeking to recover billions of dollars

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Superfund bill high on Congress' agenda

By JERRY GEISEL

WASHINGTON—Congress is preparing to tackle a wide variety of bills related to risk management and property/casualty insurance issues, although only one of these issues is certain to be enacted this year, Washington observers say.

Congress this year almost surely will reauthorize the federal Superfund law, the 1980 federal pollution cleanup law that expires in September, experts say.



Congress also will consider proposals that would establish a federal product liability law and would affect the tax deductions that property/casualty insurers can take for loss reserves. However, it's not likely these proposals will pass both houses this year, observers say.

Possible changes to the McCarran-Ferguson Act, the federal law that leaves regulation of the insurance industry to the states, also will be discussed, just as they have during recent congressional sessions. But the chances of action on such changes seem remote, experts say.

In addition, congressional committees will discuss what role the banking industry should have in the insurance marketplace. The outcome of that debate is uncertain (*BI*, Jan. 28).

But there is virtually no doubt that Congress will pass Superfund legislation, since the existing law authorizing a federal hazardous-waste cleanup fund will expire this year.

Industry observers say the Superfund law that Congress will eventually pass this year—unlike the proposal considered last year by the House of Representatives—will not sharply increase employers' liabilities.

"I'm in an upbeat mood," said Leslie Cheek III, vp-federal affairs in Crum & Forster's Washington office. "Now, there is a recognition (among legislators) that Superfund reauthorization will have to be

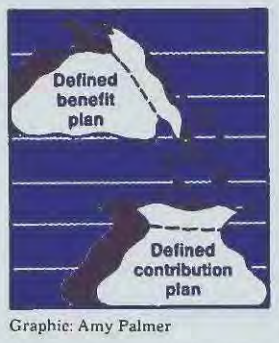
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Firms can shift assets from overfunded plans

By JERRY GEISEL

WASHINGTON—Employers can shift excess assets from their defined benefit pension plans to their defined contribution plans, the Internal Revenue Service says.

For instance, instead of contributing general corporate funds to a 401(k) salary reduction plan, a company could transfer surplus assets from an overfunded defined benefit plan to the 401(k) plan.



Graphic: Amy Palmer

The IRS said such shifting of assets would be allowed if the employer received an opinion from an enrolled actuary that the assets in the defined benefit plan were more than what is required to pay accrued benefits to participants if the plan is terminated.

Such asset transfers may appeal to employers with overfunded defined benefit plans that want to recoup the excess assets without terminating the plan.

The IRS position on asset transfers is contained in a general information letter the agency sent late last month to Frederick Rumack, director of tax and legal services at Buck Consultants Inc. in New York. In 1980, the IRS sent a letter to consultant Towers, Perrin, Forster & Crosby that appeared to endorse asset transfer. However, that letter did not provide the kind of detail contained in the Buck letter, and it aroused considerably less interest.

Buck's Mr. Rumack in November had written the IRS asking for the agency's opinion on an asset transfer from an overfunded defined benefit plan to a profit-sharing plan with a 401(k) salary reduction feature. The transferred assets would be used to match employee contributions to the plan.

"It is a tremendously exciting development," Mr. Rumack says of the IRS letter.

But other experts are cautioning employers that may be considering an asset transfer to wait until the U.S. Department of Labor and the Pension Benefit Guaranty Corp. have endorsed such transactions. The Labor Department and the PBGC, along with the IRS, regulate retirement plans.

Consultants also point out that employers could face lawsuits from participants if assets were removed from a defined benefit plan and the plan was later terminated without sufficient assets to pay all benefits.

Mr. Rumack, though, contends asset transfers will benefit both employers and employees.

Employers will have more flexibility in how they fund their benefit plans. An employer, for instance, might be able to eliminate a contribution to a savings plan through an asset transfer and thus be able to conserve corporate cash resources.

"It opens up (funding) avenues that didn't exist before," he says.

Employees could benefit, he adds, because employers might be more willing to set up new defined contribution plans or sweeten existing plans if they knew they could draw on pension plan surpluses to fund the plans.

If that occurs, there would be more retirement income available to employees, Mr. Rumack says.

The IRS decision comes at a time when there is tremendous employer interest in tapping surplus pension plan assets.

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Mentor, two other markets close their doors

By DOUGLAS McLEOD

NEW YORK—The already squeezed commercial insurance market is suddenly tighter after announcements by three far-flung insurers that they are closing their doors to new and renewal business.

In unrelated developments late last month:

- Bermuda-based Mentor Insurance Ltd., a unit of Ocean Drilling and Exploration Co., announced it has stopped all underwriting, including that of parent-related risks.
- Corroon & Black Corp. said it has shut down its excess/surplus lines underwriting management unit, Baccala & Shoop Insurance Services, following an unsuccessful effort to sell the company to Zenith Insurance Co. of Encino, Calif.
- Mission Reinsurance Corp., a unit of Mission Insurance Group, is "retiring from the reinsurance market," according to a spokesman. Some Mission Re policies are being canceled mid-term and the remainder of the book will be run off, the spokesman said.

While observers express dismay over the loss of the three markets, most say that their withdrawal came as no surprise since all three companies had drastically reduced their underwriting activity in recent months.

The withdrawal of Mentor, founded in 1968 by New Orleans-based ODECO, does not include other units of Mentor Holding Corp., an intermediate holding company created by ODECO in 1981.

'They (Mentor) had an underwriting guide 10 feet thick,' notes Amberco Vp Julian Griffiths.

These other units include Mentor Insurance & Reinsurance Co. and Mentor Excess & Surplus Lines Insurance Co., both formed as admitted insurers in Louisiana in 1983.

ODECO had planned to have the two companies licensed in all 50 states to gain access to better-quality U.S. business. However, the companies are still licensed only in Louisiana, are writing only ODECO-related risks and have no immediate plans to expand into underwriting non-related business, according to Clovis H. Steib Jr., vp and treasurer of Mentor Holding Corp.

Another Mentor Holding subsidiary, Mentor Insurance Co. (U.K.) Ltd., stopped underwriting in 1983 and has since been running off its book.

Mentor has been writing on a net-line basis only since Jan. 1, without any reinsurance support, and its per-risk capacity dropped to a maximum of $250,000, Bermuda sources say. Gross capacity per risk last year had been about $1 million.

Bermuda brokers and insurers say that these restrictions blunted the impact of the loss of Mentor's capacity.

"It's just like Insco," said A.W. Hunt, vp of Pearson Webb Springbett (Bermuda) Ltd., referring to Gulf Oil Corp.'s Insco Ltd., which stopped writing related and non-related risks last November.

"It's a decision on something we had perhaps been expecting for some time," Mr. Hunt commented.

Mentor has not yet released 1984 financial data, and company officials refused to comment on last year's results or their reasons for shutting down the Bermuda Mentor operation.

However, poor underwriting experience is generally thought to have prompted the decision.

In 1983, Mentor produced net written premiums of $72.5 million, up 43% from $50.6 million in 1982. Net earned premiums rose 28% to $60.3 million in 1983 from $46.9 million the previous year.

Parent-related business accounted for a relatively small portion of Mentor's volume. According to the company's 1983 annual report, net earned premiums from writing "proportionate risks" of ODECO amounted to $3.9 million—6% of total volume—in 1983 and $3.3 million—7% of total volume—in 1982.

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update

Manville faces property claims

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for the cost of inspecting and removing asbestos from their buildings, had until Jan. 31 to file their claims with the U.S. Bankruptcy Court for the Southern District of New York.

Judge Burton R. Lifland set the deadline as part of Manville's bankruptcy proceedings. Manville, formerly the world's largest asbestos producer, filed for reorganization in August 1982 because of overwhelming asbestos-related personal injury claims.

Because Manville is in reorganization, schools and other public entities seeking to recover property damages are barred from suing Manville outside the bankruptcy court.

Among the groups seeking to recover from Manville is the National Assn. of Counties, which filed a $650 million claim on behalf of 2,000 counties. The group last week was seeking an extension of the Jan. 31 deadline, a spokesman said.

A Manville spokeswoman said many of the damage claims are exaggerated, and she pointed out that many co-defendants would have to share any liability with Manville.

Insurer blamed for Xerox loss

NEW YORK—Xerox Corp. says losses stemming from its property/casualty insurance subsidiary, Crum & Forster, were partly responsible for Xerox's first quarterly net loss since 1959.

Xerox reported a fourth-quarter 1984 net loss of $12 million, compared with a profit of $73 million for the fourth quarter of 1983.

Crum & Forster had a $23 million loss for the fourth quarter and a loss of $10 million for the year, said a Xerox spokeswoman. This compares with a profit of $26 million for 1983's fourth quarter and a $145 million profit for the entire year. Crum & Forster's fourth-quarter 1984 results include capital gains of $6 million, compared with $12 million in capital gains for the comparable period in 1983. The insurer reported a total of $40 million in capital gains in 1984 and $36 million in 1983.

The Xerox spokeswoman blamed the Crum & Forster loss on "unprecedented" underwriting losses and several years of increasingly inadequate price levels. She added the insurer has introduced an aggressive pricing program and is tightening its underwriting activities.

Xerox also cited an $85 million loss from its discontinuation of a disk drive operation as a reason for the parent company's quarterly loss.

Court rules against Trans Union

DOVER, Del.—The Delaware Supreme Court, ruling on a suit brought by former shareholders of Trans Union Corp., said that 10 former Trans Union officers may have sold the company to Marmon Group Inc. in 1981 for too little.

The court last week, in a 3-2 decision, said the directors acted too quickly and with too little information when they agreed to sell Trans Union for $688 million, or $55 per share. Testimony delivered on behalf of more than 10,000 shareholders in the class-action suit showed that the company was worth between $65 and $75 per share, said attorney Michael Hanrahan, whose Wilmington, Del., firm represents the stockholders.

Both companies were incorporated in Delaware with headquarters in Chicago. Trans Union has been renamed Marmon Industrial Corp. and is one of about 70 autonomous divisions of Marmon Group, a diversified manufacturer.

In its ruling, the Supreme Court sent the case back to the Court of Chancery in Wilmington to decide damages.

Neither Frank Burke, director of risk management for Marmon Group, nor Wilmington attorney A. Gilchrist Sparks, who represents Trans Union and Marmon, would comment on the companies' directors and officers liability coverage.

Ex-Biegler executive sentenced

CHICAGO—A former executive of a Chicago underwriting manager has been sentenced to five years' probation and ordered to pay $250,000 in restitution in a scheme to overcharge clients and split commissions.

Harry James Cantwell, former executive vp of L.W. Biegler Inc. in Chicago, was sentenced in U.S. District Court last week after pleading guilty to two counts of felony mail fraud, according to Deputy U.S. Attorney Ira Raphelson.

Geoffrey Steger, president of Geoffrey Steger Inc. and Corporate Structures Inc., received the same sentence last November after pleading guilty to the same charges. Mr. Raphelson said (*BI*, Dec. 3, 1984).

Steven Hoesley, president of First Annuities Inc., was also

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Some Ideal Mutual liabilities to be ceded to another insurer

By JUDY GREENWALD

NEW YORK—Some of the liabilities of Ideal Mutual Insurance Co., which the New York Insurance Department says it intends to liquidate, are being transferred to another insurer.

Following an agreement between the New York Insurance Department and The Great Atlantic & Pacific Tea Co., which used Ideal Mutual as a fronting insurer for its captive insurance subsidiary, Ideal Mutual will cede to an American International Group Inc. unit all its insurance obligations under policies issued to A&P.

In addition, Ideal Mutual will assign all reinsurance applicable to A&P risks, including reinsurance provided by A&P's Bermuda captive, St. Pancras Co. Ltd., to the AIG unit.

A Department spokesman said the agreement with A&P and the AIG unit, National Union Fire Insurance Co. of Pittsburgh, Pa., is expected to be a model for similar agreements with other major policyholders.

However, one major Ideal Mutual policyholder expressed doubts last week about whether transferring Ideal Mutual's liabilities to another insurer is the best course of action.

In another development, New York Insurance Superintendent James P. Corcoran on Jan. 31 submitted a request in New York Supreme Court in Manhattan for a show-cause order as to why Ideal Mutual should not be liquidated, a department spokesman said.

The spokesman said a court hearing on the request probably will be held this week. Any objections to the liquidation will be heard at that hearing, he said.

Ideal Mutual was placed in rehabilitation on Dec. 26 after a triennial examination of the company by the New York Insurance Department as of Dec. 31, 1983, found Ideal was $155 million short of meeting its liabilities of $310.6 million (*BI*, Jan. 14).

The Insurance Department announced in mid-January that it would seek an order for Ideal's liquidation barring any "unforeseen circumstances." A spokesman said at that time that "it's a situation that cannot be rehabilitated" (*BI*, Jan. 21).

But, another department spokesman said Jan. 24 the

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Employers, others in California face unpaid comp-related fees

By STEVE TARAVELLA

LOS ANGELES—Workers compensation self-insurers, insurers and third-party claims administrators in California may have to pay millions of dollars to doctors and service vendors for unpaid bills and penalties.

The doctors and vendors charge that the self-insurers, insurers and TPAs did not comply with a California regulation requiring timely payment of bills incurred during workers compensation claims hearings.

The bills date back to 1976 and may represent $12 million to $30 million in unpaid fees and penalties, say attorneys for the doctors and other service providers.

However, a settlement of $4.25 million is being discussed. It would include a $3.5 million fund to pay the bills and $750,000 to pay legal fees. To keep costs within the $3.5 million, it is proposed that all unpaid bills be discounted to 60% of their current value.

The case was brought before the state Workers' Compensation Appeals Board in 1981 by 15 providers of medical and legal services on behalf of all similar vendors who have outstanding claims.

Originally, only 21 self-insurers, TPAs and insurers were named as defendants.

But in September 1984, almost 200 others, including almost all California workers compensation insurers, were added as defendants in the petition.

And observers expect in the next few weeks that all 1,425 self-insurers and 80 TPAs in the state will be named as defendants. "I expect to receive court papers any day," said one TPA.

Most of the plaintiffs provide medical or legal services during hearings that are held to determine what rating will be assigned to an injured employee's work comp payment schedule.

For example, the doctors who are plaintiffs in the case are forensic specialists brought in to testify to the degree of a worker's disability. Other plaintiffs in the action are photocopy services that have prepared papers for the hearings.

The plaintiffs claim they have not been paid for their services in accordance with state Labor Code 4601.5, which requires employers to pay within 60 days of receipt any bills they receive for medical testimony, medical reports, X-rays or use of an interpreter to prove a contested claim.

While the employer is technically responsible for the bill, many workers compensation claims are paid through TPAs or insurers.

According to the code, which took effect July 10, 1976, employers must either pay the bills or pose a valid objection to them within 60 days. Failure to do either can result in a 10% penalty on delayed fees plus 7% annual interest.

The plaintiffs are asking the Workers' Compensation Appeals Board to order the defendants to pay all medical and legal costs outstanding for more than 60 days, in addition to the 10% penalty and 7% interest provisions. They also seek reimbursement for legal costs, and are asking the WCAB to devise new rules to enforce prompt payment of these bills.

Because of the defendants' laxity in making payments, the providers "have been forced to carry literally millions of dollars in outstanding bills for long periods of time," their petition states.

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Captive managers' directory

Business Insurance's annual directory of captive management companies will be published in the April 15 issue. Copies of this issue will be distributed free of charge at the 1985 Risk & Insurance Management Society conference, to be held April 15-19 in New Orleans.

There is no charge to be included in the directory, but captive managers must complete and return a questionnaire supplied by *Business Insurance*.

If your company provides captive management services and you have not yet received a questionnaire, you may request one by writing Directory Editor, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611; or by calling 312-649-5279.

The deadline for returning completed questionnaires is March 1.

Quake reinsurance plan proposed

By STEVE TARAVELLA

WASHINGTON—A group of U.S. reinsurers will begin lobbying this week to win congressional support for an earthquake reinsurance facility that would expand earthquake insurance capacity.

The Reinsurance Assn. of America is preparing legislation that would establish a non-profit, tax-exempt corporation that would reinsure underwriters with earthquake risks, according to RAA President Andre Maisonpierre.

According to the proposal, the corporation would be backed by the U.S. Treasury to guarantee claims would be paid following a major quake.

According to the RAA proposal, each insurer would be eligible to purchase from the corporation limits equal to 150% of its gross retention, while a reinsurer would be able to purchase limits equal to 300% of its gross retention.

The corporation would begin making payments when an insurer or reinsurer's net loss from an earthquake exceeds 25% of its policyholder surplus or the limits of its catastrophe coverage, whichever is greater.

The policies issued by the corporation would be backed by the the U.S. Treasury up to a $50 billion maximum. However, if the Treasury is forced to pay claims on behalf on the corporation, the insurers and reinsurers would have to reimburse the government according to regulations that would be established by the Treasury Department.

One possibility is that insurers and reinsurers would reimburse the Treasury, with interest, over a five- or 10-year period, Mr. Maisonpierre explains.

The proposed corporation would charge insurers and reinsurers an average rate of 5 cents per $1,000 in written premium on all property/casualty lines, Mr. Maisonpierre said, adding the rate would vary according to the regions in which the companies write.

If all U.S. earthquake insurers participate, the corporation could generate an annual premium volume of about $50 million annually and would generate some $50 billion in investment income over 45 years, he projects.

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Satellite owners launch new proposals to cope with rate, capacity crisis

By STACY SHAPIRO

LONDON—Risk management techniques are taking off as rate increases and capacity shortages in the satellite insurance market continue.

Satellite owners are scrambling for ways to cope with launch insurance rates that have risen to 15% to 20% of insured value and capacity that is about half of what it was a year ago.

Among the measures that satellite owners and their brokers are considering are:

- Asking the agencies that launch satellites, like the National Aeronautics & Space Administration and Arianespace in Paris, to launch fewer satellites on each flight to reduce the insured value aboard each launch.
- Retaining some of the risk on a quota-share basis. For example, a satellite owner could retain a significant percentage of the probe's insured value. In essence, the satellite owner would be a coinsurer along with the underwriters.
- Increasing the use of incentive programs, whereby the satellite manufacturer pays a penalty to the owner if the satellite malfunctions within a specified period of launch.



- Forming a self-insurance pool covering a number of satellites owned by different companies. Under this proposal, the companies would pay the entire cost of the first satellite that is lost and buy insurance—at a reduced cost—to cover any subsequent losses.

"We are going to have to come up with something new," said Kevin J. Christel, director of insurance for Western Union Corp. in Upper Saddle River, N.J.

"If the base rate is 15% to 20%, we will have to re-evaluate the amount we cover. The insurance cost otherwise is a tremendous impact on the overall cost of the project," he said.

"We are using the risk management approach," said Aldin Richards, who is vp for Space Systems Group of broker Johnson & Higgins in New York.

Jim Doherty, manager of corporate insurance for GTE Corp. in Stamford, Conn., added: "There is a development of risk management technique. We must start considering deductibles, limiting coverage, assuming more coverage."

The new emphasis on risk management in the satellite industry stems from the abrupt tightening of the satellite launch insurance market last year.

The trend began when, a year ago this week, two satellites launched by the space shuttle Discovery failed to reach proper orbit, costing insurers more than $180 million in claims (*BI*, Feb. 13, 1984).

Later in the year, another satellite, valued at $102 million, also failed to reach proper orbit, bringing to $500 million the total claims that satellite launch insurers had paid in the previous three years (*BI*, June 18, 1984).

As a result, launch insurance rates have jumped to 15% to 20% of the

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Help at a taxing time

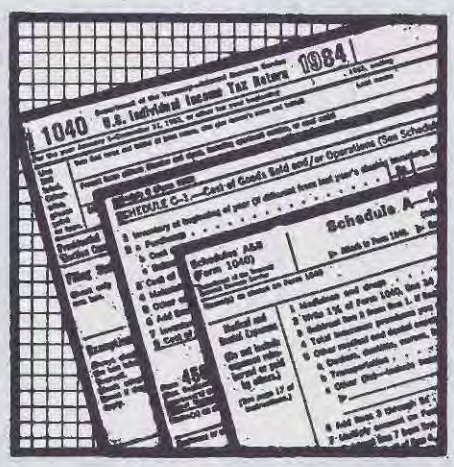
Employers offer tax preparation benefits

By DIANE LYNN KASTIEL

Some companies are trying to relieve employees' tax-time headaches by offering to pay for professional preparation of their income tax statements.

Although some say tax preparation benefits are still largely reserved for top-level executives, others say tax preparation is catching on as benefit for the general workforce.

"We look at it as an executive perk—and a relatively common one," said David C. Cates, a benefit consultant at Hewitt Associates in Lincolnshire, Ill.



According to Mr. Cates, a Hewitt study of 300 companies showed that 57% offered professional tax preparation services as a benefit to executives only.

"(That percentage) would be much lower if we looked at companies who offered it to the rank and file," Mr. Cates said.

But others insist the tax preparation benefit is trickling down to the average employee.

"I think more people recognize that tax preparation is a time-consuming burden," said Thomas Bloch, president of tax operations for H&R Block Inc. in Kansas City, Mo. "Taxes are becoming more and more complicated and it's hard for people to be a once-a-year tax expert.

"It's attractive to the employer because of its low cost and it reduces absenteeism. We know from studies that employees often take time off from work to get their taxes done," he said.

According to Mr. Bloch, an employer pays an average of $40 for each long form and $19 for each short form prepared for its employees by H&R Block professionals.

But prices could vary, depending on the demographics of the workforce. "If it's a company that has only white-collar employees who have sizable incomes and more complex returns, those charges could be adjusted upwards," Mr. Bloch said.

Some employers pay the full cost of tax preparation benefits, while others ask the employees to share the cost.

"Some employers think the benefit is more meaningful to the employee if he or she shares the cost," Mr. Bloch said.

Although H&R Block usually requires employees to visit one of its offices to have their taxes done, it will perform tax preparation at a company site if a substantial number of employees require service.

Employers Reinsurance Corp. in Overland Park, Kan., has offered tax preparation as a benefit to its 750 employees through H&R Block for the last five years, according to Stuart Schlemmer, manager of human resources.

According to Mr. Schlemmer, about 50% of the employees take advantage of the benefit, which offers preparation of basic long and short forms at no cost to employees. Employees must pay for preparation of additional schedules and for special needs such as applications for extensions.

Employers Reinsurance gives employees vouchers entitling them to free tax preparation, which they may redeem at any participating H&R Block office. The company pays a fee for each tax form prepared, though Mr. Schlemmer would not say what that fee was.

SAB Harmon Industries Inc., a manufacturer of railway signal and communication equipment headquartered in Grain Valley, Mo., also has offered free tax preparation to its 600 employees for the last five years. The company pays $26 for each employee who has a short or long form prepared by H&R Block.

"We just thought it would be a nice benefit," said Bettie Brown, the company's personnel manager. "We've had really good participation—out of 600, we've probably had 400 use it (each year)."

The Center Cos., a real estate manager and developer headquartered in Minneapolis, offers a similar benefit to its 750 employees. The company pays $17

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Is the industry's capacity crisis for real?

Property/casualty shortfall may total $62 billion over three years, ISO says

By MICHAEL BRADFORD

NEW YORK—The property/casualty insurance marketplace's capacity could fall $62 billion short of demand over the next three years, with 90% of the shortage in commercial lines, according to a recent study by the Insurance Services Office.

ISO President Daniel J. McNamara estimated that the property/casualty capacity shortage would amount to $7 billion this year and climb an additional $23 billion in 1986. And, in 1987, insurers could face an additional $32 billion shortage, he said.

ISO's Mr. McNamara says that 'A capacity/availabilty crunch is clearly upon us.'

Mr. McNamara, speaking at ISO's 14th annual meeting held in New York, said his capacity estimates were based on "a reasonable set of circumstances."

But, a catastrophe that resulted in $5 billion in insured losses and insolvencies that generated a $3 billion loss of surplus would increase the three-year capacity shortage to $80 billion, he said.

"Any increase in economic inflation or decline in the stock market would make the projected capacity shortfall even worse," Mr. McNamara said. "A capacity/availabilty crunch is clearly upon us."

Mr. McNamara also noted that the capacity shortages in the reinsurance industry are "even worse."

While the $32 billion property/casualty capacity shortage in the direct market in 1987 would be 18% of the total projected premium volume that year, the reinsurance capacity shortfall could be as much as 25% of the potential reinsurance market in the same year, he said.

The ISO study from which Mr. McNamara's figures come made several economic assumptions the group feels could reasonably occur over the next three years. Those assumptions include:

- A typical level of natural catastrophes amounting to $2 billion per year.
- An average stock market increase of 8% per year.
- New capital contributions of $1.5 billion each year.
- An average inflation rate of 4% per year.
- Written premiums growing 20% per year for commercial lines and 9% annually for personal lines.

Mr. McNamara noted that an insurer's ability to write business traditionally has been measured by the ratio of net written premiums to statutory surplus.

"While economic theory may argue that well-managed and well-reserved companies can easily write at a much higher leverage

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Reinsurer denies there's a crunch, but insurer officials, others disagree

By MICHAEL BRADFORD

NEW YORK—The insurance industry isn't experiencing a capacity crisis, one reinsurer says. It just isn't hungry enough.

"A capacity crunch or capacity crisis maybe overstates the case today," says Ronald E. Ferguson, president of General Re Corp. in Stamford, Conn. "I think what we are seeing is a loss of appetite to put out capacity."

However, some insurance company executives disagreed with Mr. Ferguson, saying the capacity crisis is real.

'I think it kind of over-eggs the pudding to talk about a crisis today,' says Mr. Ferguson.

The discussion of capacity came as part of a panel discussion at the joint annual meetings of the Insurance Information Institute and Insurance Services Office held last month in New York.

Mr. Ferguson's remarks were in response to those of ISO President Daniel J. McNamara, who cited an ISO study that predicts a property/casualty insurance capacity shortfall of $62 billion over the next three years. The ISO forecast projects that insurers will be writing at premium-to-surplus ratios of 4-to-1 by 1987, at which point most will write no more business (see related story).

"I think the ISO study really overstates the case when implying the industry could be writing at 4-to-1," Mr. Ferguson said. "I have the greatest respect and admiration for ISO, but I just can't get from here to there."

Mr. Ferguson said his "back-of-the-envelope calculations" show it would be unlikely for insurers to be writing at a premium-to-surplus ratio as high as 3-to-1 by 1987.

"So I think we're overstating the case a bit, but surely there is a loss of appetite to put out capacity in the terms it was put out in 1982 and '83."

And, if there is a serious capacity shortage, it is not an across-the-board crisis, he noted.

Mr. Ferguson said, "I think we shouldn't ignore the fact that the primary insurance industry as well as the reinsurance industry is posting poor results. . . .There is great impetus there to restrict writings and get rates up regardless of what reinsurers are doing."

While Mr. Ferguson argues from the reinsurer's perspective that the capacity shortfall is overstated, it is regarded more seriously from the vantage point of some insurers.

For instance, John Bretherick Jr., president of Continental Corp. in New York, noted: "We have passed the beginning of the capacity crunch. It is here, and it is getting severe in certain parts of the market."

Still, Mr. Bretherick says the crunch is not universal. "When we talk about capacity, it is

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Satellite owners devise new strategies

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satellite's insured value from 6% to 8% of insured value.

In addition, capacity has shrunk drastically.

Several satellite underwriters, both in the United States and Britain, have pulled out of the satellite market, including Orion Insurance Co. P.L.C., a leading British market (*BI*, July 2, 1984).

Sources estimate that total capacity has shrunk to less than $150 million per launch from about $250 million per launch.

But, there may be hope of new capacity on the horizon, sources say.

Some insurers are now waiting for the satellite insurance market to stabilize. In addition, some observers note that the high rates now being charged might lure more insurers to participate in the risks.

Part of this interest may come from aviation underwriters not hit by last year's losses. For example, Association Aviation Underwriters in New York, which stopped insuring satellites in the 1970s, is "continuing to look at the state of the market," said a spokesman.

And, brokers are checking some insurers that are not now writing satellite risks, like marine cargo underwriters, to see if they might want to join the market.

In fact, J&H's Mr. Richards hopes that there will be a capacity increase as early as the end of 1985.

"Rates are increasing so significantly for launch and in-orbit insurance that premiums earned may take the sting out of the 200% loss ratio," he said. "Then, capacity on the sideline may come in."

And, the old-timers that have led the market for some time—such as Merrett Syndicates Ltd., the Ariel Syndicate at Lloyd's of London and Alexander Howden Underwriting Ltd. in London and the U.S. Aviation Insurance Group and International Technology Underwriters in the United States—are still underwriting, despite the losses.

"I would be crazy to come out of the market now, now that rates are going up," summed up Richard Maylam, Lloyd's aviation underwriter for Howden and the leading underwriter on the Westar VI loss last year.

"If you are a satellite underwriter, you can't go in and out, in and out of the market. You must maintain a viable insurance market," he said.

However, predictions of future capacity increases are not much help to brokers who are currently trying to place major satellite insurance programs.

About 14 of the 28 satellites scheduled to be launched this year are not currently covered; the coverage for those satellites already insured was placed as package policies covering five or six of the owner's satellites.

Coverage for at least four two-satellite packages has either been recently placed or is still being negotiated. They are Brazilsat, owned by Brazil's state telephone company, EMBRATEL, and brokered by Marsh & McLennan Inc.; Marelos, owned by the Secretariat of Communications and Telecommunications in Mexico and brokered by Corroon & Black Inspace Inc.; Aussat, owned by an Australian company of the same name and brokered by Johnson & Higgins; and Arabsat, owned by a consortium of Arab nations and brokered by J&H, C.T. Bowring & Co. Ltd. and Sedgwick Group P.L.C.

Brazilsat I and Arabsat I will be launched this week in French Guiana aboard Arianespace's Ariane rocket.

Last week, brokers from M&M said that Brazilsat's two-satellite program was not fully placed. "But we are moving along," said Jerry Frick, an M&M managing director. He would not comment on the coverage.

Sources say that Arabsat I's coverage is uniquely structured. The probe to be launched this week reportedly is insured for $25 million for launch-related costs only at a rate of 20% of the policy limit, or $5 million.

If the launch fails, Arabsat II will be fully insured for an additional $45 million at a 9.5% rate, along with the $25 million of launch coverage at the 20% rate. Arabsat II will be launched in May aboard the space shuttle with two other satellites.

Arabsat's brokers—Bowring, Segdwick and J&H—will not comment on the program. Ali Al-Mashat, Arabsat's director general in Riyad, Saudi Arabia, will only say the insurance has been placed.

Brokers and risk managers are anticipating even more trouble placing risks later this year, when the shuttle carries three or more satellites on the same flight. There may not be enough capacity in the

Continued on page 8

Satellite rescuers will visit Lloyd's

LONDON—A year after two satellites wandered into the wrong orbit and created havoc in the satellite insurance market, the probe's rescuers will be honored at Lloyd's of London.

This week, the astronauts who salvaged the two satellites on the November space shuttle mission will visit Lloyd's, British aerospace manufacturers and British government officials.

Their itinerary includes a lunch at Lloyd's and a black-tie dinner sponsored by Lloyd's Chairman Peter Millier and the Council of Lloyd's.

And, it's no wonder that Lloyd's wants to show its appreciation.

A year ago this week, the Westar VI, owned by Western Union Corp., and the Palapa B2, owned by the Indonesian government, failed to reach proper orbit 22,300 miles above the Earth. As a result, insurers, led by Lloyd's underwriters, paid more than $180 million in claims (*BI*, Feb. 13, 1984).

However, nine months later, the astronauts, led by Joe Allen, salvaged the two probes after many of the underwriters, who had become the owners of the satellites, paid $10.5 million for the rescue mission (*BI*, Oct. 29, Nov. 19, Dec. 3, 1984).

In addition to this week's festivities, Lloyd's celebrated the rescue of the satellites by presenting the astronauts with Lloyd's Silver Medal for meritorious service last year at the White House with President Reagan.

However, the rescue saga isn't quite over. Underwriters still must find buyers for the two satellites to make their celebration complete.

Stephen Merrett, chairman of Merrett Holdings P.L.C. and who promoted the salvage attempt, currently is awaiting the cost of refurbishing the probes before negotiating any further with potential buyers. ■

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opinions

Good, but not great

THERE ARE GOOD ideas, and there are great ideas.

An Internal Revenue Service information letter to Buck Consultants Inc. that says companies can use the surplus from an overfunded defined benefit pension plan to fund a defined contribution plan is a good idea.

It offers companies a chance to use the surplus defined benefit plan assets without terminating the plans (see story, page 1).

In the last couple of years, many companies have terminated their defined benefit plans since termination was the only way they could recoup the surplus funds in the plans. But, terminating a plan can be costly because annuities must be purchased to guarantee promised benefits to plan participants and the termination can trigger legal battles. Also, any assets recovered are consideried taxable income for the company.

In the arrangement approved by the IRS letter, the defined benefit plan is not terminated, so those costs are avoided. And, the assets shifted to the defined contribution plan are not taxed.

If the corporation uses the excess defined benefit plan assets to initiate or increase its contributions to a 401(k) plan or to implement a profit-sharing plan, employees would obviously benefit. And, using these funds for such purposes would aid a corporation faced with cash-flow problems. If the defined benefit plan's surplus is used to meet the employer's obligation to the defined contribution plan, that would free other corporate funds for operating expenses.

Despite these advantages, asset transfers are still only a *good* idea.

Although the IRS has issued a general information letter endorsing the shift of pension assets from a defined benefit plan to a defined contribution plan—as long as an actuary certifies that the plan is indeed overfunded and the plan participants are no worse off because of the shift—there are other aspects to consider.

The largest obstacle is that only the IRS has given its apparent blessing to the proposal. The Department of Labor and the Pension Benefit Guaranty Corp. have not yet issued an opinion on asset transfers.

Indeed, the Department of Labor, which is interested in protecting participants' benefits, could raise an eyebrow about such transfers, citing the exclusive benefit rule in the Employee Retirement Security Act. Under that rule, an employer must operate a pension plan for the sole or exclusive benefit of the participants.

If a voluntary defined contribution plan is established or funded with the assets from a defined benefit plan, there is no guarantee that the participants in the 401(k), profit-sharing or thrift plan would be the same as those in the defined benefit plan.

The Labor Department or a company's own employees could sue an employer that skirted the exclusive benefit rule in this way.

Furthermore, there is an element of chance involved when an employer recaptures the surplus from an apparently healthy defined benefit plan without terminating the plan and guaranteeing the participants' benefits by purchasing annuities.

What happens to promised benefits down the road if the employer's business suddenly goes sour and it cannot keep up the plan contributions? Or, what happens if the stock market dives and suddenly the plan assets are not yielding what they had before?

Without the cushion provided by the surplus funds, there may not be enough money to pay future benefits and the plans' liabilities will fall to the PBGC. Plan participants would suffer because the PBGC does not guarantee all benefits promised to the participants.

When employers terminate their defined benefit plans to recoup surplus funds, they are required to purchase annuities to guarantee the plan participants' benefits. Under the proposed asset transfer, no annuity purchases are required and the employees' retirement funds are at risk.

Yes, the asset transfer proposal is a good idea, but without comment from the Labor Department or the PBGC and without careful assessment of the long-term health of the defined benefit plan, it is not a great idea.

Any employer considering such a move should hold off until the Labor Department and the PBGC take a stand—and then they still should tread very carefully.

letters

Number of captives will not decline

To the editor: Your list of predictions for 1985 (*BI*, Jan. 7) is interesting.

However, I do not agree entirely with one of them, namely, that the number of licensed captive insurers in Bermuda will decline for the first time.

I seem to recall that it was the hardening of the property market back in the '60s and of the casualty market around the mid-70s that led to the upsurge in the incorporation of captives.

My own feeling is that, first, those risk managers who have stayed with their captives during the soft market existing in recent years as well as built up their financial strength and relationship with reinsurers will reap the benefit of their decision.

Second, those who have neglected their captive to benefit from the soft market will regret that decision and now have to pay the deferred cost in the way of improved loss control measures, higher reinsurance premiums and probably higher retentions.

Either way, I do not see any reduction in the use of captives: in fact, quite to the contrary.

My own prediction, for what it's worth, is that 1985 will be "the year of the truly professional risk manager."

Harry New
Pembroke, Bermuda

Tips on leaving self-insurance market helpful

To the editor: The Perspective article, "Tips Can Ease Transition from Self-Insurance" (*BI*, Jan. 14), provides a concise checklist of problems and pointers to consider when returning to the conventionally insured marketplace from a self-insured workers compensation plan.

The article stated that the employer's first line of defense was to hire a consultant to ease the pain after the decision was made to return to a fully insured plan.

The first line of defense created by hiring a consultant should take place when, as the author states, "the employers are suddenly faced with the need to go back to a fully insured plan".

Early contact with your consultant can help reduce the cost of the transition. Also, early contact could prevent the decision by exploring all of the alternatives.

As consultants, we believe employers should have every option and know the cost/benefit result of each before making their major decision.

Joseph G. Englert
President
Metier International
Management Inc.
Washington

Business Insurance welcomes letters from its readers. Please keep your comments as brief as possible. We reserve the right to edit letters for clarity or space. We will not publish unsigned letters. Send your comments to Letters to the Editor, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611.

Many insurers offer innovative LTD plans

To the editor: I was tempted to comment on Peter O'Brien's article about long-term disability benefits (*BI*, Oct. 1, 1984) and was extremely pleased to see that Zin Balaban of Phoenix Mutual did (*BI*, Dec. 24-31, 1984).

Mr. O'Brien's article was a great piece of free advertising for Union Mutual Life Insurance Co.; however, as Mr. Balaban points out, other insurers have developed contracts that provide for minimum benefits, survivor benefits, freezes on Social Security (required in New York state and more than 15 other states), COLA offsets, and cost-of-living adjustments.

An LTD conversion benefit is certainly not innovative when you consider that Mutual Benefit Life, to my knowledge, has offered one since at least 1978. As a broker and consultant, I would not recommend subsidizing LTD benefits for terminated employees.

Yes, Mr. O'Brien and Mr. Balaban, the Phoenix as well as the Hartford, New England Life (which wrote its first LTD contract in 1957), INA and CNA, just to name a few, have gotten the message, even (in some instances) before Oct. 1, 1984.

Let us, therefore, not mislead *BI* readers into believing that any one or two insurers hung the moon when it comes to innovation in LTD plan design and administration.

Christopher A. Kraus
Manager, Employee Benefits
Riedman Corp.
Rochester, N.Y.

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Last year, Metropolitan set all kinds of sales records.

Metropolitan Breaks Record for Individual Life Premium Increase

NEW YORK – Metropolitan has released figures showing that the company has topped its all-time record for increase in individual life premiums for a single year. The increase totalled $103 million, eclipsing the previous record.

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Metropolitan To Offer Life Insurance Through Independent Brokers and Agents

NEW YORK – Metropolitan has announced plans to market its complete line of life insurance products through independent agents and brokers across the U.S. The program will be introduced in Manhattan, Chicago, Los Angeles, Miami, Massachusetts, Philadelphia and New Orleans. Until now, Metropolitan products have been available exclusively through its own sales force.

The company, which recently set single-year records for new individual life premiums and Universal Life new premiums, believes this move will enable it to appeal to new segments of the market without weakening opportunities for its own representatives.

Commenting on the new move, Metropolitan Agency Vice-President Alan Knepper stated, "These independent brokers will carry not only our line, but our reputation. And that's what makes this such a promising approach for all concerned."

For more information on Metropolitan's broker program, write Alan Knepper, CLU, Metropolitan Life Insurance Company, Area 5C, One Madison Avenue, New York, NY 10010. Or call 1-800-MET-LIFE.

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Satellite coverage rates continue to skyrocket

Continued from page 4

world markets to insure three probes that could be valued at $80 million to $90 million each, said Mr. Richards of J&H.

One way to tackle this problem is to ask NASA and Arianespace to reschedule launches so that no more than two satellites are launched on the same flight, Mr. Richards said.

"We have recommended this to our clients when they are in negotiations with NASA or Arianespace or another spacecraft owner," he said, referring to policies established by many companies "where no two executives should be on the same flight."

Satellite owners also can cut their insurance costs by retaining more of the risk on a quota-share basis, M&M's Mr. Frick explained.

In addition, owners may be able to cut their insurance costs by the use of incentive plans with satellite manufacturers, according to Mr. Richards.

Currently, some satellite owners pay an agreed-upon sum to a satellite manufacturer if the satellite functions properly within, for example, 180 days of launch and ignition. If, however, a specified number of parts malfunction on the satellite within 180 days of launch, then the manufacturer is penalized.

Mr. Richards believes these incentives should be increased. Then, for example, if a satellite cost $40 million to build, a satellite owner could ask for a $10 million refund from the manufacturer if 12 of 24 responders fail. Then, the owner would have to purchase $30 million in coverage to protect against a total loss.

Another idea being considered by satellite owners is the formation of a self-insurance pool to be administered by Corroon & Black Inspace Inc. in Washington.

Under the pool arrangement, a group of satellite owners would each reserve funds that would pay for the first satellite lost by pool members.

In addition, the pool would purchase coverage—at a reduced cost—that would pay for any subsequent satellite losses.

The theory was presented Dec. 18, 1984 to several satellite owners by Inspace and two companies that devised the plan, Comsat General Corp. in Washington and Satellite Business Systems in McLean, Va.

But, so far, the idea is far from being implemented.

The major obstacle, according to sources, is that underwriters are unwilling to reduce their rates for the coverage for subsequent losses, even though the owners are assuming the entire risk for the first loss.

As one Lloyd's of London underwriter said, "This is not popular for underwriters. We are looking for premium to recoup our losses. This way, we'd get (a lower) premium and still get large losses."

Several underwriters contacted by *Business Insurance* had not been approached by the pool, but said they were skeptical of the proposal.

"If what I heard was correct, it didn't seem logical," said Stephen Merrett, chairman of Merrett Holdings P.L.C. and a leading Lloyd's underwriter of satellite risks.

Still, any new idea is a step in the right direction, industry sources agree.

"It is a novel idea, and the market needs novel ideas," said Mr. Frick of M&M.

"I am not adverse to discussing it," said Mr. Christel of Western Union. He said he has not been approached by the pool, but added he is open to any suggestions.

In December, Western Union is scheduled to launch Westar VI-s, the successor to the Westar VI that was lost aboard the space shuttle mission a year ago.

Broker Alexander & Alexander Services Inc. and Western Union will form a proposal and present it to Western Union's management before asking for quotes, Mr. Christel said. He would not say how much insurance Western Union is seeking for the new probe; Westar VI was covered for more than $105 million.

"There is almost very little you can do, but when you go to the market, you have to be more prepared. You have to know more about the risk to communicate to the underwriter effectively," he said. ■

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Offshore risk retention groups now barred

By JERRY GEISEL

washington

WASHINGTON—Employers may no longer set up risk retention groups offshore to self-insure their product liability exposures.

The grace period in which risk retention groups could be formed in Bermuda or the Cayman Islands, as spelled out in a sunset provision tacked onto the Risk Retention Act, expired Jan. 1.

Since enactment of the Risk Retention Act in 1981, businesses have been able to band together to form risk retention groups-captive insurers specifically designed to self-insure product liability exposures—in the United States, Bermuda or the Cayman Islands with a minimum of interference from state regulators.

The law, however, contained an amendment to bar new risk retention groups from being formed in Bermuda or the Cayman Islands after Jan. 1, 1985.

Risk retention groups that receive a charter from any state and meet at least one state's capitalization requirement can operate in all states. The groups do not have to be licensed in every state. They also do not have to use a fronting insurer to avoid run-ins with state regulators.

The sunset provision was a compromise between the conflicting interests of manufacturers, which did not want any restrictions on domiciles for the groups, and insurers and agent associations, which opposed offshore domiciles for the groups.

The sunset provision also had been designed to give domestic states time to amend their laws to make it easier for risk retention groups to be set up in the United States.

So far, Vermont is the only domestic state that has passed legislation designed to ease the way for risk retention groups.

To date, no risk retention groups have been set up in Bermuda or the Cayman Islands. One group—HOW Insurance Co., owned by the 11,000-member Home Owners Warranty Corp.—has been licensed in Delaware.

PBGC proposal

The Pension Benefit Guaranty Corp. has proposed that large employers be required to pay pension termination insurance premiums earlier in the year.

Employers with more than 500 participants in their pension plans would have to pay the premium no later than 60 days after the close of the plan year. Currently, the premium is due no later than seven months after the end of the plan year.

The PBGC is proposing that the new premium due date go into effect this year for plans with more than 10,000 participants and in 1986 for plans with 500 to 10,000 participants. The change would not affect pension plans with fewer than 500 employees.

OSHA reminder

The Occupational Safety and Health Administration is reminding employers with more than 10 employees that they are required to post from Feb. 1 to March 1 the total number of job-related injuries and illnesses occurring in 1984.

To fulfill that requirement, employers should post the last page or right-hand portion of OSHA Form 200, "Log and Summary of Occupational Injuries and Illnesses."

Employers also must provide employees who move from one worksite to another, like construction workers, with a summary of Form 200 so that they are notified of the number of workplace accidents and injuries. Employers with 10 or fewer employees are exempt from federal OSHA injury and illness record-keeping and posting requirements. Employers in industries with low injury and illness rates have been exempt since Jan. 1, 1983.

Those exempt industries, designated by their Standard Industrial Classification (SIC) are: retail trades (SICs 52-59, except for 52, 53, 54); finance, insurance and real estate (SICs 60-67); and service industries (SICs 70-89, except 70, 75, 76, 79 and 80).

Copies of the OSHA Form 200 are available from the OSHA Publications Office, 200 Constitution Ave. N.W., Washington, D.C. 20210; 202-523-9667.

OSHA also will hold a public meeting Feb. 13 in Washington to collect information on estimated risks associated with workplace exposure to formaldehyde.

A 1971 OSHA rule limits worker exposure to three parts formaldehyde per million parts of air averaged over an eight-hour day. A concentration of up to 10 parts formaldehyde per million parts of air, however, is permitted for one 30-minute period.

This standard was adopted to guard workers against the irritant effects of formaldehyde.

More recent evidence sugggests that formaldehyde may be a potential occupational carcinogen, according to OSHA. However, under a 1980 Supreme Court ruling, OSHA must prove both that a substance is potentially hazardous and that it poses a "significant risk" to exposed workers before it can regulate. The meeting will help OSHA to determine whether a significant risk exists.

The Feb. 13 meeting will begin at 10 a.m. at the Department of Labor Building, 200 Constitution Ave. N.W., Room N-5435.

Four reappointed

Four members have been reappointed to the Labor Department's National Advisory Committee on Occupational Safety and Health.

Reappointed were Robert Taylor, director of the division of occupational safety and health at the Tennessee Department of Labor in Nashville; Tom Baker, president of Baker Electric Co. in Denver; John Donlon, business manager of the Colorado Building & Construction Trades Council in Lakewood, Colo.; and Ronald Davis, vp-industrial relations at Carolina Steel Corp. in Greensboro, N.C.

Mr. Taylor represents the public, Mr. Baker is the management representative, Mr. Donlon represents labor and Mr. Davis is the safety representative.

Members of the 12-person advisory committee are chosen on the basis of their experience and competence in the field of occupational safety and health. There are four members from the public and two each from the management, labor and safety and health fields.

The committee advises the secretary of labor and the secretary of health and human services on issues relating to health and safety in the workplace.

Romig joins ACLI

Michael J. Romig, a veteran Washington employee benefits lobbyist, has joined the American Council of Life Insurance as associate general counsel.

Previously, Mr. Romig was director of employee benefits for the U.S. Chamber of Commerce. He also had been an associate counsel with the American Insurance Assn.

At the ACLI, an industry trade group, Mr. Romig will be involved in a wide variety of employee benefit and tax issues.

Mr. Romig succeeds Stuart Brahs, who left the ACLI to become executive director of the Assn. of Private Pension & Welfare Plans, a Washington-based benefits lobbying group representing employers. ■

Pennsylvania labor leaders offer cost-containment plan

HARRISBURG, Pa.—Pennsylvania labor leaders are banding together to call for a program designed to control rising health care costs while maintaining quality health care personnel.

The program, unveiled by labor leaders last month, is being translated into legislation for possible introduction, said Julius Uehlein, Pennsylvania AFL-CIO president.

The union, with a state membership of about 1 million, introduced the program in response to a surge in health care costs and the tendency of employers to shift those costs onto employees, he added.

Pennsylvania's costs have been increasing at about 17% a year, said Patrick Greene, AFL-CIO's director of community services. However, no estimates have yet been developed on the program's potential cost savings, he added.

A primary component of the labor program is the development of a new state Commission on Disease and Accident Prevention for Cost Containment, according to Scott Andreassi, AFL-CIO's assistant to the secretary-treasurer.

One function of the commission would be to monitor hospital records to determine where dollars and resources are going and whether they are being efficiently used, he added.

Funding sources for the new commission and the governmental body to direct it are still being considered, Mr. Andreassi said.

The program also calls for incentives to use home health care instead of hospital stays; more outpatient treatment; and incentives to reduce unneeded surgery, he said.

In the past, "one answer to rising health care costs...was the elimination of health care workers and positions," he said, adding that the program would maintain a qualified health care workforce.

Although the coalition is calling for legislation to implement the program, most of the measures can be voluntarily adopted by hospitals and insurers, Mr. Andreassi said. Similar measures have been successfully implemented in other states, Mr. Greene added. ■

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New insurance regulators take office in five states

By CAROL CAIN

New insurance commissioners are taking over the insurance departments in New Jersey, Arkansas, Vermont and Rhode Island.

And, in South Carolina, the insurance commissioner has retired.

In Arkansas, a 32-year-old attorney and investment banking broker has taken over the Arkansas Insurance Department—and with it the rehabilitation of three insurer subsidiaries of Baldwin-United Corp.

Robert M. Eubanks was appointed by Gov. Bill Clinton as Arkansas insurance commissioner Jan. 21, and he was confirmed by the Senate Jan. 24.

Mr. Eubanks replaces Linda N. Garner, who spearheaded the efforts to rehabilitate the Baldwin-United subsidiaries. In addition to the three Baldwin-United units in Arkansas, three more insurer subsidiaries were placed in rehabilitation in Indiana in 1983.

Gov. Bill Clinton asked Ms. Garner to stay on as a special deputy rehabilitator to handle the Baldwin-United case. However, Ms. Garner said that such a position would weaken her stance in the rehabilitation.

"I told the governor I wanted to remain as insurance commissioner," Ms. Garner said.

Mr. Eubanks also has asked Ms. Garner to stay on in a special position and the two plan to discuss the matter, she said.

Just before being named insurance commissioner, Mr. Eubanks was a broker with the Little Rock office of George K. Baum & Co., an investment banking firm based in Kansas City, Mo. He has a law degree and an undergraduate degree in finance and banking from the University of Arkansas.

In previous government positions, he was on the legal staff in the Arkansas Insurance Department and was a deputy prosecutor for the 6th Judicial District in Little Rock.

In New Jersey, a member of the League of Women Voters has been nominated as insurance commissioner by Gov. Thomas H. Kean.

The state Senate is expected to act within six weeks on the nomination of Hazel Frank Gluck, 50, who currently is director of the New Jersey State Lottery.

Ms. Gluck, who has a bachelor's degree in communications from the University of Michigan, is quick to point out that she is not from the insurance industry and is not an attorney. She is a consumer advocate, and "that's what the governor wanted," she said.

Attorneys and insurance industry representatives have served as insurance commissioners, and they have failed to resolve the problem of high auto insurance rates in New Jersey, Ms. Gluck said.

During the past several years, Ms. Gluck has held numerous elected and appointed state and local government posts. She served a term in the New Jersey General Assembly and was a county board member, a county consumer affairs director and a member of a local board of education.

If her nomination is approved, Ms. Gluck will replace Kenneth Merin, who was appointed acting commissioner in April to fill the seat vacated by Joseph F. Murphy, who resigned (*BI*, April 16, 1984). Mr. Merin, who had been the governor's deputy general counsel, is to become the director of the governor's office of policy and planning.

In Vermont, a former officer of a Vermont bank holding company is the state's new insurance commissioner.

David T. Bard, 38, who was senior vp with Chittenden Corp. in Burlington, Vt., took over as commissioner Jan. 21. His appointment is subject to Senate confirmation.

Mr. Bard, who also handled employee benefits for the Chittenden Trust Co., a bank in Burlington, was with the company for 11 years and resigned last summer to begin a consulting business.

"But while I was setting up the consulting practice, I was recruited to be insurance commissioner," he said.

Mr. Bard replaces Gretchen Babcock, who has been acting commissioner since November (*BI*, Nov. 12, 1984). She will return to her post as the department's general counsel.

Ms. Babcock stepped in when George Chaffee resigned to become president of Vermont Insurance Management Inc. in Waterbury (*BI*, Sept. 3, 1984).

Mr. Bard has a master's degree in counseling and psychology and an undergraduate degree in psychology and sociology from the University of Vermont in Burlington. Before joining Chittenden's staff, he was an instructor at the University of Vermont for two years.

Because of his experience at Chittenden, Mr. Bard is familiar with many of the insurance-related issues faced by both benefit managers and risk managers. He said he still is trying to get "a good sense" of what is going on from the regulatory point of view.

But, he said he is especially aware of health care issues, especially cost-containment measures, and as commissioner, he plans to work to ensure a competitive health care market.

And, in Rhode Island, Clifton A. Moore, 58, a Rhode Island businessman, has been sworn in as the state's director of the Department of Business Regulation. In this capacity, he also is the state insurance commissioner.

Mr. Moore took the oath of office Jan. 23, but his appointment is pending Senate confirmation. He is expected to assume his seat within the next few weeks.

Mr. Moore is president of three Providence corporations: Business Development Co. of Rhode Island, Business Opportunities Inc. and Biltmore Development Inc.

Mr. Moore previously was a branch chief and acting division chief with the Internal Revenue Service.

He has an undergraduate degree in marketing from Boston Univeristy and an honorary doctorate from the University of Rhode Island.

Mr. Moore will replace William F. Carroll, who was appointed director of business regulation in February 1984. Mr. Carroll accepted the position on a temporary basis to fill an unexpired term. Mr. Carroll plans to return to work in the private sector, but was not at liberty to discuss his plans.

Meanwhile, South Carolina Insurance Commissioner Rogers T. Smith is taking early retirement Jan. 31 for health reasons.

Mr. Smith, who is 63, joined the department in 1961 and has served as commissioner since 1981. He recently underwent surgery and the resignation was advised by his doctors, a department spokesman said.

Deputy Chief Insurance Commissioner John G. Richards will continue to act on behalf of the insurance commissioner, as he has done recently, until the Insurance Commission appoints a replacement, the spokesman said. ■

Washington director named

OLYMPIA, Wash.—Dick Davis, formerly an assistant vp with Pacific Northwest Bell Telephone Co., is the new director of the Washington Department of Labor and Industries. He was appointed by the state's new governor, Booth Gardner, and took office Jan. 16.

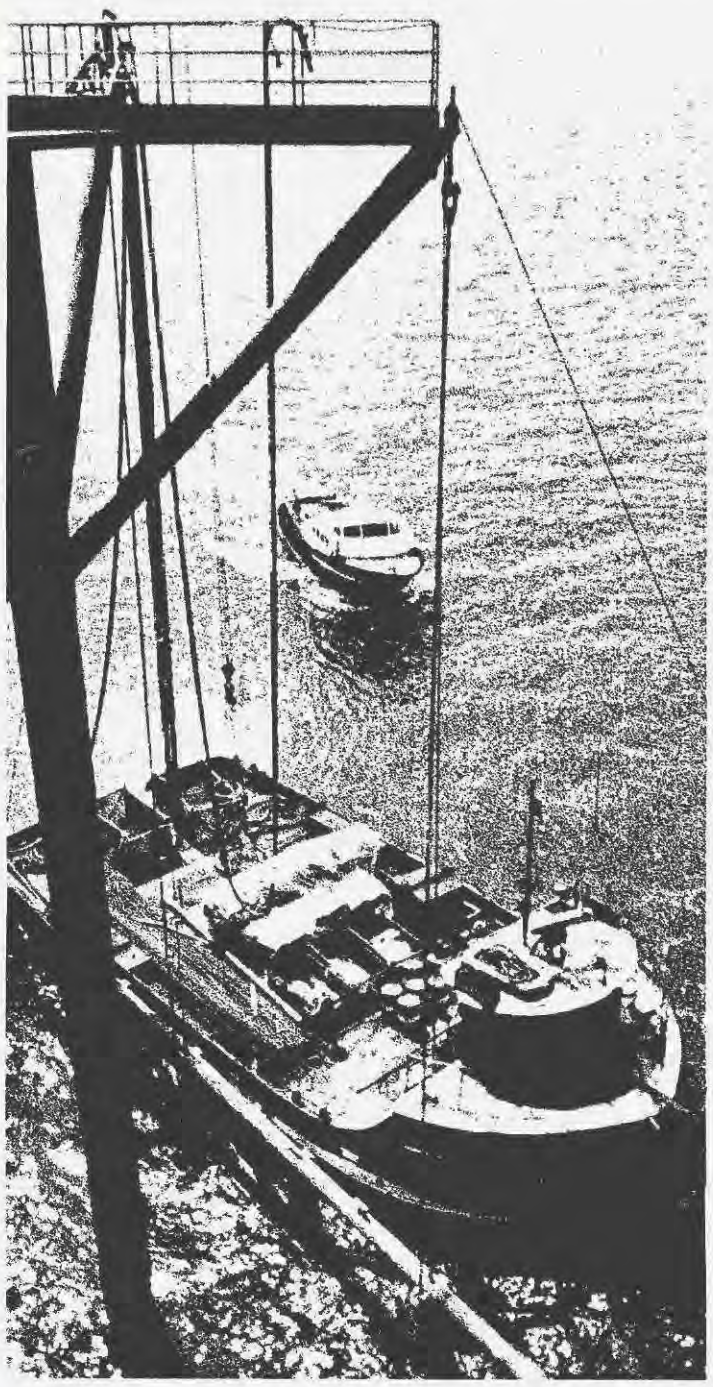
Mr. Davis almost immediately appointed Joe Dear to serve temporarily as assistant director of the Industrial Insurance Division, which administers the state's workers compensation fund. Mr. Dear previously was a research director with the Washington State Labor Council, AFL/CIO.

He will hold the post for 60 days, while the department searches for a permanent assistant director to replace Rick Slunaker, who was asked to resign.

It is expected that after a permanent replacement is found, Mr. Dear will assume another top level post in the new administration. ■

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comings & goings: buyers

American Express names Oster to insurance position


Mr. Oster

Roger B. Oster, 46, has been named director of insurance planning for American Express Co. in New York. In this newly created position, Mr. Oster is responsible for the analysis and direction of all insurance programs for the corporation and its subsidiaries. He also retains the responsibilities of his previous position, manager of corporate insurance at subsidiary IDS/American Express. He reports to J.T. Mundy, insurance officer for the American Express Co. Mr. Oster received a bachelor of science degree from Gustavus Adolphus College in St. Peter, Minn., in 1960 and is a past president of the Minnesota Chapter of the Risk & Insurance Management Society.

* * *

James R. Opperman, 46, has been promoted to director of risk management for ANR Freight System Inc. in Golden, Colo. In this new position, Mr. Opperman is responsible for all self-insurance programs, including workers compensation and property/casualty insurance, for ANR and its three subsidiaries. He reports to Bruce Bullock, vp and general counsel. Mr. Opperman had been manager of insurance; he will retain those responsibilities. He received a bachelor of science degree in criminal justice from Michigan State University in 1960 and is studying for the Associate in Risk Management designation.

* * *

Emily M. Schmidt, 30, has joined Jerrico Inc. in Lexington, Ky., as risk manager. In this new position, Ms. Schmidt is responsible for loss prevention, loss control and general insurance programs for Jerrico and its subsidiaries, Long John Silver's Seafood Shoppes and Jerry's Restaurants. She reports to William E. Anderson II, executive vp of law. Ms. Schmidt had been claims manager for Gold Kist Inc. in Atlanta. She received a bachelor of arts degree in psychology from Emory University in 1977 and a master's in risk management and insurance from Georgia State University in 1984. She is studying for a Chartered Property & Casualty Underwriter designation.

* * *

At Hillenbrand Industries Inc., a manufacturers' holding company in Batesville, Ind., **Robert J. Mattucci**, 38, has been named insurance manager. In this new position, Mr. Mattucci is responsible for risk management, loss control, employee benefits and claims. He reports to H. Jay Varner, director of risk management. Mr. Mattucci had been administrative manager-corporate insurance for GenCorp Inc. in Akron, Ohio. He received an associate's degree in business from the University of Akron in 1977.

* * *

Steven Zalewitz, 36, is the new manager of risk management and insurance for Schering-Plough Corp. in Madison, N.J. Mr. Zalewitz is responsible for the planning, implementation and monitoring of domestic property/casualty insurance programs and will assist in foreign insurance program development. He replaces **Stephen R. Giles**, who left the company to become manager of risk and insurance at Inspiration Resources Corp. in New York. Mr. Zalewitz reports to Spencer Rankin, staff vp of risk management and insurance. He had been manager of insurance and risk at LCP Chemical & Plastics Inc. in Edison, N.J. He received both a bachelor of arts degree in economics from Rutgers University in 1970 and the Chartered Property & Casualty Underwriter designation.

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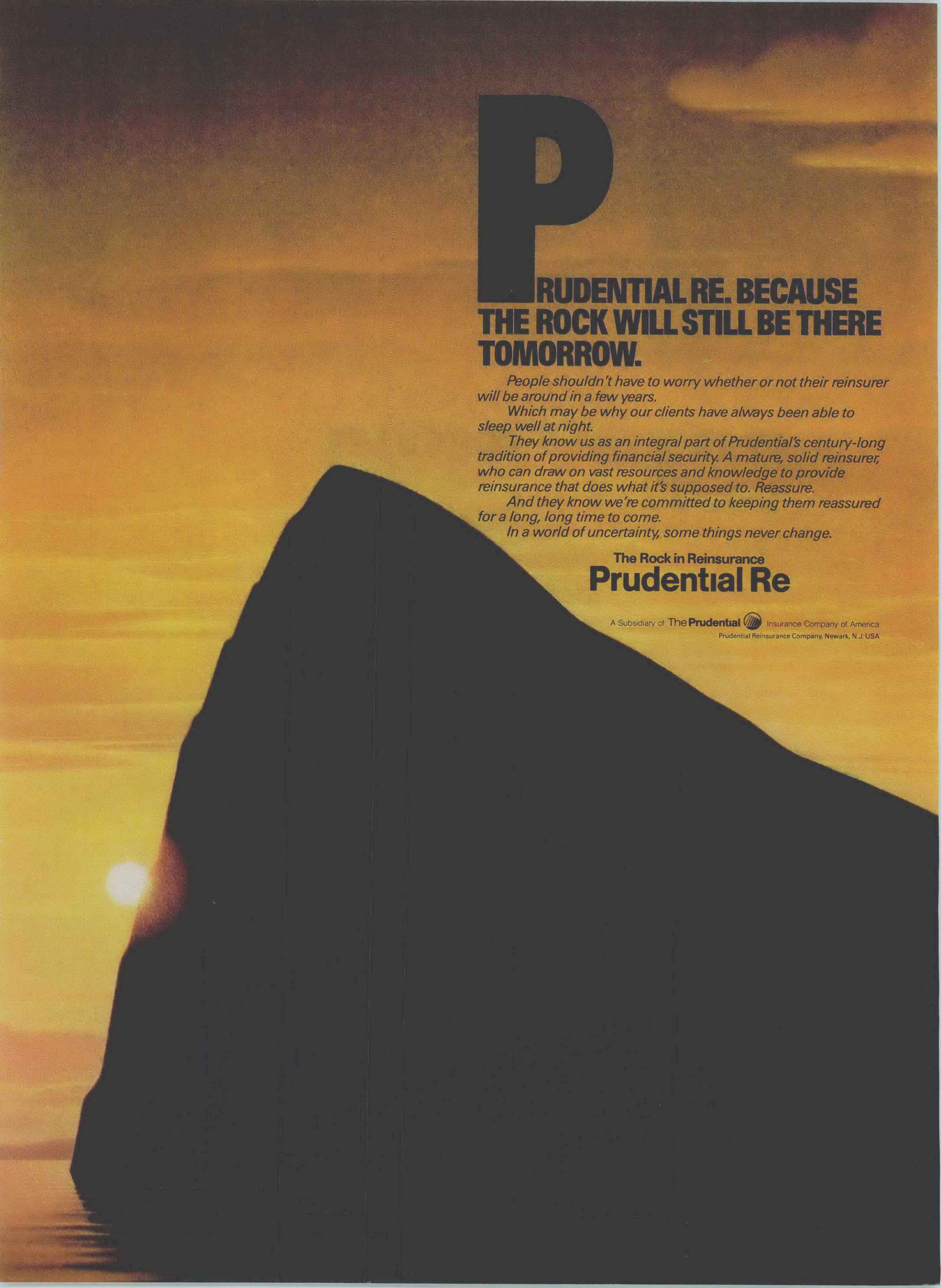
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ISO predicts shortfall in insurance capacity

Continued from page 3

than 4-to-1, the real-world fact is that regulators and rating agencies become seriously concerned when the ratio. . .reaches that height," he said.

He said the ISO scenario assumes some insurers would cap their writings at a 4-1 ratio, meaning substantial amounts of business would not be written and insurance availability problems would magnify.

"While less-leveraged insurers could write some of that business, a capacity shortage would still exist, even if well-positioned insurers double their writings over the three years," he said.

During the capacity crunch of the mid-1970s, captives and self-insurance alternatives acted as safety valves, providing extra sources of capacity, Mr. McNamara said. They could serve that same purpose in the oncoming capacity shortage, he noted, but he pointed out that tax changes imposed last year by Congress have diminished the value of captives.

The shortfall could also be lessened if insureds retain higher deductibles in the coming years, he said.

'But at best, such safety valves could only offset a small part of the capacity shortfall that may exist," Mr. McNamara said.

During such a capacity crisis, insurance regulators must use "longer-term vision, be tolerant and understanding," he said, adding that regulators should re-examine surveillance standards for insurers and re-evaluate all aspects of state guaranty funds.

"The need for significant premium increases, especially for commercial lines, is absolute for the next three years. While there will be insolvencies, acquisitions and mergers. . .I believe that today's conscientious state regulators will cooperate with the private sector and not advocate or precipitate unworkable legislative solutions."

Mr. McNamara also said attitudes toward financial institutions that are considering entering the insurance business may have to be re-evaluated.

"Those in our business who want to prevent new entities—with their available capital—from invading our turf may discover that these new players are desperately needed in the next few years."

He said the industry's opinions on banks' entry into the insurance business "were formed when excess capacity was the order of the day."

While a capacity crisis looms as a major concern for the property/casualty marketplace, Mr. McNamara said there are other "disturbing implications" revealed in the ISO study.

"Although we expect industry underwriting results to improve, we also expect substantial operating losses and drops in surplus for many individual insurers," he said.

Mr. McNamara noted that as insurance prices rise, it is easy to assume that "better days are ahead, not unlike the years immediately after the low points of the industry's last two major cycles in 1969 and 1975."

But, he warned, "The excess capacity that helped fuel the latest brutal cycle is now a myth.

"All available evidence supports the thesis that the property/liability insurance system, as presently constituted and regulated, will face a capacity shortage in the next few years. . .that will be severe even under very reasonable assumptions." ■

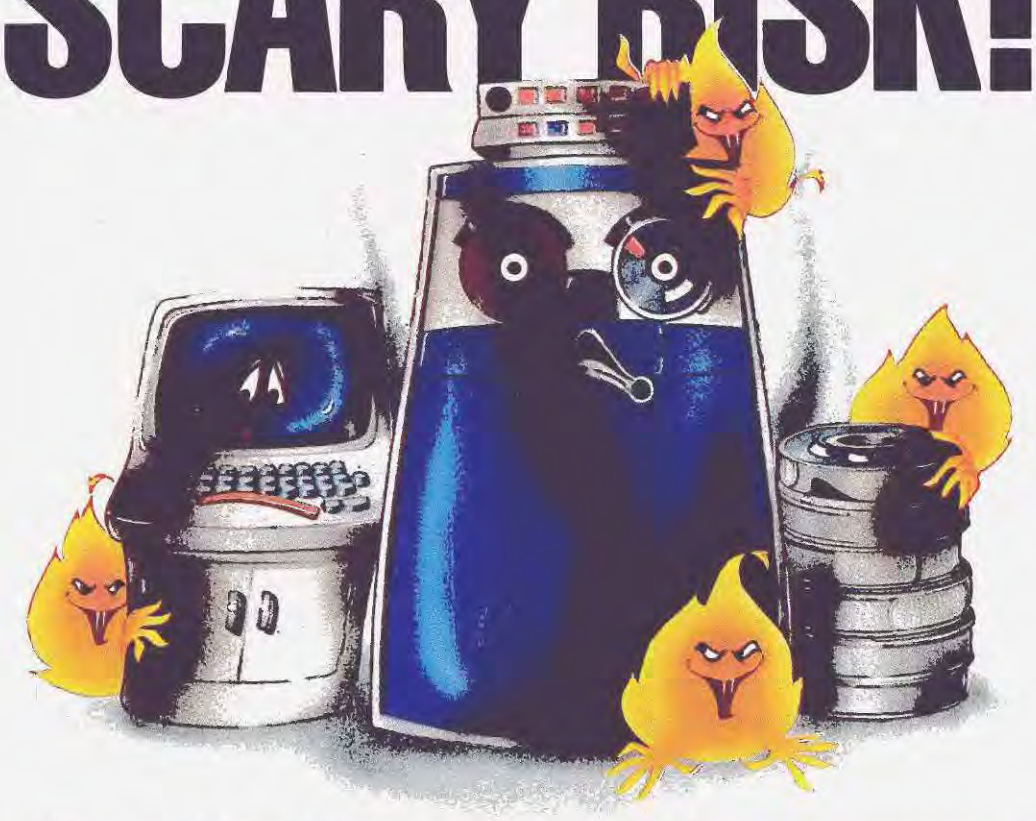
Aetna official to head ISO

NEW YORK—Robert J. Clark, senior vp of the commercial insurance division of Aetna Life & Casualty Co., was elected chairman of the board of Insurance Services Office and Richard J. Haayen, president of Allstate Insurance Group, was elected chairman of the Insurance Information Institute at the groups' joint annual meetings last month in New York.

The III also elected Don D. Hutson, president of Maryland Casualty Co. in Baltimore, as vice chairman.

Paul J. Scheel, president of United States Fidelity and Guaranty Co. in Baltimore, is vp of ISO.■

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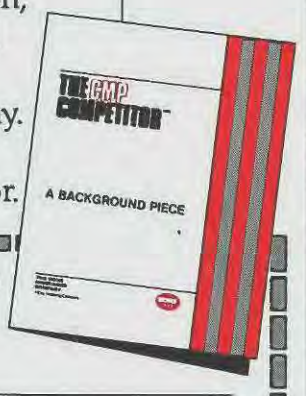
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Reinsurer says capacity crisis overstated

Continued from page 3

important to segment the market. I don't believe, for example, the direct writers are feeling very much of a capacity crunch."

Mr. Ferguson agrees that some parts of the market are experiencing more of a capacity problem than others. And, he said that, with certain coverages, like environmental impairment liability and medical malpractice, reinsurers are partly responsible for the shortfall.

"We've all heard the stories about (directors and officers) and (errors and omissions) where limits simply couldn't be put together. Reinsurers are contributing to a crunch there," he said.

But, he said that although certain segments of the commercial market are experiencing capacity problems, "I think it kind of over-eggs the pudding to talk about a crisis today," he said. "I'm not sure we're going to see the kind of crisis (the ISO study) is talking about."

Mr. Ferguson said several factors have caused reinsurers to help fuel rising insurance prices, including a greater awareness that reinsurers are more vulnerable to certain exposures than they expected.

"Reinsurers in the late '70s and early '80s woke up to the fact that very high-level business was being exposed in areas they didn't expect." For instance, asbestos exposures weren't priced adequately and loss reserves for the exposure were too low, he noted. "So there was a rude awakening. . .and a very dramatic turnaround with rising prices."

In addition, reinsurers are fueling price increases, he said, because of their rising loss ratios. A combined reinsurance industry ratio that is climbing toward 130% is influencing reinsurers to push prices up this year, he said.

"There is simply no way to wish away those kinds of numbers; it calls for action. That is what is happening today."

Reinsurers operate in more of a "free market" than primary insurers, said Mr. Ferguson, and that is causing them to be "a little faster on the draw in price increases."

But, he said, "There's really no one to blame for bad results. We as reinsurers can't point to regulators and say, 'They wouldn't let us do it.' We can't point to the distribution system and say they were part of the reason we couldn't control our destiny.

"We have to blame it on ourselves. Once you realize the results are unacceptable, you just have to get on with it."

But, some of the other panelists said getting on with it might be more difficult than Mr. Ferguson believes.

Frederick J. England Jr., president of Hastings-Tapley Insurance Agency Inc. in Cambridge, Mass., and president of the Independent Insurance Agents of America, said small agencies are especially concerned with capacity shortages. Many small IIAA members are "without any companies. The company view we find in many instances is that they are not doing business in agencies where they don't see a long-term future."

If that trend continues, he said, there will have to be "major realignments" in the independent agency system.

John J. Byrne, chairman of GEICO Corp. in Washington, agreed, noting that he has seen "a fair amount of closings of agencies, terminations and cutting back on the agency side."

Agents should have "trained their customers" that prices have been low recently so that later increases would be more easily accepted, Mr. England said.

Capacity is tightening throughout the world insurance market, said William Schrempf, president of CIGNA Worldwide Inc. in Philadelphia, another member of the panel. But, "you have to segregate the market," he noted, pointing out that combined ratios aren't as high in most other countries and thus aren't helping push prices up as much as in the United States.

Except for the United Kingdom and France, many commercial lines insurers are seeing low loss ratios, Mr. Schrempf said. "The rest of the world is really not tightening in a retail sense."

But some individual risks are hard to place, he noted. "Aviation, U.S. liability and a number of things like that are going to be very hard to place. But on an across-the-board basis, I don't see a capacity shortage yet.

"Overall, you can still get what you need. I think it will get tighter, but the major factor is going to be: are you willing to pay what you have to pay to get what you want?" Mr. Schrempf observed.

Frederick M. Reiss, chairman of American Risk Management Inc. in Fort Lee, N.J., noted that reinsurance conditions are changing outside the United States, and some risks outside this country will not be written.

"Outside the North American continent, such things as terrorism and usurption of civil authority, are going to be excluded," he said.

The panel was moderated by III President Mechlin Moore. ■

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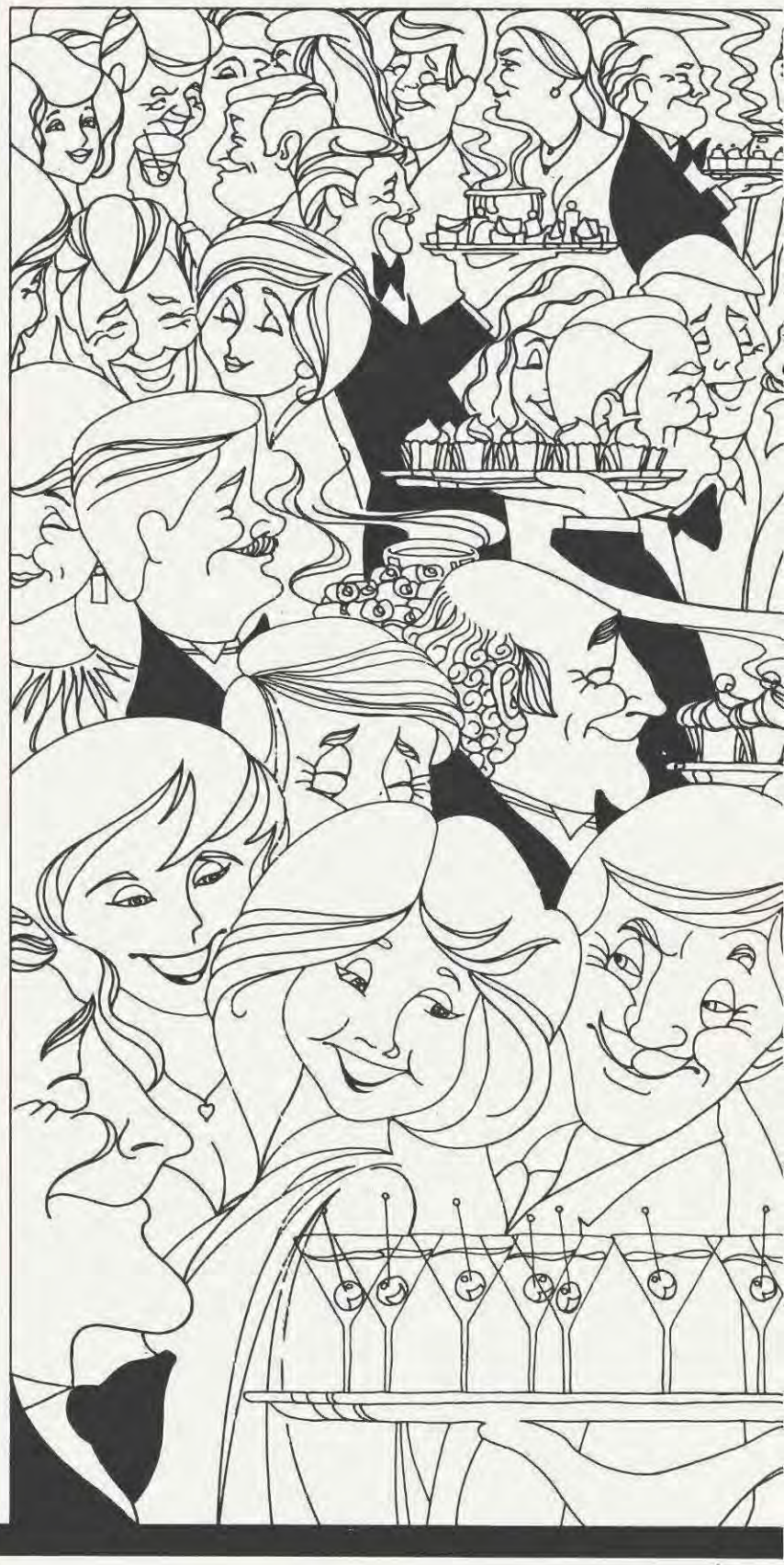
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III working to change the civil justice system

By MICHAEL BRADFORD

NEW YORK—The Insurance Information Institute is spearheading an effort to reform the U.S. civil justice system, saying the current system is funded by high insurance premiums.

"The primary objective of the campaign will be to make the public aware that the high cost of our present system—billions of dollars—is paid for by insurance consumers through higher premiums," said III President Mechlin Moore at the group's annual meeting in New York last month.

Mr. Moore said the civil justice system is plagued not only by high costs, but also by unnecessary lawsuits, long delays and unpredictable results.

He said the III campaign, which began last fall, focuses on research that shows that "victims receive only a portion of court awards, while much of the burdensome expense goes to support the litigation system in the form of attorneys' fees and court costs."

The institute will run full-page advertisements in 18 publications, following a similar advertising campaign run by the III last fall. An III spokesman said the total cost of both advertising campaigns is $1 million.

In addition, Mr. Moore said that an III official is scheduled to explain on radio and television talk shows how the civil justice system affects policyholders.

Also, a task force will coordinate the institute's efforts with similar efforts being made by the Alliance of American Insurers, the National Assn. of Independent Insurers and the American Insurance Assn., he said.

Mr. Moore pointed out that a recent Gallup poll shows that the public believes there are considerable delays in bringing cases to trial.

"They think judges, not juries, should set awards. And they oppose punitive damages beyond full compensation for a loss," he said.

"That's why our ads are saying the ideals of civil justice will be served far better by courts that move more quickly, cost taxpayers less and decide awards on a more consistent basis," Mr. Moore continued.

He said the institute has mailed thousands of brochures on the civil justice system in response to requests prompted by its ad campaign last fall, "and we expect the pace to intensify."

Although the III is concentrating on reform of the civil justice system, it faces other issues in 1985, Mr. Moore said. Those issues include:

- Proposed tax law changes that could weaken the financial strength of insurers and alter regulatory policy that has placed a high priority on company solvency.
- Proposed standards of financial responsibility for environmental pollution that would create such uncertain liabilities that underwriters would not be able to price accurately or fairly (*BI*, Jan. 21).
- Proposed new definitions that would classify almost any ailment a worker develops during his working years as an occupational disease covered by workers compensation.
- Continuing redefinition by the courts of a manufacturer's responsibility to protect the public from known and unknown hazards that may be associated with a product in the future.

And, III has another role, according to Mr. Moore: "To publicize the need for premium increases, particularly in commercial lines, and to gain greater understanding on the part of the public. . .of the need for higher prices."

He said forecasts by III economists and other insurance analysts indicate that "premiums must rise this year."

"We'll continue to hammer away at this 'bottom line' theme until our industry gets the premium it needs to operate profitably," Mr. Moore said. ■



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NCCI study details severity and cost of hand injuries

NEW YORK—Hand injuries sustained on the job are more likely than other workers compensation injuries to be permanent disabilities, though they usually cost less and account for shorter hospital stays, a recent study says.

"We found that hand injuries averaged 17.8% of all indemnity claims and were almost twice as likely to be permanent than other injuries," said David Appel, an assistant vp with the National Council on Compensation Insurance, a New York-based research and ratemaking organization.

The information in the NCCI study was gleaned from workers compensation claims filed between 1980 and 1982, obtained from a random sampling of NCCI member insurers in 13 states.

According to the study, 20% of all first report hand injuries were classified as permanent, compared with only 11.8% of other injuries.

But, Mr. Appel said, "Despite the fact that hand injuries are more likely to be permanent than other injuries, they are actually less costly."

According to data, the average indemnity cost for hand injuries is $2,451, compared with $4,028 for other work comp injuries. The average medical cost for hand injuries is $898 compared with $1,697 for other injuries, he noted.

"Hand injuries also tend to involve shorter durations, again by significant amounts. We find an average duration of 11.8 weeks for hand injuries, compared to 23.2 weeks for other injuries, with similar results for hospital stays, where the figures are 2.2 days for non-hand injuries, but only 0.8 days for hand injuries," he said.

Hand injuries were defined as an injury to any part of the hand or wrist, but the study probably does not include carpal tunnel syndrome claims, Mr. Appel said, because if properly coded, those cases would be filed as neurological disorders, not hand injuries.

Carpal tunnel syndrome is a wrist disorder affecting the nerves, believed to be caused by repetitive movements. The number of carpal tunnel syndrome claims has increased in the past two years as awareness of the condition grows (*BI*, Jan. 14).

The NCCI study also found that five industrial classifications accounted for more than 30% of the total hand injuries: carpentry, wood furniture manufacturing, tool manufacturing, metal goods manufacturing and printing.

And, he said,"We found workers (younger than) 25 accounting for 34.4% of all hand injuries, but only 22.8% of other injuries." ■

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THE HIDDEN SWORD

Danger lurks behind lure of claims-made CGL form

This Perspective article discusses the two new commercial general liability forms recently proposed by the Insurance Services Office (*BI*, Oct. 29, 1984).

There are two versions of the forms: a claims-made form and an occurrence form. Under a claims-made form, an insurer is responsible only for claims first filed during the policy period; under an occurrence form, insurers are liable for losses that occur during the policy period, regardless of how long after a policy's expiration date a claim is made.

Also, the ISO proposal adds a retroactive date to the claims-made form that would give underwriters the power to exclude coverage for bodily injury or third-party property damage that occurred prior to a date selected by the underwriter. In most cases, it is expected that the retroactive date will be the date of a policyholder's first claims-made policy.

And, the proposal includes an aggregate limit that will cap the dollar amount of coverage in a policy year, regardless of the number of covered incidents. This limit was part of the revised CGL forms that were finalized in January 1984.

Finally, the proposed forms eliminate virtually all pollution coverage under CGL policies.

By Charles A. McAlear

WILLIAM BROWN and Mary Smith are average in every way. Their age and marital status are average. They live in houses of average size and age and drive automobiles with the same characteristics. Their I.Q.s are a perfect 100.

William Brown and Mary Smith work in the casualty underwriting department of Corner Mutual, an average insurance company. They deal daily with their average counterparts employed by insurance agencies. Their knowledge of the business, of course, is average.

William and Mary read no more than anyone else in the age of television and think about their jobs as little as possible, like any average employee. They have learned average mechanical responses and are totally comfortable with the routine this creates.

Business Insurance, the National Underwriter, Best's Review and The Wall Street Journal are all received by their employers, but William and Mary don't have time to read them on the job. And, quite healthily, they have other interests after work.

speaking out

Mary and William and their counterparts in the insurance business are just average people doing an average job with an average interest in what they are doing.

The Insurance Services Office is proposing that these nice, average people underwrite and administer a new claims-made general liability policy and that they distinguish between claims-made and occurrence forms. This is somewhat akin to buying a chainsaw as a Christmas gift for a 4-year-old or enlisting a Dallas Cowboys cheerleader as a pilot for the Concorde.

Claims made is a concept that has been the rule in certain lines for more than a generation, yet many insurance practitioners who aspire to being far above the average have grave difficulties in understanding the nuances of the form. To ask the average person to administer a claims-made program is asking for serious trouble. And, to give these average people a choice between claims made and occurrence is like delivering four bottles of aspirin to the chronically depressed.

To concentrate on facets of the potential chaos the broad use of the claims-made form will create, look into the future.

Insurance buyers, also being average people, nearly always base their purchasing decisions on price. Regulators often encourage it. Paid consultants find ways to recommend it. Insurance is continually perceived as a commodity. Price is the only variable. The insurer may be a bankrupt pool, like a multiemployer trust, or in a terminal tailspin or the terms and conditions may be extraordinarily restrictive. However, low price always gets the nod.

The claims-made form was introduced some years ago, and because it was cheaper, Mr. Median, an average buyer, bought same. Now his policy is up for renewal, and he is given four choices. The premiums are $10,000, $9,500, $5,500 and $3,500. Quite naturally, he buys the $3,500 policy, which his average agent also recommends.

Mr. Median bought his first claims-made policy because it was cheaper. The Corner Mutual insurance company, for which William and Mary work, employed actuaries who provided them with information based upon the following table:

Year 1: Percent of ultimate, 30%; Year 2: Percent of ultimate, 55%; Year 3: Percent of ultimate, 75%; Year 4: Percent of ultimate, 85%; Year 5, Percent of ultimate, 90%; Year 6: Percent of ultimate, 95%; Year 7: Percent of ultimate, 100%.

In their rate manuals, William and Mary found that for the insurance that Mr. Median was purchasing, the premium for occurrence coverage was $10,000 because this recognized the cost of all the claims to be reported in future years—the 100% ultimate cost.

Their claims-made form was available for a much lower initial cost—only $3,000—because Mr. Median previously had occurrence coverage, which would pay for losses arising out of occurrences that took place before the effective date of their new contract, even if they reported them as claims during the new policy period. The retroactive date, the inception date of the new claims-made policy, spelled this out. All their company had to worry about were losses that both occurred and were reported during the current policy period. This would be 30% of the total dollar value of all claims due to occurrences that year.

When Mr. Median renewed his $3,000 policy, the premium jumped to $5,500, to reflect the claims that would be reported for the prior year (25%) plus the claims that would be reported for the current year (the same 30%). In the third year, the premium soared again, to $7,500. It incresed every year until the sixth year, when he made his fateful decision to change companies.

Because it is cheapest, he buys a claims-made policy with a retroactive date as of its own inception, for which he pays $3,500.

A very nasty claim surfaces, and Mr. Median reports it to his current insurer. This company declines the claim, pointing out that, in order to achieve the low premium that Mr. Median paid, the retroactive date was the inception of their policy. This effectively excludes

Continued on next page



Charles A. McAlear is chairman of McAlear Associates Inc., a surplus lines brokerage in Grand Rapids, Mich.

ISO's proposed claims-made form courting disaster

Continued from preceding page
the nasty claim, because it was due to an incident (an occurrence) that occurred before their policy was in force.

Mr. Median reports the claim to his previous insurer, which also declines, pointing out that although the occurrence undoubtedly took place during their policy period, Mr. Median did not report the claim during their policy period. And, as no claim was made, their policy also expressly excludes coverage.

Mr. Median protests that he did not know about the claim until after their policy had expired, but his protest is to no avail.

A law or good business ethics might have incited this previous insurer to offer an extended discovery period to Mr. Median when their policy was non-renewed.

But, being average, Mr. Median did not read it closely, took it to be another solicitation for insurance and dropped it in the round file.

The nasty claim matures and forces Mr. Median's business into bankruptcy. Meanwhile, Mr. Median, being average, sues everyone in sight, and the enrollment at Harvard Law School doubles.

Mr. Median's average agent did not understand the transaction, and Mary and William weren't paid to think about it. They just did their job. They quoted what they were asked to quote. They bound the coverage and issued the policies precisely as they were ordered.

Unfortunately, Mr. Median is not alone. Down the street, Andre Pronier has a problem with the insurance on his supermarket chain. He always purchased $1 million limits on an occurrence basis, secure in the assumption that no slip-and-fall case could ever exceed a million bucks.

He also was attracted by the lower price of a claims-made policy, but it would not have made any difference. Andre has just been informed that the insurance company will no longer pay his losses this year because, while no one claim exceeded the $1 million limit, several taken together did.

His new aggregate limit, which both the new occurrence and the new claims-made ISO forms contain, was not explained by his average agent, who did not understand that it was a change.

Inge G. Neer had a different problem. The owner of a thriving high-tech producer of automotive parts, he and his agent were always aware of the aggregate limit on product liability. For that reason, he always purchased a $5 million umbrella.

A new legal theory has resulted in multimillion-dollar suits due to occurrences in each of the last five years. Inge G. Neer also was attracted to the apparent savings of a claims-made scheme. He has just found out that instead of a $5 million limit for each of the five years, which he formerly enjoyed, the limits of his current policy are also the total limits available. And, those limits are absolutely inadequate.

Ima Nowner is a very successful distributor of foreign-made sporting goods. Under the old occurrence form, she constantly had difficulty purchasing product liability coverage, and the price of the coverage was very high. She was utterly amazed at the number of companies that were willing, and even anxious, to write her coverage under the new claims-made form at a substantial reduction in premium.

Now she can also find many companies willing to write coverage, but none offering to use a retroactive date that is the same as the date she switched to a claims-made coverage. William and Mary's boss is not dumb. There is little chance of a product liability claim occurring and being reported in one year. But, the longer a company stays on an account, the more likely a covered claim will surface.

The adoption of a claims-made form transfers significant risk from the underwriting company, which should know how to measure the risk, to the insurance buyer, who has no way in the world of estimating it.

But, underwriters may not be in any better position to know how to deal with the claims-made policy.

The level of information available to companies at this time on their own writings is inadequate to write business on an occurrence basis. And, it is likewise inadequate to underwrite on a claims-made form.

Companies lack adequate rating information as this becomes fictionalized in order to lower premiums. Loss data consists of "three years no losses" in longhand. Actual descriptions of exposures are often a trip to La La Land: "Metal goods, N.O.C." is a favorite products class for people eaters.

To do any underwriting at all, on any basis, the entire data base of the business must be rebuilt from scratch.

And, buyers may not be the only ones in for a surprise. The companies and their reinsurers perceive the claims-made form as a quick and mindless fix to problems of their own making. The first year's claims-made form with a retroactive date of inception should be a snap to underwrite. The only losses they will cover are those that both occur and are reported in the same year.

But how will it be after the form is in use for a decade or more? Won't the underwriter have to use every skill to determine what losses may already have occurred that will become claims during the current period?

As the use of the form reaches a mature stage, will countless companies get cold feet and cause another real capacity crunch? Could trusting insurance buyers suddenly find themselves without a market and responsible for all losses maturing over a decade or more?

Or is ISO proposing that every company use a retroactive date of inception *every* year? This will solve the problem of insurers, and then buyers can pay their own losses that are not claims in the first year of each contract.

General liability insurers could well be shooting themselves in the foot by switching to a claims-made policy. How many have the financial resources to make the change?

Much has been written about inadequate reserves, not as much about the other side of the coin. If reserving is not adequate and experience is poor, as it most certainly is, then this poor experience must be due to paid losses. It follows that cash flow is negative or close to negative for many companies writing these lines.

The issuance of claims-made policies with a retroactive date as of inception will drastically reduce premium income and, of course, cash flow. The Corner Mutual was writing general liability coverage on an occurrence basis. Its loss ratio was 150%, and this was due entirely to paid losses, which are increasing at a rate of 10% a year.

For example, in 1985, earned premium was $10 million and incurred (paid) losses were $15 million. In 1986, it switches to a claims-made form. Earned premium is $3 million, and incurred losses are $16.5 million.

The premium is about 30% of the occurrence number, as this reflects the lower exposure to loss in the first year of the claims-made contracts. Losses are primarily attributable to occurrence contracts written in the past.

Since the book has not changed significantly, losses will continue to increase at their traditional rate. The loss ratio is suddenly 550%, and cash flow, which was a negative $8 million (30% expense), is now a negative $17.4 million, assuming the company has drastically reduced its expenses.

A switch to a claims-made form may have future benefits for Corner Mutual, but if general liability is a sizable portion of its book and it is writing anywhere near a normal premium-to-surplus level, it is all academic. Corner Mutual will be out of business. It will not even require a brave regulator to declare them insolvent. They will simply lack the cash flow to pay the losses.

A massive switch to claims-made forms is certain to have disastrous financial consequences for the very insurance companies and reinsurers that are advocating the change.

In summary, the widespread and sudden change to a claims-made form is certain to have the following effects:

- Place more intellectual demands on people at the insurance company level and throughout the agency systems than they can be rationally expected to meet currently. This will cause serious problems for the clients of the business.
- The clients of the business will be asked to assume very significant exposures to loss that they are not prepared to analyze or quantify and that can be transferred only at a future date by making a continuous series of sophisticated decisions.

The premium to be paid becomes a factor certain to be misleading to all but the most careful and knowledgeable of clients. The co-existence of occurrence and claims-made policies with various retroactive dates is an open invitation to the ignorant or unscrupulous vendor to increase market share at the expense of the professional.

- Last but far from least, the introduction of a claims-made form at this time, which is certain to be widely sold because of its initial low price, will seriously affect the cash flow and statutory results of insurance companies, weakening them further at a time when the financial condition of many might be most charitably described as delicate.

A claims-made form is even now an effective way to provide certain coverages to relatively sophisticated buyers. Even so, it creates problems among insurance people who are far above the average. It may indeed be the wave of the future, but not until its impact can be clearly understood by every person associated with the business and adequate provision can be made for its financial impact. This would require a massive education program on a scale never before attempted, plus changes in state laws, including those governing the licensing of agents and marketing practices.

To introduce the form and depend on average people, who never before have had such enormous responsibilities, to effectively prevent it from becoming the biggest can of worms in insurance history is another fantasy in a business with no shortage of them. ■

Book promises deep analysis, but delivers shallow coverage

"Understanding Texas Insurance"
By Douglas Caddy
Texas A&M University Press
College Station, Texas 77843
52 pages, $12.50

By William F. Fraley

books & ideas

THE TITLE of this book would lead one to believe that it contained a complete analysis of the differences between the insurance in Texas and insurance elsewhere.

Unfortunately, this is not so. The author spends a little time discussing the growth of insurance in Texas and regulations of insurance there, including numerous pages on the state Board of Insurance.

But, from that point on, it is a very brief discussion of the various kinds of insurance.

In this slim volume, Douglas Caddy covers life, health, all property and casualty insurance, retirement insurance and social issues. The topics are covered in a very brief fashion, with no in-depth analysis. For example, the subject of risk management is covered in two paragraphs.

According to the author, the insurance industry remains a source of confusion and mystery to many consumers. This book was written to satisfy the widespread need for a consumer guide on insurance. It is, according to the author, an easy-to-use manual—short, concise and mostly non-technical, expressed in clear, layman's terms.

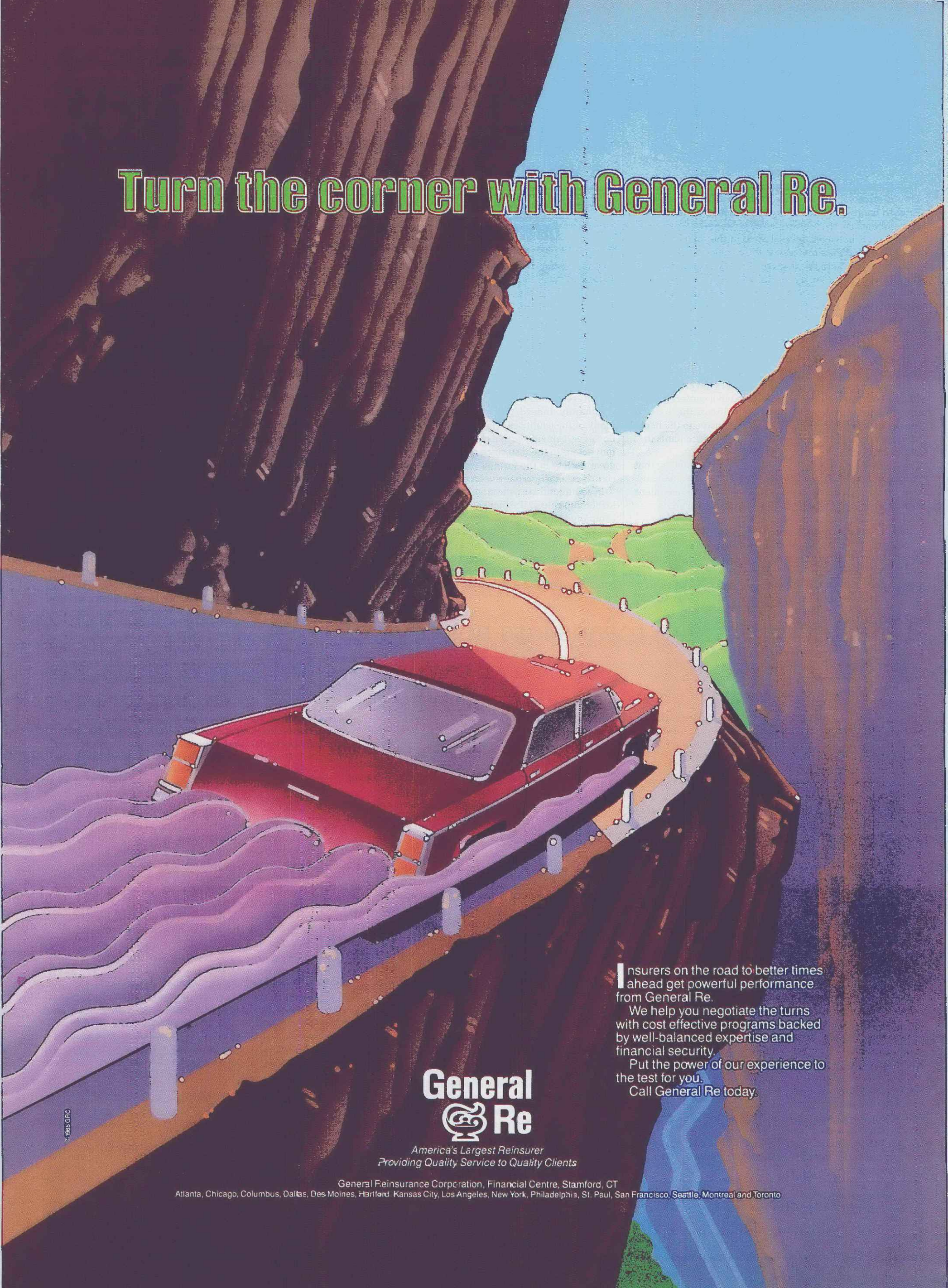
It is all of the above. But, it does not provide a thorough introduction to the Texas insurance industry or to the Texas state Board of Insurance, as it does not cover at all how the state Board of Insurance is the organization that controls the form of coverage being written in this state, with total disregard for the individual buyer's needs.

The book is for the non-insurance professional who needs some help in understanding insurance terms.

It also should be noted that, although this is a 1984 publication, it uses the term workman's compensation, which is not allowed—even in Texas.

This is definitely a layman's manual and would not suffice as a textbook in anything but a basic business course, or some assigned readings. ■

William F. Fraley is director of corporate insurance for the Methodist Hospitals of Dallas.


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Insurance offered to protect phones from theft, damage

Insurance is available to protect cellular phones against theft or damage.

Alexander & Alexander of Indiana Inc. has been offering coverage on cellular phones since November 1983. According to Steven T. Aldrich, assistant vp for A&A, the broker has sold an estimated 10,000 insurance policies for cellular phones.

Great American Insurance Cos. of Cincinnati writes the all-risk, no-deductible, replacement-cost policy, which has a $3,200 limit. Standard exclusions include rust; freezing; wear and tear; inherent defects; loss of market; war or nuclear damage; or theft from an unlocked car.

A three-year policy for a basic model cellular phone costs slightly less than $150, according to Mr. Aldrich. Coverage for portable plug-in and fully portable models runs slightly higher.

Most claims have been filed by people whose automobiles have been stolen, A&A's Steven T. Aldrich says.

The policy covers the repair or replacement of the handset, transceiver, antenna and all related equipment.

The broker has extended the program to insure rental equipment as well.

Several major manufacturers of cellular phones, which Mr. Aldrich declined to name, display A&A brochures in their showrooms that explain the coverage. The brochures contain an application form that a cellular phone purchaser can fill out and mail to the broker with a premium check.

"We've had a number of claims on the phones," Mr. Aldrich pointed out.

"We anticipated a lot of antenna losses and considered excluding them from the coverage or adding a deductible, but decided against it."

Mr. Aldrich said that there have been fewer antenna claims than had been expected, and that most claims have been filed by people with phone-equipped cars that have been stolen.

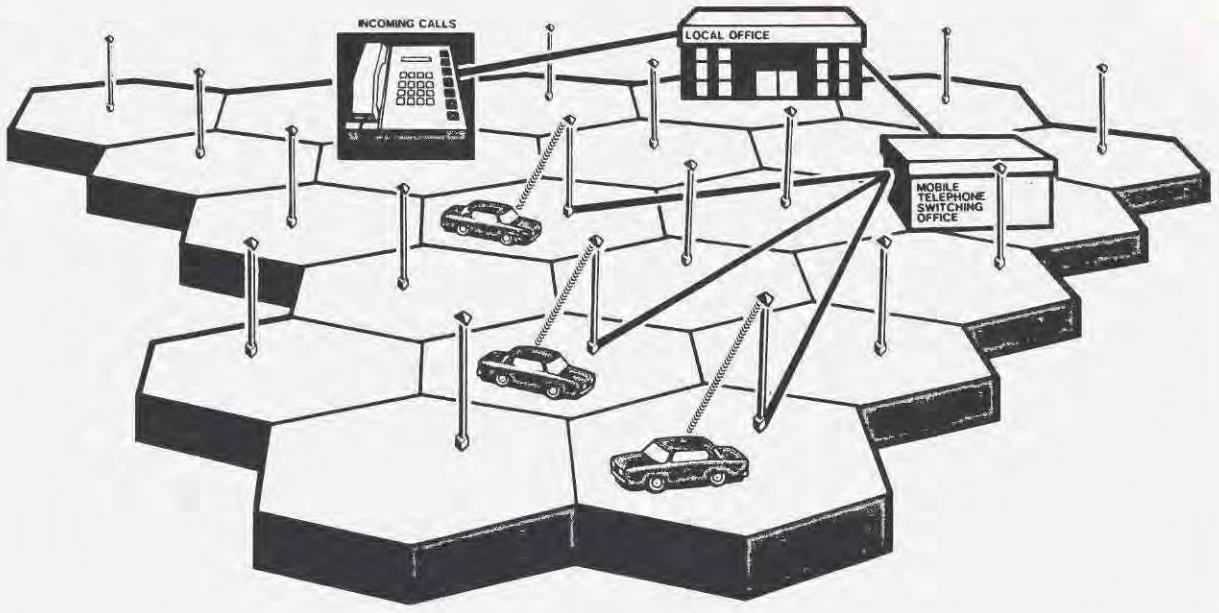
According to Mr. Aldrich, there is only a remote chance that units will be stolen from cars. Cellular phones contain a microchip that identifies individual frequencies. Therefore, if the unit is reported stolen, the phone company will no longer accept that frequency.

Other brokers are beginning to market coverage for cellular phones.

For example, an agent in Florida who has designed a package to insure cellular phones through American Bankers Insurance Group in Miami is arranging with phone distributors to market the coverage.

Walter G. Williams Jr., president of Coastal Underwriters Inc. in Plantation, Fla., is negotiating with distributors that lease cellular phones to include insurance as part of a three-year leasing arrangement.

According to Mr. Williams, the coverage would cost purchasers 3% of the annual cost of the lease, or about $60 per year, for all-risk coverage with a $100 deductible. ■



Phone calls are switched from cell to cell as the driver travels down the road.

Why cellular telephones are better

Cellular telephones may be easy for agents and brokers to use, but the technology behind them is not so easy to understand.

The term "cellular" refers to hexagon-shaped areas, which are called "cells." Located within each of the cells is a "cell site," or a building containing a low-power transmitter and control equipment.

Customers driving within a cell are served by that cell site. Calls are transmitted from the car to the cell site and then to a mobile telephone switching office. A computer in that office connects the call with the area's existing telephone network.

When drivers travel from one cell area to another within a metropolitan area in which cellular phones are available, the computer transfers the call to the nearest cell site, which eliminates interference on the line as well as delays in making calls.

Since low-power frequencies are used to transmit cellular calls—rather than the high-power frequencies used by older mobile telephones—more calls can be handled by the system.

And, as demand for cellular telephones grow, existing cells can be split into smaller cells, which will increase the number of calls that can be made.

Although the technology necessary to manufacture cellular phones and establish electronic switching systems has been in place since the late 1960s, cellular phones have been available to agents and brokers for only 16 months.

During the 1960s, the Federal Communications Commission originally reassigned 14 UHF television channels to the cellular system. However, television broadcasters opposed this move because it would have limited the number of TV stations available in each area.

In addition, existing radio telephone communications services opposed the cellular radio concept because they feared losing business to the new competitor. Both factions filed lawsuits, prompting several years of court challenges and rulings.

In response to these court battles, the FCC in 1974 decided not to use the television channels and assigned different broadcast frequencies to cellular radio transmission.

To test if the cellular concept was viable, two companies established two trial systems in the Chicago area in 1975. The demonstrations proved successful, and in 1980 the FCC proposed a set of rules under which cellular services could be provided.

After comments and subsequent revisions, final rules were in place by 1982, and the first cellular telephone network was started in the Chicago area in October 1983.

The rules set by the FCC governing cellular phone systems in each area include:

- Two separate cellular phone systems should exist in every market area: a wireline carrier—defined as an existing common carrier company or affiliate that provides telephone service using telephone lines—and a non-wireline carrier that is not connected to the local phone company.

Two systems are necessary in each market area, according to the FCC, to insure competition.

- Both carriers should be given equal access to existing telephone lines.
- There can be no restrictions on resale of the units.

Cellular phones let agents work on the road

Continued from preceding page

make a call.

"The only time I've ever gotten a busy signal is during rush hour," said William T. Zanoni, president of Glenview Insurance Agency in Glenview, Ill.

Mr. Zanoni said his cellular phone, which he purchased about 15 months ago, "enables me to save time. When I get back to my office, I can take care of crises there rather than spend all of my time returning calls."

He cited an instance where one of his agents, responding to a call from a client who'd suffered a severe water damage loss, called all the necessary parties on his way to the loss site. They were able to meet him there.

"I can react quickly in important situations," Mr. Zanoni adds.

Cellular phones are available with various features. Some hook up to the car horn, which will honk when a call comes through. A locking device prevents unauthorized calls. An accessory speaker can be installed with some models for hands-free operation. Some phones have automatic recall, which programs frequently used numbers so users do not have to dial them each time.

The average cost of a basic cellular phone is about $2,000 and lease arrangements are available. A plug-in feature can be purchased for the basic cellular phone, which enables users to transfer the units from one vehicle to another.

A completely portable cellular phone, which can be operated outside the vehicle as well, has recently been introduced by manufacturers. The phone sells for approximately $4,000.

People with cellular phones in their cars pay for all calls, whether ingoing or outgoing. According to agents, the cost of a local call during business hours—from 7 a.m. to 8 p.m.—ranges from 17 cents to 18 cents per half-minute, depending upon the metropolitan area.

When agents make a long-distance call, they pay the standard long-distance rates, in addition to the local rate for a cellular call.

Users also are assessed a monthly service charge by the company that provides transmission services. A standard package costs about $35 per month, though customers in some areas can add options like call forwarding, call waiting and conference calling for an additional monthly fee.

Despite the sometimes hefty investment, agents contacted consider the units well worth the cost.

Mr. Tropp of Tropp & Co. said his cellular phone paid for itself with a sale he would not have been able to make without the device.

His office called him on the road one day to tell him a client who was on the verge of closing the purchase of a home was told by the bank that he needed a $500,000 life insurance policy. He had to have a signed document stating that he was insured within a half-hour.

"If I couldn't get to him in time, he would have to get his coverage through them (the bank)," Mr. Tropp said. "Because he reached me on my cellular phone, I was able to get there in time to provide the coverage. That sale paid for the phone."

How popular are cellular phones becoming among agents, and how valuable will they prove to be?

Mr. Ray of William Rigg Co. says it is essential for him to be available when crises arise, and a cellular phone allows him to be accessible at all times.

"My phone helps me keep my finger on the pulse beat of several different operations when I'm running between offices," Mr. Ray said. "I even dictate letters over the phone. Now I don't have a void there—it's business as usual."

"Since I purchased my phone, three other men in my office have gotten one," Mr. Silverberg says. "Of our top producers, 50% to 60% should have cellular phones within the next 24 months. Before 1990, I'm sure cellular phones will become an integral part of our lives." ■

Phones in use in 25 areas

Agents and brokers in 25 U.S. metropolitan areas can currently have cellular telephones installed in their cars.

The areas in which service is available include: Atlanta; Baltimore/Washington, D.C.; Chicago; Cincinnati; Cleveland; Dallas/Ft. Worth; Denver; Detroit; Houston; Indianapolis; Kansas City, Mo.; Los Angeles; and Louisville, Ky.

Also, Miami; Milwaukee; Minneapolis-St. Paul; New Orleans; New York; Philadelphia; Phoenix, Ariz.; Pittsburgh; Salt Lake City; Seattle; St. Louis; and West Palm Beach, Fla.

In addition, service is now being established in many other areas, according to the Federal Communications Commission.

Network supplies group plan medical quotes

By LINDA J. COLLINS

PALATINE, Ill.—Obtaining an accurate quote in a hurry often makes the difference between getting or losing a client's business.

The founders of Palatine-based Quotesmith Corp., which was incorporated in March 1984, are former agents and insurance company executives who recognized that need for quick and accurate quotes on small group medical plans, both as a marketing tool and as a service to clients.

Quotesmith has developed a computerized Quotation Station Network that provides rate and coverage information on more than 575 group medical insurance plans for businesses with two to 100 employees.

Currently, the system is limited to group medical coverage.

Quotesmith President Robert Bland said the Quotation Station performs three main functions:



Mr. Bland

- It identifies the insurers and plans that meet a client's criteria.
- It computes premium quotes.
- It prepares customer-ready proposals.

More than 130 insurers have entered information on their group medical coverage into the network, and quotes can be given on all the plans or only on plans that meet specific criteria.

vendor profile

For example, A.M. Best Co. ratings are programmed into the system so the user can request only those companies with a certain rating.

Or, agent commissions can be programmed into the network so that agents and brokers can request only the rates of companies that pay 10% or higher commissions.

In addition, the network can list companies that offer a certain deductible, and it gives rates with or without maternity coverage.

Currently, the Quotation Station Network, which now has 43 subscribers, provides information on rates only for Illinois businesses. However, national rating information is now being input into the system, and the firm expects to offer its services nationwide by Feb. 15.

To use the system, agents and brokers enter what is described as "census" information into the system: the employer's location (county, state and ZIP code); number of employees; age and sex of employees; and number of spouses and children that will be insured under the plan.

The network will list on the user's video display terminal the plans under which the desired coverage is available and their premium, beginning with the least expensive. The user then selects the plans for which he or she wants a printout.

"Our objective in using the system is to pinpoint plans and the carriers underwriting those plans that are competitive," said John F. Aggen, vp and manager of employee benefits for Fred S. James & Co. in Chicago. The brokerage's Chicago office has subscribed to the service since August 1984.

By using the Quotesmith network, "We can pinpoint two to three carriers to follow up with rather than spending two weeks requesting and obtaining quotes through the mail to find the best rates," Mr. Aggen explained.

"This way it takes a few minutes to search the system, and a couple of days to get the firm quotes."

The printouts list the type of hospital, major medical, mental health care, death and other benefits that are available under each plan. The printouts also detail any special requirements or conditions the insurer may require.

Insurers in the network are instructed to provide the maximum rate that could be charged if the risk were accepted and the length of time that this rate can be guaranteed.

"With Quotesmith, the customer knows when you're giving him the best coverage for the cost, because you're backing it up with something," said Ron Macino of the James Buschbach Insurance Agency in Oak Lawn, Ill.

"It takes away the disbelief customers have when the insurance salesman tells them that's the best quote they can get," Mr. Macino continued. "When they see the customer-ready proposals, they believe you. There's no doubt in their minds at all."

"The proposal itself has 99% of the information the customer wants to know about the plan," said James C. Bellinger, president of Better Business Planning Inc. in Schaumburg, Ill.

"It makes it easy to lay the proposals side-by-side and compare the various nuances so the customer can make an intelligent decision," he added.

Not all agents and brokers are ready to embrace the computer age wholeheartedly, however.

For example, Dan Shane, vp at Marsh & McLennan Group Associates in Chicago says, that, although M & M uses the system, "We prefer to find the best alternative for our client and then show him that we have gone to great lengths to assure that it was the best coverage. We take the proposals with us, however, and display them if necessary."

Mr. Shane said Marsh & McLennan's Chicago office has been subscribing to the service for about a month, and he estimates that the office soon will be obtaining quotes from the system about 40 times a week.

But, he says, before M&M turns the quotes over to the client, it checks with the insurer to make sure the coverage actually would be written.

This is important because insurers who participate in the Quote-

Continued on facing page

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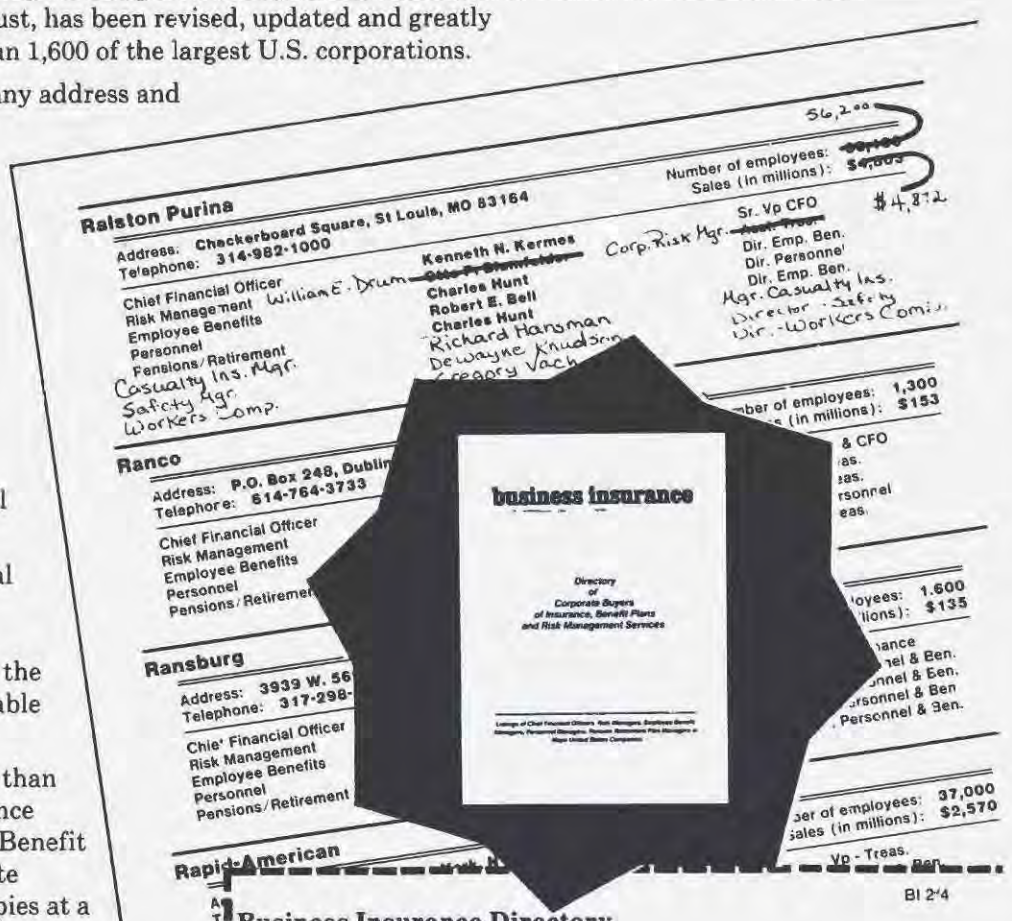
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QUOTESMITH
CORPORATION

Continued from facing page
smith system do not guarantee acceptance of the business. The agent or broker still must submit the business to the company for acceptance.

On a separate page, but printed with the customer-ready proposal, the system furnishes the name, address and phone number of the appropriate person to contact from each insurer. This feature allows agents and brokers to know immediately whom to call for additional information.

This can be especially important because, "The group medical environment has been so volatile recently," said Kenneth F. Clarke, vp and manager of employee benefits for Rollins Burdick Hunter Co. in Chicago.

The broker's Chicago office has been on-line with Quotesmith since Jan. 1, and Mr. Clarke says the rating service helps determine which insurer has the best rates at any given time.

Insurers contributing information pay nothing to get on the network. But, they agree to keep Quotesmith up-to-date on changes in rates and requirements. Quotesmith says the insurers must notify them within four days of rate changes.

To access the system, an agent or broker needs an IBM Personal Computer or a compatible personal computer, a printer and the proper modem. The system transmits over normal telephone lines. Users are assessed an initial connect charge of $2,500, which includes training and setup.

In addition, users are charged each time they use the system. The average cost is $45.

"Agents and brokers typically take five companies' proposals per census," Mr. Bland said, "but that is only by preference. They can access as much information as desired per census."

The average commission paid to agents by insurers on business placed through Quotesmith is $1,500, so the $45 charge is a small part of the potential income from a sale.

"The cost (of the Quotesmith system) is justifiable if an agent quotes five or more groups per month," he said.

Mr Bland said the company purposely decided to first concentrate on group medical coverage, rather than attempting to provide rating on a broad range of products immediately.

He also noted that, unlike some other lines, agents and brokers can place group medical coverage with any insurer, even if they do not ordinarily do business with that company.

Quotesmith plans to add other lines to its network, though not immediately, Mr. Bland said. Possible additions include some lines of life insurance and commercial coverages like commercial multiperil and boiler and machinery insurance.

Many agents feel that Quotesmith's specialization makes it extremely reliable.

"They've done with the hospitalization market what I wish someone would do in other markets," Mr. Macino said. "Some of these outfits have a lot of (lines on their rating service) and have perfected none of them," he said.

"The main thing we're concerned about is accuracy," Mr. Bellinger said. "Any errors we have experienced with Quotesmith have been minute. The system is fast and accurate."

Agents praise the system's speed, and many point out that because the system is so fast and easy to use, it frees them up to get new business.

"I used to do this process by hand," Mr. Bellinger said. "It used to take me two to three hours. Now it takes minutes."

Mr. Macino adds, "Once you show someone how to use the Quotesmith system, the producer no longer needs to handle it. A high school student could run it. It frees up our time to process new business."

Mr. Clarke, who said his brokerage would probably be requesting quotes at least 10 times per week, said the system "can actually eliminate bodies" in his office, and "free up time on those employees we have."

The founders of Quotesmith spent three years developing the rating system and tested it with 150 Illinois agents before marketing it, Mr. Bland said.

The service is designed for, but it is not limited to, agents and brokers. Banks, insurance companies, state insurance departments, chambers of commerce and employee benefit consulting firms also can subscribe to the system, Mr. Bland said. ■

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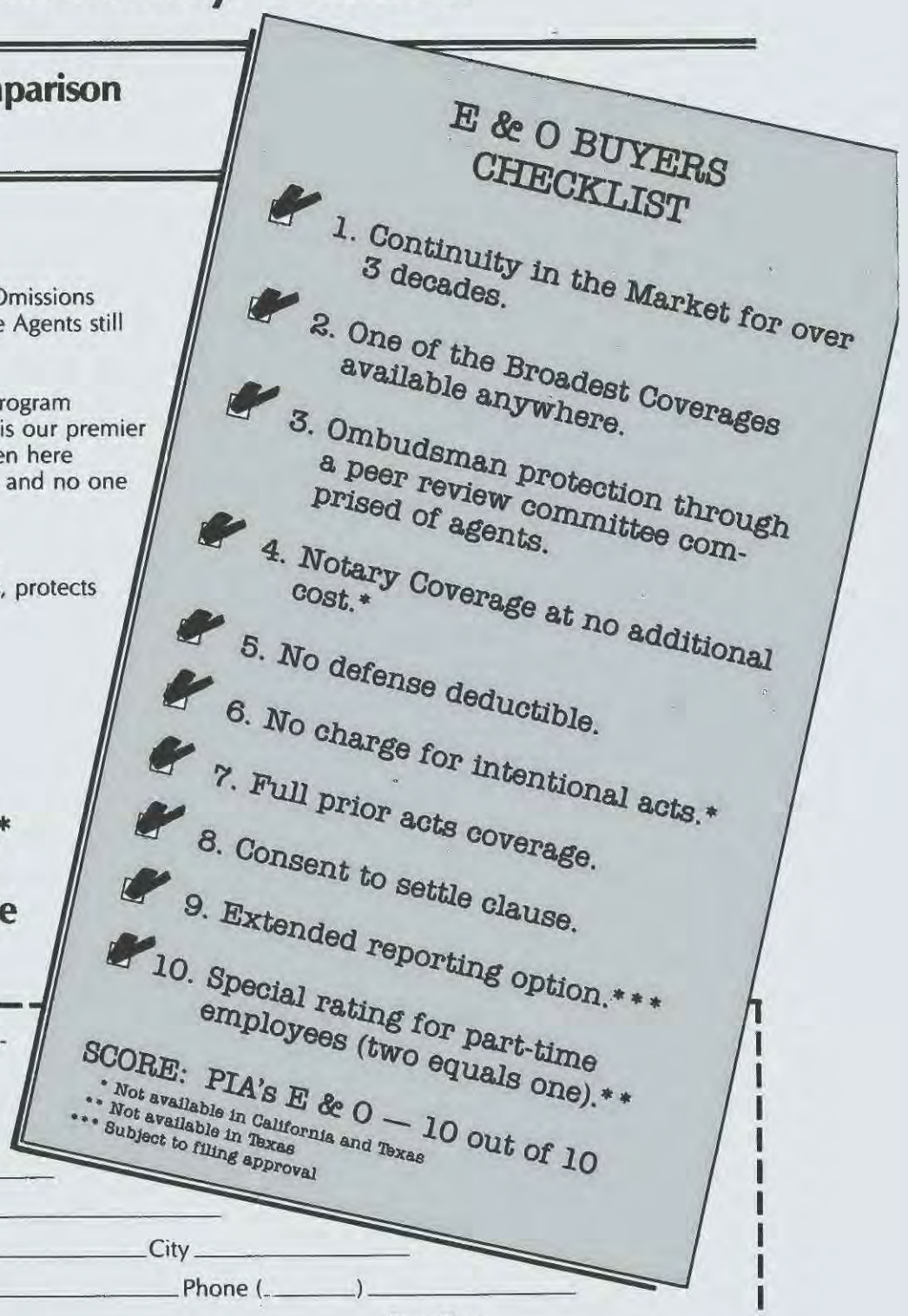
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agent/broker topics info

• The 22nd edition of the Alliance of American Insurers' **"Policy Kit for Students of Insurance"** contains 350 pages of sample insurance policies, endorsements and forms for casualty, fire, marine and life coverages. In all, there are 96 forms, including the 1984 workers compensation policy, a universal life policy and new endorsements to the businessowners and comprehensive general liability policies. The kit can be ordered for $5.25 plus shipping from the Alliance, 1501 Woodfield Road, Suite 400 West, Schaumburg, Ill. 60195.

• The National Assn. of Professional Insurance Agents has issued a **"Guidebook to Insurance Agency Advertising."** The 32-page manual discusses how an agency can create a broad-based marketing plan and build into it an effective ad campaign. The manual discusses the strengths and weaknesses of each advertising medium —newspapers, television, radio, billboards, direct mail, etc.—to help an agency determine which would best meet its objectives. The manual costs $7.95 and is also available at quantity rates from the PIA's Marketing Department, 400 N. Washington St., Alexandria, Va. 22314; 703-836-9340.

• The Insurance Information Institute has issued a free, six-page fact sheet that addresses **"Liability for Suppliers of Liquor."** The statement was issued in response to a recent New Jersey Supreme Court ruling that a host who serves liquor to a guest can be held liable if the guest is subsequently involved in an auto accident. The fact sheet discusses the dramshop laws and common-law liability principles imposed by 36 states, and it lists the 14 states that still hold that no liability can be imposed on tavern owners. It then examines who is regarded as a supplier of liquor and why that concept is changing. Finally, it tells how to protect liquor suppliers against liability. Contact the Insurance Information Institute, 110 William St., New York, N.Y. 10038; 212-669-9200.

• A panel of independent agents and brokers and insurer executives has issued an 86-page book entitled **"Agency System Requirements: The Agent/Broker Viewpoint."** The book identifies which insurance agency functions should be automated and tells vendors about the independent agent's special automation needs. The 12-member panel was composed of representatives of the Independent Insurance Agents of America, the National Assn. of Professional Insurance Agents, the National Assn. of Insurance Women, the National Assn. of Insurance Brokers, Maryland Casualty Co. and CIGNA Corp. Areas addressed in the study are agency accounting, renewals, endorsements, word processing, sales and marketing. The study is $7.50; 50 or more copies are $3.75 each. For information, contact Richard Kasyzanski, vp, Agency Services Division, IIAA, 100 Church St., New York, N.Y. 10007.

• An agency **marketing tool directed at teen-agers** has been issued by the National Assn. of Professional Insurance Agents. The 12-page brochure, entitled "Save This Brochure (You May Need It Someday)," is written in a language to which teens can relate. It explains insurance and why students will need it as they become adults, and it is designed to reach these prospective clients before they are ready to buy insurance. Single copies are free, 50 copies are $7.50 and 100 copies are $15. Contact the PIA's Media Relations Department, 400 N. Washington St., Alexandria, Va. 22314; 703-836-9340.

• "The Civil Justice Crisis," a report published by the Insurance Information Institute, examines the **civil justice system**. Problems cited include unnecessary lawsuits, staggering costs, long settlement delays, the changing of legal doctrines and the uncertainty of legal outcomes. The report also discusses the public view of the civil justice system, based on an III national survey conducted by the Gallup Organization. Finally, suggestions are given on ways to modify the system, and current efforts to combat the problems are discussed. Single copies are available free from the Insurance Information Institute CJ, 110 William Street, New York, N.Y. 10038; 800-221-4954. ■

Tennessee issues rules for bank-agency links

NASHVILLE, Tenn.—Tennessee Insurance Commissioner John C. Neff has established rules for insurance agencies that set up insurance operations in banks or other financial institutions.

The rules bar any activity that might lead consumers to believe they must purchase insurance from the agency to establish their creditworthiness with the bank. Also, the bank is barred from soliciting business from the agency's clients or from distributing its customer list to the agency unless it makes the list available to other agencies.

Under the rules, the agency and the bank facilities must be kept separate enough to be clearly independent from each other. Banks are prohibited from promoting or advertising insurance products, and agencies must not use the name of the financial institution except as part of their mailing address.

agent/broker briefs

Marine designation

MALVERN, Pa.—A new marine management education program is being developed by the American Institute for Property and Liability Underwriters, the Insurance Institute of America, the American Institute of Marine Underwriters and the Inland Marine Underwriters Assn.

The program will lead to an Associate in Marine Management designation.

Offered will be six courses, including four parts of the current program leading to the Chartered Property & Casualty Underwriter designation: "Principles of Risk Management and Insurance"; "Insurance Company Operations"; "The Legal Environment of Insurance"; and "Management, Parts 1, 5, 6 and 7." New courses in inland marine and ocean marine insurance also are planned.

Interested candidates can begin taking the CPCU courses immediately. The associations expect the two new marine insurance courses to be available within two years.

New Illinois rules

SPRINGFIELD, Ill.—Aspiring agents and brokers in Illinois who were not licensed in at least one line of insurance before Jan. 1 must now complete 15 hours of courses in each line of insurance they wish to sell before they can be licensed.

New producers also must take 25 hours of insurance courses each year during their first four years in business. The courses can be in any line.

Courses can be provided by insurance companies, associations and educators so long as they're certified by the Illinois Insurance Department to meet the licensing requirements.

Course providers must keep on file for three years a record of the courses taught, instructors and students who attend.

They also must supply students with a certificate as evidence of completion.

The new rules apply only to prospective agents or brokers. Those who have qualified for licensing in at least one line—life, accident/health or property/casualty—before Jan. 1 are grandfathered under the law.

A spokesperson for the Illinois Insurance Department said 11 other states now require pre-licensing and continuing education for new producers: Delaware, Georgia, Iowa, Kansas, Massachusetts, Minnesota, Mississippi, Nebraska, Oregon, Tennessee and Washington.

Metropolitan marketing

NEW YORK—Metropolitan Life Insurance Co., which recently announced an experimental program to add independent agents to its sales force through its subsidiary MetLife Marketing Corp., is expanding its efforts into three additional areas (*A/BT*, Dec. 3, 1984).

First, MetLife Marketing will market life insurance products through brokers, including universal life, group life products, variable life, annuities and health insurance. Initial areas targeted are Boston, Chicago, Los Angeles, Miami, New Orleans, New York and Philadelphia.

In addition, MetLife Marketing has agreed to develop a program to distribute Metropolitan products and services to customers of Mercantile Bancorporation Inc., a bank holding company headquartered in St. Louis. The insurer will implement a direct response/telemarketing program to offer auto and homeowners policies to individuals through the bank's customer list.

It will also begin setting up insurance centers through a leased space arrangement in the bank's branch offices, beginning in St. Louis and expanding to other locations through 1987. The booths will be operated by Metropolitan producers.

Finally, Metropolitan has also announced an arrangement with Reader's Digest Assn. Inc. through a newly formed direct mail department. It will market life, health and other financial services products to Reader's Digest's subscriber base through both direct mail and inserts in the magazine. ■

American Reliance program a great idea

letters

To the editor: Congratulations to the folks at American Reliance Insurance Cos. who have perceived a need and acted upon it, rather than relegating it to the circular committee study (A/BT, Jan. 7).

Often over some 30 years in this fascinating profession, my associates and I have suggested to insurers that their employee training programs might be beneficially expanded to include exposure at the agency level, so that those new to the insurance business, some of whom will eventually move up the corporate ladder, will have had a hands-on opportunity to learn what it's like "out there."

We thought that through such an experience, even if but for a week or two, it just might be that a more rounded and aware employee might evolve, one better-equipped to serve his employer, its agents and insureds alike, thereby profiting all.

In all those years, we have never been taken up on our offer to be a stop along the training line, even though it would have cost the carrier nothing.

Many agency principals have, at some time in their careers, worked for an insurance company, but I would guess this would not necessarily be the case the other way around.

American Reliance has started from the top down apparently, but at least it's a start. Kudos to them for their insight and willingness to learn, and their efforts toward improved agency and insured services, which will surely result in greater profits to their stockholders.

Christopher D. Bowles
Vp
Bowles & Foster Inc.
Southfield, Mich.

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PIA, Tillinghast offer a consulting hot line

The National Assn. of Professional Insurance Agents in Alexandria, Va., is offering a new telephone consulting service to agents —the PIA-Tillinghast Telephone Hotline.

Tillinghast, Nelson & Warren Inc. in Dallas, a risk management consulting firm, has arranged with the PIA to provide its consulting services through the agent association at reduced fees, according to the PIA.

Users pay a retainer deposit to use the service. Agencies with up to five people on their staff pay a retainer of $150, and agencies with six or more people on their staff pay a retainer of $250.

Consultant's fees under the hotline program currently range from $40 per hour for a research assistant to $130 an hour for a top consultant. The consultant fees are applied against the retainer. The average problem for which an agency would need a consultant takes about 15 minutes, said Miriam T. Meister, vp of marketing for the PIA.

For more information, contact Ms. Meister at the PIA, 400 N. Washington St., Alexandria, Va. 22314; 703-836-9340.

a/bt products & services

Fast score reports

Express Score Reporting allows applicants for insurance licensing in the 21 states that use the Multistate Insurance Licensing Program to cut the waiting time for receiving their examination results in half. There is a $15 fee for the service.

The express scores are processed by a special operations unit of the licensing program. The results are then transmitted through electronic mail to the post office for delivery.

Through this express service, 68% of the applicants receive score reports within four days after the exam. Scores generally take 10 days to two weeks to arrive using the traditional service.

For more information, contact the insurance department in your state.

Strategic planning

The Market Planning Group in Boston, an insurance industry consulting firm specializing in marketing and strategic planning, is using The Business Plan for Agents, which it purchased from Commercial Union Insurance Cos., to analyze an agency (*A/BT*, Feb. 6, 1984).

George T. Frazier, now a board member of The Market Planning Group, and Kathleen A. Pasley, president of the group, were instrumental in the development of The Business Plan for Agents for Commercial Union.

Through the Business Plan, an agency first completes a questionnaire that compiles four years' worth of information on the agency's staff, premium volume, trade territory and financial history. Through analysis of these figures, the firm produces a report—"Where You Are Now"—listing the agency's current strengths and weaknesses.

The second step in the analysis is the planning process—"Where You Want To Go." To determine this, the agency answers another series of questions, like how fast it wants to grow and what markets it wants to target. The Market Planning Group then helps the agency formulate a plan of action.

The Market Planning Group has compiled an extensive data base of statistics. Nationwide information is provided through the data base on a county-by-county basis, so an agency's strategy can be tailored to its specific geographic area, Ms. Pasley said.

The cost of "Where You Are Now" and "Where You Want To Go" is $1,250 if purchased individually, or $2,000 when purchased as a package. Agencies with multiple offices are charged a higher fee.

The Market Planning Group currently is negotiating with a number of insurers to see if they would be interested in subsidizing a portion of the cost of The Business Plan for agents.

For more information, contact The Market Planning Group, 80 Boylston St., Suite 860, Boston, Mass. 02116; 617-542-4417.

Policy date lists

Homeowners insurance policy expiration dates can be purchased on new households in selected geographic areas through Creative Insurance Marketing Co., an insurance industry advertising and marketing firm in Shrewsbury, N.J.

The listings provide the homeowner's name and address, the approximate value of the home and whether it is a single family dwelling or a condominium. Specific geographic areas can be segmented, and the listing also can be limited to high-value homes.

Kimberly Paterson, president of the firm, says that Creative Insurance Marketing will sell only one listing per geographic area. However, she said, the outside firm that compiles the lists could sell the listing elsewhere.

The listing is compiled from mortgage listings.

Charge for the service is on a per-name basis. And, Ms. Paterson said, "The more names you buy, the cost per name goes down." Minor charges are added for extras, like obtaining the prospects' phone numbers or having the names printed on pressurized labels.

The minimum purchase amount is 3,000 names, which costs $500. However, that list can be compiled over several months, making the program flexible enough for smaller agencies, Ms. Paterson said.

For more information, contact Creative Insurance Marketing Co., 655 Shrewsbury Ave., Shrewsbury, N.J. 07701; 201-747-6898. ■

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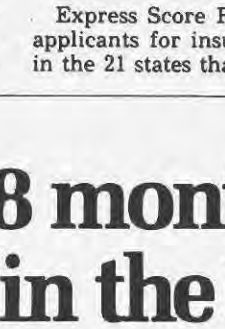
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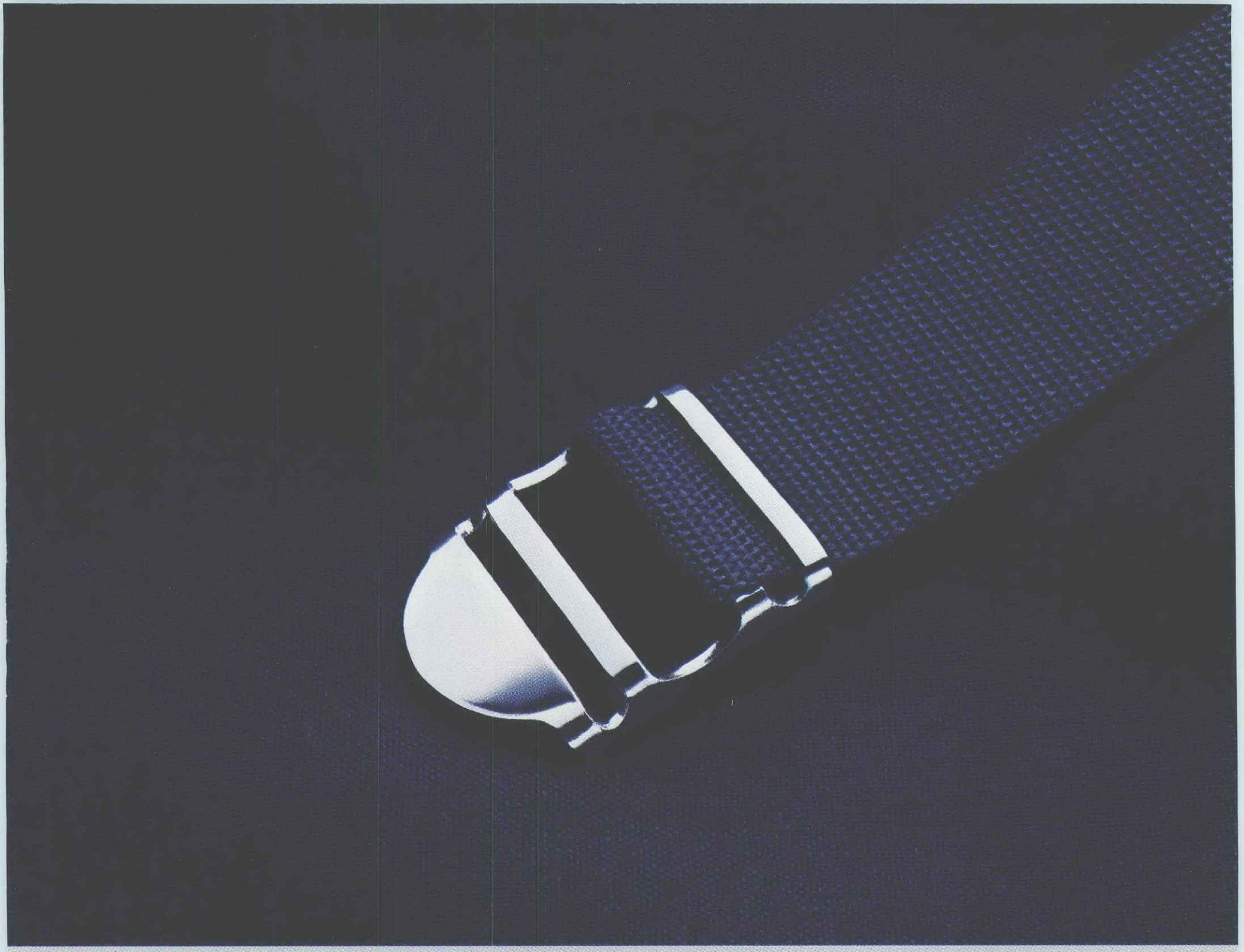
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California case

Continued from page 2

Plaintiffs' attorneys involved in the action disagree over the amount of money involved, but most estimates range from $12 million to $30 million. However, one defense attorney says the $12 million figure is too high and that real liabilities may not even exceed six figures.

The petition addresses all medical-legal claims from 1976 to the present—"hundreds of thousands," one defense attorney estimates—but the potential liability for self-insurers, their administrators and workers compensation insurers is all speculation, sources say.

"It's really anybody's guess right now," says attorney Robert B. Flaig, with the law firm of Thelen, Marrin, Johnson & Bridges in Los Angeles. Mr. Flaig represents six insurance companies named in the case.

"It could have a substantial financial impact if the (plaintiffs) were successful," concludes Judge Herbert Lasky, the Workers Compensation Appeals Board official with jurisdiction over the case in Los Angeles. He has not certified the case as an official class action, but it is being treated as such during negotiations.

Judge Lasky, who must approve any settlement, postponed any further action while the settlement proposal is being discussed.

Insurers and attorneys for the various parties involved have been meeting over the past 18 months to reach a settlement.

Negotiations are "progressing fruitfully," according to attorney Pierce T. Selwood, with the firm of Sheppard, Mullin, Richter & Hampton in Los Angeles. Mr. Selwood represents several workers compensation insurers.

The settlement, which has been "agreed to in concept by a lot of people," may not be finalized until next year, predicts James M. Sevey, vp-claims for California Casualty Insurance Co., which is named in the suit.

To what degree the self-insurers, their administrators and the workers compensation insurers will contribute to the settlement "is one of the subjects being discussed at considerable length," says Mr. Selwood, who would not discuss details of the settlement.

However, observers say one possibility would be to require each to contribute based on the number of outstanding claims they owe. If the current proposal is accepted, all potential plaintiffs would be notified —probably through medical and legal trade journals—to submit any unpaid or delayed claims to a claims clearinghouse by a certain date.

But some suggest that this may not be the fairest way to apportion liability.

"Geography is going to play a big role in this. The well-known applicants' doctors in the high-intensity areas are going to file the claims," says David Guyer, president of the California Administrative Services Organization, an organization composed of California workers compensation claims administrators.

Therefore, the administrators with clients that are very large employers will be hit with the most claims, when they may not really be the most culpable, Mr. Guyer suggests.

"I don't know that it's equitable at the present time. It's still going to take a little work," says Mr. Guyer, who also is executive vp at Keenan & Associates in Torrance, Calif.

TPAs and insurers could be forced to assume that portion of legal costs incurred over bills unpaid by their clients because nonpayment or late payment was probably the administrator's fault, not the client's, sources say.

For many self-insurers, TPAs and insurers, deciding whether to participate in the settlement is a matter of economics.

"It's a matter of how much you're willing to pay to get this flea bag off your back," Mr. Guyer says. "If they told me it would take $500 to get us out of the picture completely, I think I'd kick it in. It would be an economic decision. But at the same time, I'd not want to be admitting that any of our clients didn't pay their claims in 60 days."

"If the amount is a reasonable one, I think most of the TPAs I've spoken with will settle," he continues.

However, they will want certain provisions met before they agree. Chief among these is that plaintiffs be barred from suing again in the future.

"If this covers 1976-1984, what's going to happen five years down the line? Is this going to happen again because it's easy money?" Mr. Guyer wonders.

The California Self-Insurance Assn. is sponsoring a discussion of the case at its annual meeting in Monterey in March. ■

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Track programs highlight 1985 RIMS conference

NEW YORK—Risk managers attending the Risk & Insurance Management Society's 23rd annual conference will again be able to focus on specific risk management issues.

Highlighting the conference, to be held April 14-19 in New Orleans, will be four track programs, which are weeklong programs on a specific subject.

At least one course in each track will be offered in each time period during the conference. Those who attend can either follow an entire track during the conference, or select individual sessions of interest.

The four tracks are:

- Risk management information systems. Sessions will focus on developing the need for a risk management information system and selling the idea to management; selecting software; how to use an information system; the state of the art and the future of information systems; and a computer show.
- International risk management. Sessions will focus on insurance as an international sales tool; international law update; advanced international risk management; international currency risks; consolidating insurance programs; risk management in the Pacific Basin, Latin America and France; and international insurance trends.
- Introduction to risk management. Sessions will focus on employee benefits, the risk management team, basic financial analysis, captives, umbrella liability coverage, catastrophic loss, loss control and liability limits.
- General management. Sessions focus on interviewinng techniques, increasing visibility, decision-making, presentations, negotiating skills and time management.

In addition, two general sessions are scheduled for the conference:

- "For Better or Worse—The Business Market Today," which will examine the problems, pitfalls and potentials for risk managers. The session will be moderated by Edith F. Lichota, senior vp-risk management division of the Irving Trust Co. Panelists for the session will be John R. Cox, former president and chief executive officer of Associated Madison Cos.; Rolf Heuppi, chief executive officer of Zurich American Insurance Co.; W.N.M. Lawrence, deputy chairman of Lloyd's of London; and Frank Tasco, president of Marsh & McLennan Cos. Inc.
- "Criteria for Excellence," which will feature Milton Moskowitz and Robert Levering, co-author of "The 100 Best Companies to Work for in America." The moderator will be Howard T. Weber, director of insurance for 3M.

There will be 44 industry sessions held that feature discussion by risk managers of problems and solutions specific to their industry.

Also, the conference will present a full schedule of individual seminars, either workshops or panel discussions, in nine topic areas including:

- Employee benefits. The 18 seminars cover such areas as pension plan funding, claims management review, self-funding, computers, disability claims and cost-containment methods.
- General risk management. The 14 seminars include annual risk management reports, insurer solvency, risk management department structure and wrap-up programs.
- Risk control. The eight seminars include drug and alcohol abuse, safety, stress and fire protection.
- Risk finance. The eight seminars include insurance exchanges, financial guarantees, self-insurance and captives.
- Insurance. The nine seminars include the new comprehensive general liability forms, toxic torts, and directors and officers and errors and omissions coverage.
- Claims. The seven seminars include a mock product liability trial, duty to defend, controlling litigation costs and structured settlements.
- Legal/legislative. The three seminars are contractual liabilty, self-insurance and cash flow programs under new Internal Revenue Service guidelines and workers compensation.
- Exposures. The six seminars include vehicle lease agreements; aviation amd marine operations; mergers, acquisitions and divestitures; and right-to-know laws.
- Special interest. The three seminars are a potpourri, the risk manager/broker relationship and advanced captives.

In addition to the conference sessions, more than 200 exhibitors will maintain displays during the conference.

The registration fee for the weeklong conference is $495 for members and $595 for non-members who register before Feb. 15; and $545 for members and $645 for non-members who register after Feb. 15. Registration also is available at reduced fees for those who want to attend only part of the conference.

In addition, air fares and hotel accommodations at reduced rates are available.

For more information, contact RIMS, Conference Department, 205 E. 42nd St., New York, N.Y. 10017.■

HCA purchasing insurer to market health plans

Hospital Corp. of America is purchasing New Century Life Insurance Co. from E.F. Hutton Group Inc.

The La Jolla, Calif.-based insurer will relocate in Nashville, Tenn, HCA's headquarters. New Century will be used by HCA to offer health benefit plans to employers.

Although a spokesman for HCA said the company's plans for New Century haven't been finalized, he indicated the insurer would become part of the company's HCA Health Plans.

The transaction is awaiting the approval of state insurance authorities in California and should be completed within six months, according to the spokesman.

HCA, which owns or manages more than 400 hospitals, last year developed PriMed, a group health program that was offered to some of its employees (*BI*, May 28, 1984). HCA plans to make the program available to all its employees later this year and will begin offering a version of the plan to other employers through HCA Health Plans.

PriMed designers say the program offers a cooperative network of doctors and hospitals that contract with HCA to provide services on a fee-for-service basis, subject to utilization control. It also offers incentives for employees to use the network by covering a higher percentage of charges for member doctors and hospitals than it would cover for other providers.

Actuaries join forces

The U.S. actuarial and employee benefit consulting firm Milliman & Robertson Inc. has established a working agreement with Bacon & Woodrow, a consulting actuary in Britain.

Milliman & Robertson serves more than 4,000 pension and benefit clients and provides actuarial and management consulting services to about 500 life insurance firms. It has 20 U.S. offices and is associated with Eckler Partners Ltd. in Canada.

Bacon & Woodrow designs and implements employee benefit and pension plans and provides other consulting services. It has seven offices in Britain and has associated firms in Europe and the Caribbean.

Blues plan PPO

Blue Cross & Blue Shield of Illinois is developing a preferred provider organization in the Chicago metropolitan area.

Chicago-based BC/BS of Illinois is seeking proposals from 113 area hospitals to determine which will be selected for the PPO.

Charles R. Goulet, BC/BS executive vp, said the hospitals will be requested to have their programs in place by April 1.

"The hospital that becomes part of the PPO network agrees to provide its services at a preferred rate," said Mr. Goulet. "Employees, on the other hand, retain their right to choose any hospital but will be motivated to use PPO network hospitals because benefit levels are usually higher at those facilities."

Requests for proposals were sent to hospitals in Cook, DuPage, Kane, Lake, McHenry and Will counties.

New offices

Hull & Co. Insurance Intermediaries has relocated its Midwest office. The new address for **Hull & Co. (Midwest) Inc.** is 55 West 22nd St., Lombard, Ill. 60148; 312-953-1901, or 800-572-1098 in Illinois.

Crawford & Co., the risk management services firm headquartered in Atlanta, has opened a new operations center at 4696 North Royal Atlanta Drive, Atlanta, Ga. 30084; 404-938-0700.

Hilb, Rogal & Hamilton Co.'s new mailing address is P.O. Box 11027, Richmond, Va. 23230-1027.

T.E. Brennan Co., a risk management consulting firm, has moved to Plaza East Office Center, Two Plaza East. Suite 750, 330 E. Kilbourn Ave., Milwaukee, Wis. 53202; 414-271-2232.

Bayly, Martin & Fay International Inc. has moved its corporate headquarters to 201 Main St., Suite 1990, Fort Worth, Texas 76102; 817-332-9877. ■

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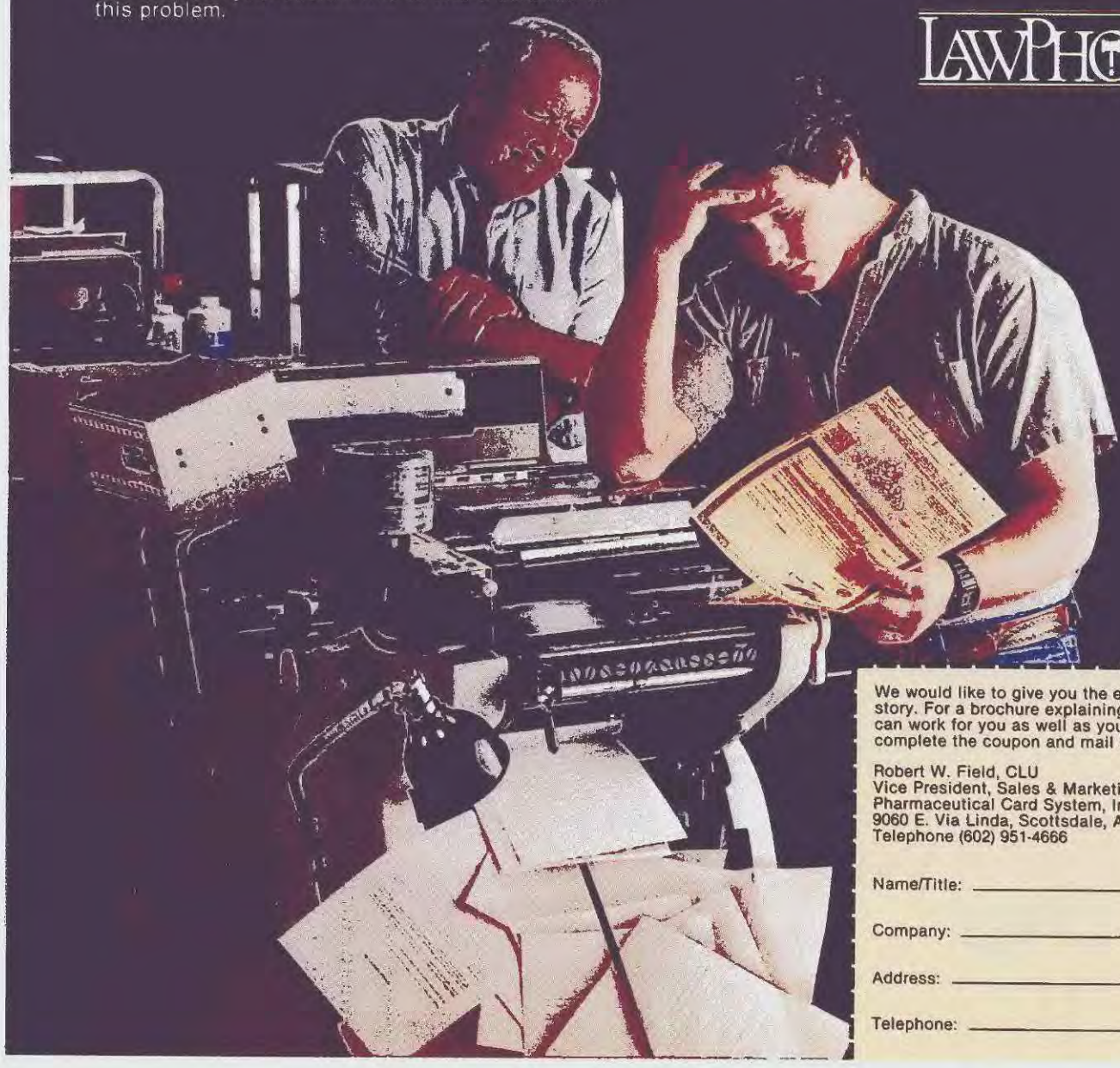
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Congress ready

Continued from page 1

based on consensus rather than controversy."

Mr. Cheek said Congress was "traumatized" last year when legislators clashed on a provision in the House legislation that the insurance industry said would have made pollution risks uninsurable.

That provision would have established a federal cause of action under which companies that dispose of hazardous waste could be held jointly and severally liable in federal courts for personal injury and property damage claimed by individuals.

A federal cause of action would have allowed plaintiffs to bring lawsuits against alleged polluters in federal court. Without a federal cause of action, individuals must bring toxic tort liability suits into state courts using state laws, which do not contain as strict a standard of liability as the one proposed in the Superfund reauthorization.

Under joint and several liability, an individual company could be forced to pay 100% of the claims stemming from a disposal site, even if other companies used the site.

Joint and several liability adds an element of uncertainty into underwriting because insurers cannot control or measure the risks of other companies that used the site, insurance lobbyists said.

After considerable debate, the House last August voted 208-200 to delete both the joint and several liability provision and the federal cause of action from the Superfund legislation (*BI*, Aug. 20, 1984).

Although the House eventually passed a Superfund reauthorization measure last year, Superfund bills died in the Senate, and Congress must reconsider Superfund reauthorization this year.

While Congress didn't enact a Superfund bill in 1984, legislators learned some lessons from last year's abortive attempt to pass legislation, experts say.

"The players (legislators) are much more pragmatic and realistic," said Mr. Cheek, adding that there will be less of an attempt by liberal Democrats who tried to make expanded employer liability a national issue.

"Congress is becoming increasingly aware that if it stretches the tort system too far. . .the insurance mechanism will be lost for employers," said Andre Maisonpierre, president of the Washington-based Reinsurance Assn. of America.

In addition, observers predict that legislators and their staffers will take more time this year in drafting Superfund bills.

"Last year's bills were drafted too quickly," said Sally Kirkpatrick, senior legislative counsel in the Washington office of the Alliance of American Insurers.

With more legislative emphasis on seeking a consensus, the result should be a more moderate Superfund bill, Mr. Cheek said.

Mr. Cheek, for example, doubts that there will be a federal cause of action in the final Superfund legislation passed by Congress.

Another moderating force on legislators as they consider Superfund legislation will be expanded lobbying efforts by employers.

Some companies, for example, stayed out of the legislative arena last year because they were convinced that Congress was not likely to pass Superfund legislation.

Since the original Superfund law expires this year, employers know Congress will act and will be much better prepared to react to proposals, Mr. Cheek said.

Meanwhile, insurers, led by the American Insurance Assn., an industry trade group, intend to get directly involved in the Superfund reauthorization debate by trying to convince Congress to convert the Superfund law into a no-fault program funded by a broad-based corporate pollution tax (*BI*, Jan. 21).

But legislative staffers have questioned whether the AIA proposal has any chance of being enacted.

The debate over whether Congress should enact a federal product liability statute to replace varying state tort laws will be as intense as in previous years. However, enactment of a bill this session seems unlikely, observers state.

Business groups—including the 225-member Product Liability Alliance—have been lobbying Congress for several years to pass a federal product liability bill. Those groups say varying state statutes make it difficult for employers and their insurers to measure product liability risks.

Since 1982, Sen. Robert Kasten, R-Wis., has introduced several product liability bills in the Senate, including one, S. 100, introduced last month (*BI*, Jan. 14). Like earlier bills, this bill also bars plaintiffs from filing suit against manufacturers if they were injured by a capital goods product, like a printing press, that was more than 25 years old.

The measure also would bar suits filed on the basis of strict liability in cases where a plaintiff alleged that an injury was caused by defective product design. Under strict liability, a plaintiff only has to prove that a product was defective; it is not necessary to prove that the manufacturer also was negligent.

The bill would give judges, and not juries, the authority to set punitive damage awards. The measure also would eliminate manufacturer liability if a product was modified without the manufacturer's permission and the modification led to the consumer's injury.

A similar bill cleared the Senate Commerce Committee last year but died on the Senate floor last fall.

Senate Republican leaders declined to bring the bill up for a vote after Sen. Alan Cranston, D-Calif., warned that he would begin a filibuster. Although business groups thought they had the 50 votes needed to pass a bill, they doubted that they had enough support to break a filibuster, which requires a two-thirds majority.

Victor Schwartz, counsel for the Product Liability Alliance, says there are several recent developments that boost chances that Congress will pass the Kasten bill.

First is the recent congressional committee realignment, in which Sen. John Danforth, R-Mo., a supporter of the Kasten bill, took control of the Senate Commerce Committee, which has jurisdiction over product liability legislation. The elevation of Sen. Danforth to Commerce Committee chairman creates "a whole new ball game," said Mr. Schwartz.

The former chairman, Sen. Robert Packwood, R-Ore., who is now chairman of the Senate Finance Committee, is an opponent of the Kasten measure.

"We're much better off with Sen. Danforth than Sen. Packwood. Having an interested, supportive committee chairman is half the battle" in getting a bill passed, Mr. Schwartz said.

Mr. Schwartz also expects more Senate support this year because of changes made to the Kasten bill. For example, a controversial provision in last year's bill that said a manufacturer could be hit with only one punitive damage award for any one defect in a product it produced has been deleted.

The limitation on punitive damage suits cost the bill support last year, observers said.

Despite those developments, no one is willing to predict that Congress soon will pass the Kasten bill.

Mr. Danforth's support, for example, "doesn't mean we'll be on the White House lawn soon for a bill-signing ceremony," Mr. Schwartz conceded. "It does mean that the bill has a better chance than ever of gaining congressional approval."

Others point out that the Kasten bill faces considerable obstacles on a path to passage. First, Congress may not deal with the bill simply because it could get tied up with so many other issues, such as looking for ways to reduce the federal deficit, said David Lambert, executive director of the National Assn. of Insurance Brokers in Washington.

In addition, there are no signs that Rep. Henry Waxman, D-Calif., chairman of the House health and the environment subcommittee, which has jurisdiction over product liability legislation, is willing to consider a tort reform proposal.

In fact, Rep. Waxman's interest in product liability could fade now that legislative aide John McLaughlin, who carefully followed product liability issues, has left Mr. Waxman's staff to join a Washington law firm. "McLaughlin's departure could make a difference," Mr. Cheek said.

Mr. Kasten's bill also will face the continued opposition from legal and consumer activists.

Consumer advocate Ralph Nader, for example, labels the Kasten bill as "one-stop injustice" that takes away consumer rights.

Senate support for the bill will erode as senators realize they have difficulty explaining to constituents that they voted for a bill that reduces citizens' rights, Mr. Nader told *Business Insurance*.

There is also doubt that Congress will consider the Treasury Department's proposal that deductions allowed property/casualty companies for loss reserves be discounted to reflect the aftertax investment income earned on those reserves before claims are actually paid (BI, Dec. 17, 1984).

Insurers and buyers had warned that the discounting proposal, which is part of Treasury's plan to simplify the Internal Revenue Code, could threaten the solvency of already under-reserved property/casualty insurers. It also could result in higher insurance rates and reduced capacity, especially for long-tail casualty risks.

Currently, insurers may take immediate tax deductions for reserves that reflect the full cost of future claim payments.

Crum & Forster's Mr. Cheek believes Congress will focus on ways to cut federal spending before it considers the Treasury's tax simplification plan, including the loss-reserve discounting provision. As a result, time may run out in the session before the Treasury tax plan is seriously considered, he said.

In fact, last week, Sen. Packwood said Congress's first order of business in the current term would be spending restraint rather than proposals that increase taxes. The discounting of loss reserves provision would increase the property/casualty industry's federal tax burden by about $15 billion over the next five years, according to the Treasury Department.

Congressional discussion of possible changes to the McCarran-Ferguson Act seems likely. That act leaves primary regulation of the insurance industry to the states.

The problems of Baldwin-United Corp., the Cincinnati-based insurer that once was one of the largest providers of single-premium deferred annuities before it ran into severe financial problems and filed for bankruptcy, could lead to congressional inquiries into how well state regulation of the industry is working, said Mr. Maisonpierre of the Reinsurance Assn. of America.

McCarran-Ferguson hearings were held last year by the House Judiciary Committee, but the hearings lacked focus, Mr. Cheek noted.

But, barring the collapse of several large, national multiline insurers, lobbyists doubt that congressional review of the McCarran-Ferguson Act will move beyond the hearing stage.

"There just isn't that much interest in McCarran-Ferguson right now," said Mr. Lambert of the NAIB. ■

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Employers offer tax preparation benefit

Continued from page 2

for each short form and $42 for each long form prepared for an employee by H&R Block. The company has been offering the benefit to its full-time staff since the company was formed in October 1980.

According to Burdette Bergman, benefits administrator, about 40% of full-time employees use the benefit. "The others have more complex tax forms (which are not a covered expense) or they choose to use another outside group or do it themselves," she said.

Free tax preparation usually is offered as a "stand alone" benefit, rather than as part of a larger group legal plan.

According to Sandra DeMent, director of legal plans at Hyatt Legal Services in Kansas City, Mo., the employee pays tax on the value of the tax preparation benefit if it is offered as a stand-alone benefit.

However, it is unclear under Internal Revenue Service regulations whether such a benefit is taxable if it is offered as part of a larger group legal plan, Ms. DeMent explained.

"And it is questionable whether tax preparation services will be provided in the future under tax-free legal plans," Ms. DeMent continued.

'It's hard for people to be a once-a-year tax expert,' says Thomas Bloch of H&R Block Inc.

"As far as our ability to provide them on a tax-free basis as part of a (group) legal plan, that question is very much on hold."

Because of this uncertainty, Hyatt usually does not include tax preparation services in its group legal plans. However, Hyatt has made an exception in the case of a group legal plan designed for the International Assn. of Sheet Metal Workers. Because tax preparation is being offered as part of a group legal plan, union members will not have to pay tax on it.

"We believe it meets the IRS regulations for legal plans, but you can't second-guess the IRS," Ms. DeMent said. "So we're not offering tax preparation as part of any other group legal plan.

"(The sheet metal workers) insisted on it and said, 'We'll take the risk. If the IRS finds it's not proper, we'll pay the fine or...do the cleanup.'"

The sheet metal workers' plan, which covers 15,000 members nationwide and has been in place since May 1982, offers free tax preparation in addition to other legal services.

Under the plan, announcements are placed at the beginning of each year in the union's monthly newsletter listing eligible locals; some locals did not negotiate the group legal plan as part of their contract. The announcements also contain Hyatt's toll-free telephone number.

Union members call Hyatt, which verifies the member's eligibility and mails him or her a tax preparation certificate. The certificate entitles the bearer to free preparation of the basic long or short tax forms at any participating H&R Block office. Any additional schedules or special requirements are not covered under the legal plan.

After H&R Block prepares the member's tax form, it is sent back to Hyatt and approved by an attorney. This approval is needed to include the benefit as part of a group legal plan, Ms. DeMent explained. Then, it is mailed back to the member, who is responsible for mailing it to the government along with any necessary tax payments.

According to Craig Smith, fund coordinator for the Sheet Metal Workers International Trust, which finances the legal plan employers contribute 15 cents to the trust for each hour worked by each union member covered under the group legal plan. The total monthly cost of the legal plan is $7 per member.

"A lot of people are using (the benefit)," said Mr. Smith. "I know that (Hyatt's) toll-free number has been tied up." ■

MARCH 18

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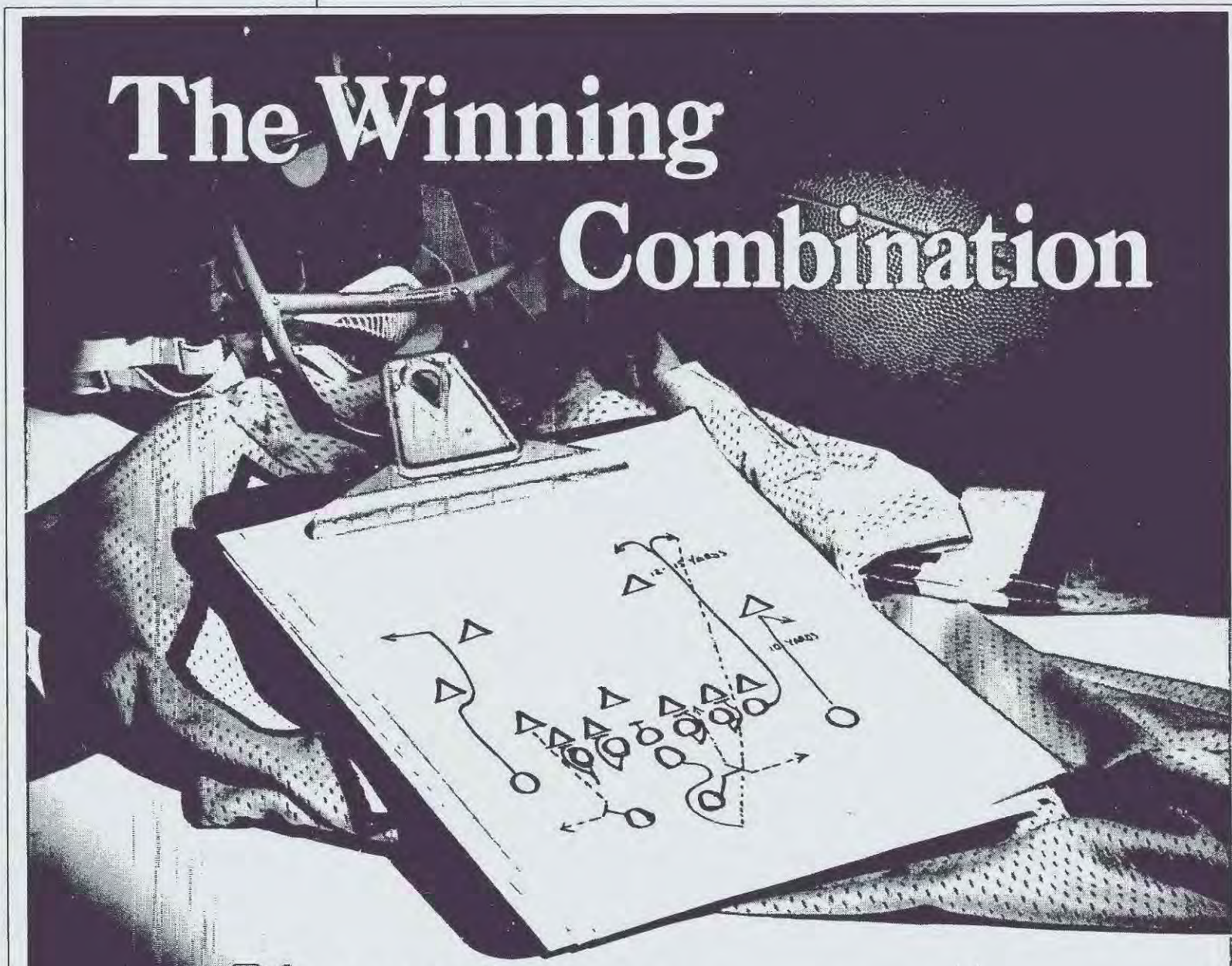
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May 20	May 8
May 27	May 14
Jun 3	May 21
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Mentor, two other markets shut down

Continued from page 1

Mentor reported underwriting expenses of $68.8 million in 1983, up from $55.8 million the year before, and an underwriting loss of $8.5 million in 1983 compared with a loss of $8.9 million in 1982.

Net investment income fell 14% to $13.6 million in 1983 from $15.9 million in 1982.

All of this translated to an operating loss of $654,000 in 1983, compared with a gain of $7 million the year before. After income taxes and other gains, Mentor reported net income of $115,000 in 1983, compared with net income of $5.4 million in 1982.

Mentor had been more restrictive in its underwriting practices for more than a year, and in recent months had drastically reduced its per-risk capacity, according to sources.

"They had an underwriting guide 10 feet thick," said Julian Griffiths, vp with Amberco Brokers Ltd. in Bermuda.

Bad experience led the company to stop underwriting U.S. facultative reinsurance in October 1983 and to demand better terms on about 60% of its business in 1984, Mentor Chairman J. Douglas Higley said in an interview last year (*BI*, April 2, 1984.)

"We've done very little business with them" recently, noted Roger Gillett, vp with J&H Intermediaries Ltd., adding that Mentor previously had been a strong market for J&H.

Mr. Griffiths said Amberco probably placed more business with Mentor going into 1985 than the previous year, but that Amberco would have problems replacing Mentor's capacity on only a couple of very large accounts.

Several Bermuda sources said Mentor's closing will have a greater impact on the island's reputation than on market capacity.

Mentor, whose ultimate parent is Murphy Oil Corp., is the fourth insurance subsidiary of an oil company to restrict or abandon underwriting, and the third to do so in the last four months.

Walton Insurance Co. Ltd., a unit of Phillips Petroleum Co., stopped writing unrelated risks in January 1983. It was followed last October by Exxon Insurance Holdings Inc., which stopped accepting unrelated business, and by Insco a month later (*BI*, Oct. 8, 1984; Nov. 26, 1984).

Texaco Inc.'s Heddington Insurance Ltd. is the only major oil company insurance subsidiary still writing third-party business.

"The political implication is more upsetting than anything else," Mr. Griffiths observed. "People are going to point a finger (at Bermuda) once again."

If the core of the Bermuda market is considered to be insurers that write third-party risks, then the closing of Mentor is "one more nail in the market's coffin," explained Nicholas Poschl, vp-underwriting at Insco.

"Whether Bermuda is hurt by third-party writers that are no longer writing third party is an open question," Mr. Poschl explained, noting that some might consider captives writing parent company business to be the "guts" of the Bermuda market.

ODECO said Mentor's Bermuda offices will be maintained to handle the run-off of existing business, but it did not say how many of the company's approximately 40 employees will be terminated.

Meanwhile, Corroon & Black has closed Baccala & Shoop and apparently plans to dispose of two other units in its Underwriting Management Group: National Excess Insurance Co. and National Excess Insurance Services Inc., a managing general agency formerly known as Global Aviation.

If the core of the Bermuda market is considered insurers that write third-party risks, then the closing of Mentor is 'one more nail in the market's coffin,' says Nicholas Poschl, vp-underwriting at Insco.

"In the long term we, as other brokers, have come to the conclusion that the underwriting business is a business to which we do not want to have a lot of exposure," said Stephen Crane, senior vp and chief financial officer of C&B.

"The shorter-term problem was a catalyst," he said, referring to an anticipated 1984 operating loss at Baccala.

C&B announced last month that its 1984 earnings will exceed $18.5 million, or about $2.15 per share. The Underwriting Management Group, however, is expected to post an operating loss of about $7.7 million, or 90 cents per share, about half of which is attributable to Baccala & Shoop.

C&B executives would not comment on Baccala & Shoop's 1984 premium volume or gross revenues.

William P. Baccala, a founder of the firm, said last year's premium volume totaled about $60 million.

Mr. Baccala, who resigned as chairman of Baccala & Shoop last month, said he was not consulted by Corroon & Black before it decided to close the firm.

Baccala & Shoop had been an underwriting manager for Twin City Fire Insurance Co. and Nutmeg Insurance Co., both units of Hartford Insurance Group. But Baccala & Shoop's relationship with Hartford was terminated as of Jan. 1, according to Mr. Baccala.

Hartford had demanded that C&B improve the reinsurance security behind the Baccala & Shoop programs and that it find a third policy-issuing company, Mr. Baccala said.

Baccala & Shoop's in-house capacity before termination of its agreements with Hartford was $500,000 on property and casualty risks, and automatic facultative reinsurance agreements provided gross capacity of $5 million on casualty business, Mr. Baccala said.

Baccala & Shoop had already suffered a significant loss of capacity in early 1984, when the loss of one or more property treaties reduced its capacity per risk to $500,000 from at least $9 million and perhaps as high as $20 million.

Baccala's premium volume and revenues have fluctuated in recent years. Premium volume in 1984 declined from $109.1 million in 1983 and $121.9 million in 1982. But the company's 1982 volume represented an increase from $98.5 million in 1981. Premium volume in 1980 was $112.9 million.

Similarly, revenues fell in 1983 to $10.5 million from $13.6 million in 1982. Revenues amounted to $10.5 million in 1981 and $11.3 million in 1980.

Until early January, C&B had been negotiating to sell Baccala & Shoop and the two National Excess companies to Zenith, a property/casualty insurer of which 24% is owned by Reliance Insurance Co.

But the negotiations broke down because of a disagreement over the price to be paid for the group, sources say.

Corroon & Black was "very adamant about what it thought the group was worth," says Stanley R. Zax, Zenith's president. "Nobody in the world was willing to give them what they asked and that's why they had to close (Baccala & Shoop) down."

National Excess Insurance Co., based with Baccala & Shoop in Newport Beach, Calif., posted net written property/casualty premiums of $2.9 million in 1983, most of which was reinsurance business.

National Excess Insurance Services, an aviation specialist, was an MGA for Ideal Mutual Insurance Co. until its relationship with Ideal was terminated in early 1984.

The MGA recently canceled some policies it still had with Ideal, which has been placed in rehabilitation by the New York Insurance Department (see story, page 2). Some of this business has been rolled over into National Excess Insurance Co., according to Mr. Crane.

No decision has yet been made on the fate of the National Excess companies, which may be sold or closed or may continue to operate as C&B subsidiaries for a given period, Mr. Crane said.

Mr. Baccala said that C&B is negotiating a possible sale of the MGA to Aviation Office of America Inc., a Crum & Forster affiliate.

In any case, C&B announced that the National Excess companies will be accounted for as discontinued operations in 1984.

A charge of between $12.5 million and $15 million will be taken against 1984 earnings for expected losses on disposition of the discontinued operations, the company said. After including an additional write-off of about $7.7 million connected with those operations, C&B expects to post a net loss for the year.

As with Mentor, brokers were disappointed by the closing of Baccala & Shoop but were not surprised.

"We had all been hoping that they could get new treaty capacity, but the reinsurance market is so bad, they couldn't get the capacity," said Donald K. Sherwood, president of Sherwood Insurance Services in San Francisco.

Mr. Sherwood added, however, that the closing would not have a major impact on his business, since Baccala's capacity had already been reduced for a year.

The third market to close its doors recently was Mission Re. The company's operating results were apparently not good enough to convince Mission Insurance Group to maintain it, a spokesman indicated.

"The expected downstream return was not enough to support the operation," the spokesman said. "Consequently, we have decided to concentrate our efforts on specialty lines," including workers compensation and the business underwritten by Mission's surplus lines affiliate, Sayre & Toso Inc.

Mission Re's 1984 results aren't available, the spokesman said. In 1983, Mission Re booked gross reinsurance premiums of $28.2 million, ceding $13.2 million for net premiums of $15 million.

It suffered a net underwriting loss of $4.2 million and a net operating loss of $326,661. Mission Re's combined ratio for 1983 was 118.2%. ■

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Some Ideal liabilities transferred to AIG unit

Continued from page 2

announcement that the department intended to liquidate Ideal Mutual "at the very least was premature and is regretted."

That same spokesman said last week the department's subsequent move to liquidate Ideal Mutual does not contradict his earlier statement.

Meanwhile, the department last week moved ahead in an effort to transfer the liabilities of major Ideal policyholders from the insurer.

Many of these policyholders, like A&P, had fronting programs with Ideal, whereby an insurer issues a policy to a policyholder and then reinsures all or a substantial portion of the risk with the policyholder's captive or another insurer designated by the policyholder.

The department said in papers filed in New York Supreme Court in Manhattan last week that the agreement with A&P would reduce Ideal Mutual's insurance obligatons, "thus reducing the claims to be settled out of the estate's limited assets."

Under the agreement approved by Supreme Court Justice Jawn A. Sandifer on Jan. 29, Ideal Mutual will cede all its insurance obligations under policies it issued to A&P to National Union. National Union would receive all reinsurance recoverable on the A&P policies.

Among the Ideal reinsurers on A&P's risks was St. Pancras, A&P's captive. As previously reported, Ideal Mutual reported $1.9 million in reinsurance recoverable from St. Pancras as of Dec. 31, 1983, and $1.5 million in funds on deposit from St. Pancras, including a letter of credit.

According to the court papers, A&P had purchased policies from Ideal Mutual covering the period between Jan. 15, 1977, and Dec. 14, 1984. The policies included coverage for workers compensation, excess workers compensation, comprehensive general liability including auto, excess comprehensive general liability and auto liability risks.

As part of the agreement, A&P agreed to make an immediate payment of $150,000 to Superintendent Corcoran, who would be Ideal's liquidator, to settle its outstanding premium obligations "in preliminary satisfaction of its obligations pending a final accounting."

The final amount is to be determined within 180 days.

The agreement states that "A&P agrees to defend, protect, indemnify and hold harmless the superintendent, Ideal Mutual and their respective successors and assigns, against any liability, claim or loss arising after the effective date of this agreement under any policy of insurance issued to A&P by Ideal Mutual."

The agreement would also relieve Ideal of the expense of claims adjustment on the A&P policies, while the $150,000 payment by A&P "will partially relieve the estate's present cash-flow difficulties," the court papers said.

The Insurance Department also said the agreement would permit resumption of payment of workers compensation benefits to A&P workers, which have been interrupted since Ideal was placed into rehabilitation.

An A&P spokesman would not comment on whether the company was currently paying workers compensation benefits on its own.

It's also not known how much National Union will be paid to assume Ideal Mutual's liabilities to A&P. A National Union official could not be reached for comment on the agreement.

Although the New York department says the agreement with A&P might be a model for similar agreements with other Ideal policyholders, at least one former Ideal policyholder is skeptical.

'It's an emergency situation, and we're just really concerned about getting these claims paid. Any way you slice it, it's going to cost us money,' comments a major Ideal Mutual policyholder.

Robert Reeves, who is charge of risk management for Nashville, Tenn.,-based Hospital Corp. of America, said he is worried that having another insurer assume Ideal's liabilities is not necessarily the best solution because of the cost involved.

"There are alternate ways to doing this," he said.

Mr. Reeves said he has made some alternate proposals, on which he refused to elaborate. But, he added, he has not yet received a reply from the New York department on his proposals.

He added the New York department may have discussed the possibility of an agreement similar to A&P's with HCA's attorneys, but he said he is not aware of whether this has occurred.

Another major Ideal Mutual policyholder, who did not want to be named, said that while he had not yet seen a copy of the A&P agreement, he felt it might be the right approach.

The policyholder said that although he was aware that having another insurer assume the business might be expensive, "It's an emergency situation, and we're just really concerned about getting these claims paid.

"Any way you slice it, it's going to cost us money."

In another development, the Illinois Insurance Department is now working on an "agreement in principle" involving a plan similar to the A&P agreement for policyholders of an Ideal affiliate, Optimum Insurance Co. of Illinois, which is also in rehabilitation, said James Schacht, the Illinois department's chief deputy director.

Mr. Schacht said most, if not all, of Optimum Insurance's major policyholders agreed to the concept of another insurer taking over Optimum Insurance's outstanding claims at a meeting last week. Most of the policies written by Optimum insurance were workers compensation policies.

While the agreement in principle is expected to be completed within the next several days, it will take about another two weeks before it can be adapted to the individual policyholders involved, he said.

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Earthquake plan

Continued from page 2

Only U.S. companies or U.S.-based subsidiaries of foreign companies could participate in the program. The program would only respond to losses from a U.S. earthquake or to damage in the United States caused by a quake offshore or in another country, Mr. Maisonpierre explains.

The plan already has attracted the support of New York-based American International Group Inc., he says, adding AIG "is just as scared as we are" about underwriters not meeting their obligations after an earthquake.

Some estimate that property/casualty losses from a major earthquake could reach $70 billion

"This is one of those few things the private sector can't handle alone," says an AIG spokesman. "We're very supportive of it and have worked very closely with the RAA to develop it."

Mr. Maisonpierre admits some insurers shun the government's entry into the business, but he stresses, "We've tried to structure a program with the least amount of federal involvement and certainly no federal regulation as such.

"If you don't like our program, what do you have that's better? Isn't it better to have something in place, rather than to wait until it happens? The longer it's delayed, the greater the likelihood of having to go to the Treasury when the catastrophe occurs," he says.

Jeff Bragg, administrator of the Federal Insurance Administration in Washington, agrees.

"I think the industry has to develop a solution to the earthquake problem (and) the solution would be better received if it was developed by the industry and brought to the government," he says.

"The window of opportunity for some federal involvement in earthquake (coverage) is fairly good. The administration would be receptive to some sort of partnership."

The government's initial costs would be limited to start-up and incorporation costs, which Mr. Maisonpierre estimates to be no more than $5 million. The corporation would immediately reimburse the government after it starts collecting premiums. No other government contribution would be required unless the corporation's reserves cannot meet claims.

According to the RAA proposal, the corporation would be managed by a board of directors, consisting of five federal employees and four members of the insurance industry who would be appointed by the president and confirmed by the Senate. After 15 years of existence, the board would advise Congress on how control could be turned over to the private sector.

The corporation would have 10 to 15 employees, who would be paid out of the premiums collected, Mr. Maisonpierre explains.

Although insurer participation would be be voluntary, Mr. Maisonpierre expects "a very broad participation very quickly."

He says federal lending agencies, like the Federal Housing Administration and the Federal Deposit Insurance Corp., may require owners of property along fault lines to have quake coverage, like they require residents of flood plains to carry flood insurance.

That could result in a swift reduction in quake insurance availability and would draw underwriters to the facility, he says.

Some observers point out that it may be too early to involve the government in an earthquake reinsurance program.

Although the California Insurance Department is "neutral" on the issue, Richard J. Roth Jr., senior casualty actuary in Los Angeles, says he hopes involvement by the federal government would be "a last resort."

"That's something that could be done after the earthquake," he suggests. "We could always go to Congress afterwards, when a bill like that could go through in a week."

Mr. Roth spearheaded a report issued last June by the California Insurance Department that concluded the insurance industry might not be able respond to losses from a quake if demand for earthquake coverage continues to grow (*BI*, July 2, 1984).

Mr. Roth notes that the industry's ability to pay claims should a quake occur is improving since underwriters are beginning to demand deductibles equal to 10% of insured value instead of a 5% deductible or a flat $1,000.

"So if all the (earthquake) business was written on a 10% deductible, we wouldn't be in as bad a position as with a 5% or $1,000 deductible," he notes. ■

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Associations	1,069
Government, Unions Educational Institutions	860
Commercial Consumers	
Sub-Total	**24,416**
Insurance Agents & Brokers	9443
Insurance Cos.	5636
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Actuaries, Attorneys, Adjusters, Appraisers & Consultants	3220
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New comp rating system delayed in Oregon

SALEM, Ore.—No action will be taken until April on a new workers compensation rating system that had been expected to go into effect Jan. 1 in Oregon for 42 construction classifications.

A special legislative study commission asked the state insurance commissioner not to act on the proposal until more examples of the plan's impact are drafted.

The plan was developed by the National Council on Compensation Insurance, in response to an outcry from high-wage employers in the construction industry that say they pay higher-than-average premiums but have better-than-average experience.

(Workers comp premiums in most states are figured by multiplying a job classification rate by $100 of payroll.)

An extensive study by the NCCI supported the contractors' premise that high-wage employers pay an inequitable share (*BI*, Sept. 24, 1984).

Workers comp rates in Oregon for 600 worker classifications increased an average 11.1% Jan. 1, with the 42 construction classes showing the largest average increase of 18.2%, said Stanley V. Sparks, a director of government, consumer and industry affairs for the NCCI.

The new rating plan, which applies a debit or credit based on an individual employers' loss experience, will be applied to those new rates in construction classes once it is approved, he added.

Florida comp benefits

TALLAHASSEE, Fla.—The maximum workers compensation weekly benefit in Florida increased to $307 on Jan. 1, a 6.6% increase from the 1984 maximum of $288.

The increase just slightly exceeds the 6.3% increase in January 1984.

According to the Florida Assn. of Insurance Agents, the new maximum is 2.5 times the $130 benefit maximum that existed before the state reformed its workers compensation system in 1979 and adopted a wage-loss standard.

Michigan state fund

LANSING, Mich.—The more than 14,000 Michigan employers that have workers compensation insurance through the Michigan State Accident Fund will be paying 44% less for their insurance this year than they paid in 1981.

Rates fell an average of 2.8% on Jan. 1, an estimated savings of more than $600,000, said William Larsen, the fund's executive assistant.

On the basis of net cost after dividends, the cost for the fund's policyholders—which make up about 11% of the market—has decreased more than 59% from the 1981 manual rate level, he said.

This year's decrease, approved by the fund's 15-member policyholders' advisory board, is based on pure premium rate changes recommended by the Compensation Advisory Organization of Michigan, a rate advising and statistical organization in Detroit, and the fund's own loss experience, Mr. Larsen said.

Pure premium rate changes are based on the combined loss and loss-adjusted expenses of all the state's work comp insurers, he said. Michigan rate changes do not require prior approval from the state's insurance commissioner before they take effect, he added.

Manual rates for the 430 rating classifications will vary according to loss experience and the new rates will apply when a policy is issued or renewed, Mr. Larsen said.

Previously, rates had been set by the Workers Compensation Rating and Insurance Assn. of Michigan, precursor of the Compensation Advisory Organization of Michigan, he said.

around the states

Seat belt law

SPRINGFIELD, Ill.—Illinois drivers and their front-seat passengers will have to buckle up beginning July 1 or face a $25 fine.

Gov. James R. Thompson signed the seat belt bill, H.B. 2800, introduced by Rep. John Cullerton, D-Chicago.

New York and New Jersey also have passed similar laws in the past year. In New York, a motorist can be fined as much as $50 for failure to wear a seat belt.

Beginning in March, New Jersey motorists and their front-seat passengers will be fined $20 for not wearing a seat belt.

Illinois reports up

SPRINGFIELD, Ill.—More Illinois-licensed insurers are being required to file quarterly rather than annual reports with the state Insurance Department, officials say, noting financial instability is only one reason for the increase.

About 170 state-licensed property/casualty insurers were required to file quarterly reports as of September, up from approximately 100 at the close of 1983, said Norman Koefoed, supervisor of the department's property/casualty financial analysis unit.

Other factors that might affect whether a company is required to file quarterly reports include a company's size and how long it has been licensed, he said.

The department's financial analysis unit also requires newly licensed insurers to file the quarterly reports, sometimes for as long as three years, he added.

Mr. Koefoed could not say how many of the 170 companies, out of about 700 property and casualty insurers licensed in the state, were judged financially unstable.

The number of life and health companies required to file quarterly rather than annual reports also is increasing. During 1984, about 98 life and health companies were required to file quarterly reports, up from 87 in 1983, said Arnold Dutcher, Illinois deputy director in charge of the life and accident and health division.

Reasons the quarterly filings might be required include a rapid growth rate, peculiar asset mix, size and business operation, he said, adding that Illinois has about 819 companies licensed to write life and health insurance. ■

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IRS allows shifts of excess plan assets

Continued from page 1

Due to the strong stock market over the last several years, the value of assets held by many corporate defined benefit plans has increased far beyond what is needed to pay participants' promised benefits.

To gain control of the assets, more and more employers have terminated their pension plans. Between 1981 and 1984, employers terminated 366 defined benefit plans and recaptured some $3.3 billion in surplus assets, according to the PBGC, that agency that guarantees workers' and retirees' benefits when pension plans are terminated.

In such terminations, an employer will inform the PBGC that it is folding the plan. Participants then vest in all accrued benefits, and the employer must purchase annuities to pay for the benefits. The employer then gains control of the remaining assets.

Although they are not legally required to do so, employers often set up a new defined benefit or defined contribution plan to replace the terminated plan.

Current termination rules present employers with an "all-or-nothing situation," Mr. Rumack says.

Since employers can't take assets out of the plan, they have to take the drastic step of terminating the plan to gain control of surplus assets.

Such terminations can be expensive and time-consuming since the employer has to purchase annuities to guarantee plan participants' benefits and taxes must be paid on the surplus that reverts to the employer.

Consultants also note it may take an employer between nine and 14 months to purchase annuities and inform the three federal agencies and the plan participants that the plan will be terminated.

And in some cases, a termination may take much longer. For example, it took The Great Atlantic & Pacific Tea Co. of Montvale, N.J., more than 2½ years to successfully terminate a pension plan and recapture $275 million in excess assets. The termination had been held up by a lawsuit filed by a plan participant (*BI*, Jan. 9, 1984).

Now, the IRS letter gives employers a middle ground between terminating a plan and being unable to tap the assets while the plan operates, Mr. Rumack says.

But others believe shifting assets between two pension plans is an idea that rests on shaky ground.

First, some consultants doubt the Labor Department and the PBGC will approve asset transfers.

"The PBGC will lobby the Congress to prevent this from happening," predicts Kevin Meehan, an attorney and consultant in the Washington offfice of The Wyatt Co.

Already, one congressman is raising objections to the IRS letter. Rep. Edward Roibal, D-Calif., chairman of the House Select Committee on Aging, wrote to the IRS that federal law "would appear to specifically prohibit the type of diversion sanctioned under the Service's opinion letter."

In a letter to Assistant IRS Commissioner S. Allen Winborne, Rep. Roibal said the committee on aging "would like an explanation of the statutory authority under which plan assets may be diverted in a manner which seems to conflict with the requirements of the Tax Code."

In addition, some consultants say plan participants may charge that asset transfers violate sections of the Employee Retirement Income Security Act that say an employer must operate its pension plan for the exclusive benefit of the participants.

"Until someone says, 'Employers, don't worry about the exclusive benefit rule'. . .I would tread very softly," said Edward J. Davey, vp-technical analysis with Johnson & Higgins in New York.

The IRS letter, experts say, does not address whether asset shifts violate ERISA's so-called "exclusive benefit" rule.

That rule is particularly important when the participants in the two plans differ. If some of the participants in the defined benefit plan do not participate in the defined contribution plan, those participants could charge that the asset transfer did not benefit them.

And, asset transfers could cause other legal problems.

For example, several years after it has shifted assets from an overfunded defined benefit plan to a defined contribution plan, a company may decide to terminate its defined benefit plan because of financial problems.

While the plan was once overfunded, the removal of the plan surplus and later adverse investment performance may leave the defined benefit plan with insufficient assets to pay promised benefits.

And, since the PBGC does not guarantee all promised benefits, such as recent benefit increases, participants might sue the employer arguing that the surplus removal prevented them from receiving full benefits, pension experts say.

"It's questionable whether taking assets in (a strong) stock market is in the participants' interest," says Mr. Meehan of The Wyatt Co.

"There is a down side to asset transfers," adds Peggy Warner, an associate in the New York office of benefit consultant William M. Mercer-Meidinger Inc.

In such a situation, the employer also could face a lawsuit from the PBGC if the federal agency had to pay benefits to participants of terminated plans.

The agency also could contend that if assets had not been removed, the defined benefit plan would have been fully funded and the agency would not have to pay benefits to participants.

PBGC Executive Director Charles Tharp says as the agency reviews the issue, it will be guided by one question: Do asset transfers pose a risk to the PBGC insurance system?

And there are questions as to how Congress might react if all three agencies gave their approval to asset transfers.

"Some congressmen will perceive this as an abuse in which employers are using pension plans as piggy banks to store money. . .that later can be transferred to other plans," Mr. Meehan says.

While corporations are eager to tap excess pension assets, some question just how many companies want to use the assets to fund other benefit plans.

In many cases, companies terminate overfunded pension plans for general corporate purposes, points out Theresa Stuchiner, a partner at Kwasha Lipton, a Fort Lee, N.J., benefit consultant.

A&P, for example, used its surplus to modernize its aging grocery stores, while Chicago-based A.M. International Inc. needed the surplus from a terminated plan to recover from financial problems. The company recently emerged from Chapter 11 bankruptcy proceedings. ■

IRS letter spells out asset transfer rules

The Internal Revenue Service letter regarding asset transfers from defined benefit plan to defined contribution plans sets several guidelines.

They include:

- An employer would not have to change the vesting status of participants in a defined benefit plan when assets are transferred, nor would an employer have to purchase annuities to guarantee benefits to the plan participants.
- Amounts transferred to a defined contribution plan would be treated just like any other employer contribution for employee vesting purposes. Employees would vest in the amount shifted to the defined contribution plan at the same rate they vest in other employer contributions to the plan.
- A company would not be allowed to shift assets from a defined benefit plan to a profit-sharing plan during a year in which the employer did not post sufficient earnings to make a contribution to the profit-sharing plan.
- Asset transfers would be considered as employer contributions under Section 415 of the Internal Revenue Code. That section limits an employer's maximum annual contribution to a defined contribution plan to $30,000 per plan participant, while a defined benefit plan may not pay more than $90,000 a year to a participant.

As a result, if an employer shifted $10 million from a defined benefit plan to a profit-sharing plan so it could contribute $30,000 per participant to the profit-sharing plan, the company could not make additional contributions that year to the profit-sharing plan.

- Transferred assets would not be included in the employer's income nor would the asset transfer be tax-deductible.

Texaco asks to spin off Getty plan

WASHINGTON—Texaco Inc. has told the Pension Benefit Guaranty Corp. it intends to spin off a pension plan operated by Getty Oil Co., which Texaco acquired last year, to recover $250 million in surplus assets.

In a spinoff, an employer splits its defined benefit pension plan into two plans—one for retirees and one for employees. The excess assets are placed in the retirees' plan, which the company terminates. The company then purchases annuities to pay promised benefits to retirees and can recapture whatever is left over.

The plan covering current employees is retained.

However, Texaco may face legal action to stop the spinoff. Arthur Wilson, president of the Delaware City, Del., local of the Oil, Chemical and Atomic Workers International Union, said litigation is being considered.

He said the union believes plan assets belong to the participants. If there is a surplus, those funds should be used to improve benefits, he says.

In a letter to its employees, Texaco says it will not make any changes to the plan it is retaining.

According to a notice of intent to terminate filed with the PBGC, the Getty plan last year had 18,739 participants, including 5,583 retirees and others collecting benefits.

As of Dec. 1, 1984, participants in the Getty plan were receiving a total of $2.94 billion in monthly pension benefits, according to the notice of intent to terminate.

Texaco said the plan had accumulated the large surplus because of "very favorable investment results."

The proposed spinoff is now being reviewed by the PBGC. Texaco, based in White Plains, N.Y., said it could be as long as nine months before approval is received and the transaction completed. ■

update

Ex-Biegler executive sentenced

Continued from page 2

charged in the case. He has pleaded innocent to 13 counts of mail and wire fraud. A trial date has not been set.

Crum & Forster, its subsidiaries—including Biegler—and its clients allegedly were defrauded through a 2½-year scheme ending in February 1984 through which the men allegedly overcharged clients that purchased single-premium annuities to fund structured settlements, according to court papers.

N.Y. reiterates malpractice hike

NEW YORK—The New York Insurance Department reiterated last week that all the state's medical malpractice insurers would be granted rate increases totaling 52% for the two most recent policy years, despite a disagreement with the hearing officer who originally granted the increase.

An Insurance Department spokesman said the hearing officer, Domenick L. Gabrielli, a former associate judge of the State Court of Appeals, had granted the cumulative 52% increase to the Medical Malpractice Insurance Assn. This included a 41% increase for the 1983-84 policy year and an 8% increase for the 1984-85 policy year (*BI*, Jan. 21).

But the spokesman said Mr. Gabrielli had objected to statements by New York Insurance Superintendent James P. Corcoran that the rates also would be applied to other medical malpractice insurers. Mr. Gabrielli could not be reached for comment.

The spokesman said that while Mr. Gabrielli had been asked to confine his investigation to Medical Malpractice Insurance Assn., the department had made it clear from the start that it intended to use the evidence he gathered to reach a determination on other insurers' rates as well.

The spokesman added that insurers firms can individually file for deviations from the 52% hike.

Gold may go to underwriters

LONDON—A recent find by Scotland Yard may mean that Lloyd's of London underwriters have struck gold.

Forty kilograms of gold seized last week by Scotland Yard may be part of the $40 million gold robbery of the Brinks-Mat Ltd. warehouse at London's Heathrow Airport in 1983, according to reports in London.

However, Scotland Yard has not identified the gold as being from the robbery.

If the gold, worth 350,000 pounds ($392,000) is from the Brinks robbery, it may belong to Lloyd's underwriters that paid for the loss.

Lloyd's underwriters became the legal owners of the stolen gold after they paid the claim for the gold and diamonds that were taken from the Brinks-Mat warehouse in the Nov. 26, 1983 robbery (*BI*, Dec. 5, 1983).

Police found the small portion of gold last week at an undisclosed address after Scotland Yard Detective Constable John Fordham was stabbed to death while investigating leads from the robbery.

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ticker

London hopes market upswing is real

By ALAN H. CLIFTON
and PHILLIP V. OLSEN

Special to Business Insurance

THE LONDON INSURANCE market has been dominated during the last few months by evidence of a progressive tightening in capacity, leading to expectations of an extremely tough renewal season and conditions consistent with a material and lasting hardening of the market.

The long downswing in the underwriting cycle, which began way back in 1978, looked to be drawing to a close 12 months ago. However, it took a further difficult and protracted reinsurance renewal season at the turn of 1983/84 to set the scene firmly for recovery during 1984 itself, and that recovery undoubtedly has now begun.

As in past cycles, London underwriters believe they once again moved before the U.S. insurance market in raising rates, especially with respect to long-tail risks. At the start of 1984, there was unease that by instigating such action, the London market would risk losing further business volumes to domestic U.S. underwriters with sharper rating pencils.

But, the early evidence of underwriting experience this year—of a further severe worsening of results—soon calmed nerves, and it became clear after the first-quarter results were available that substantial rating action by U.S. insurers was imminent.

The major U.S. alphabet brokers have confirmed from the evidence of their own offices across the country that premium rates on renewal business rose on balance for the first time for more than six years during the the third quarter of 1984. What is happening right now in the international reinsurance market centered in London will ensure that underwriting capacity in 1985 is tighter, that ceding insurance companies can no longer hope to eschew their responsibilities by drawing on the support of naive reinsurers and that primary market underwriters themselves must face up to their obligations to price their products properly.

It is now extremely difficult, for the first time since the mid-1970s, to place risks that are other than straightforward and readily ratable. Capacity at Lloyd's of London has been severely eroded of late by the strength of the U.S. dollar, and underwriters at long last are able again to price and choose the risks that they will underwrite (*BI*, Jan. 21).

All this is tremendously good news to the Lloyd's brokerage community, even if it makes the everyday job of placing business that much harder. Pure brokerage skills have returned to the fore, and those brokers with placing strengths may be set to do better than those who in the past have put more emphasis on purely new-business production.

With insurance markets still in a somewhat fragile condition and with correspondingly much concern about the quality of security that underwriters offer, those brokers who can best access Lloyd's and the major financially strong insurance companies are the ones that stand to prosper most.

Insurance brokerage stocks in London have responded significantly to the trends in the marketplace and, generally helped by the strength of the dollar, show substantial gains. Over the course of 1984, they are among the leading performers in the British equity market as a whole, and we judge that their prospects in 1985 and 1986 should be very encouraging.

It would be inappropriate to single out the stock of any specific company as having outpaced its peers, but among the group, Sedgwick Group P.L.C. has tended to lag behind other brokers. This may be partly a function of its size—it represents around 40% of the sector in terms of capitalization. But, it could owe something, too, to a more-sluggish profit performance this year.

One perennial drag on Sedgwick's share price has been the uncertainty over its ambitions in the U.S. insurance market. And, despite clear signs to the contrary, there were still those who believed that a union with Alexander & Alexander Services Inc. could not be ruled out.

Now that Alexander & Alexander and Reed Stenhouse Cos. Ltd., the sixth-largest brokerage group worldwide, have agreed on a merger, and bearing in mind that A&A already had strengthened its own London wholesale brokering capabilities through raids on Sedgwick's workforce, such thoughts can be firmly laid to rest.

Sedgwick's big conundrum, as a traditional major wholesaler of U.S. broker-produced risks, has always been to assess the win/loss ramifications if it ever surrendered its "independent" tag.

In the later 1970s, arguably, only a merger with Alexander & Alexander would have produced a net win result. Since that time, however, the alignment of a succession of major U.S. brokers with various Lloyd's brokering firms, plus the expansion of Sedgwick into other areas, notably mainland Europe, has taken some of the sting out of the equation.

Thus, perhaps, the parameters of the win/lose equation have changed so that one of the other freestanding U.S. firms might now be a suitable partner. And, any of the admittedly limited range of alternatives that the group might now be pondering would certainly not have the same scale of financing implications that would have been inherent in a deal with Alexander & Alexander. Perhaps that thought will lead investors to assess the relative merits of Sedgwick more kindly in 1985.

Perceived positive factors attached to Sedgwick's major British-based competitors also have helped to widen the disparity in the stocks' performance. C.E. Heath P.L.C., Hogg Robinson (U.K.) Ltd., Minet Holdings P.L.C. and Stewart Wrightson P.L.C. each has, at one time or another, been perceived as vulnerable to a bid.

At the same time, it is reckoned to be the likes of Hogg Robinson or Stewart Wrightson, with their wafer-thin margins of profit, that might enjoy the best rates of profit growth as premium rates firm up. Willis Faber P.L.C.—which is a consistently good profit performer and not usually part of bid rumors but which has a loyal investor following—often seems to derive most of its stock market momentum passively from the upward push on the stock prices of its competitors.

The strong belief that at long last the market is hardening has helped the British property/casualty insurance stocks as well as the brokers.

But, it is recognized that there will be a much-longer lag between the upturn and its manifestation in earnings statements in the case of the property/casualty insurers.

In the interim, there are still horrendous results to be digested, such as those for the first nine months of 1984. For Commercial Union Assurance Co. P.L.C., the period saw a net attributable loss of 40 million pounds ($46 million), while for Royal Insurance the deficit was 8.6 million pounds ($9.9 million) Of the U.S.-oriented British insurers, only General Accident Fire & Life Assurance Corp. P.L.C. was in the black—and only barely.

But, with talk of premium rates rising after so many years of depression, U.K. investors have been prepared to forgive past mistakes and look to new horizons. Let's all hope that this time there really is no false dawn. ■

Alan H. Clifton and Philip V. Olsen are analysts with London-based Kitcat & Aitken. They report quarterly on the British insurance industry for Business Insurance, in addition to supplying weekly earnings reports on British companies for BI Ticker.

British Issues

29 Jan Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence	pence
Comml Union	194	N/M	16.9	8.7	201—194	
Genl Accident	520	52.0	27.1	5.2	535—520	
Gdn Royal Exch	652	17.6	32.9	5.0	668—652	
Royal	565	94.2	32.6	5.8	573—555	
Sun Alliance	418	39.8	20.0	4.8	428—413	
Brokers						
CE Heath	637	10.9	24.3	3.8	640—620	
Hogg Robinson	246	14.1	9.7	3.9	253—246	
JH Minet	247	17.0	7.4	3.0	253—247	
Sedg Grp	376	17.5	11.5	3.0	378—369	
Stew Wrightson	617	17.6	21.4	3.5	617—590	
Willis Faber	666	23.8	15.0	2.3	666—618	

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

Northland boosts capital

Northland Co. made a $10 million capital contribution to the Northland Insurance Co. of St. Paul, Minn., bringing the insurer's total statutory capital to $40 million. In turn, Northland Insurance contributed $5 million to the capital of its wholly owned subsidiary Northfield Insurance Co., bringing that company's total to $10.5 million. The additional funds will be used for expansion of existing products and development of new lines.

Reliance declares dividend

The Reliance Insurance Co. declared a regular quarterly dividend on its Series A Preferred Stock of 67 cents a share, payable April 1 to shareholders of record March 15.

USLIFE dividend

USLIFE Corp. has declared a quarterly dividend of 26 cents per share of common stock, payable March 1 to shareholders of record Feb. 8.

Healthways Systems

Healthways Systems Inc., a health maintenance organization headquartered in Iselin, N.J., is awaiting approval from the Securities and Exchange Commission to offer 1 million shares of common stock.

Funds generated from the sale will be used for general corporate purposes, including the expansion in new areas and the installation of computer systems, according to Thomas P. Hartnett, the HMO's president. ■

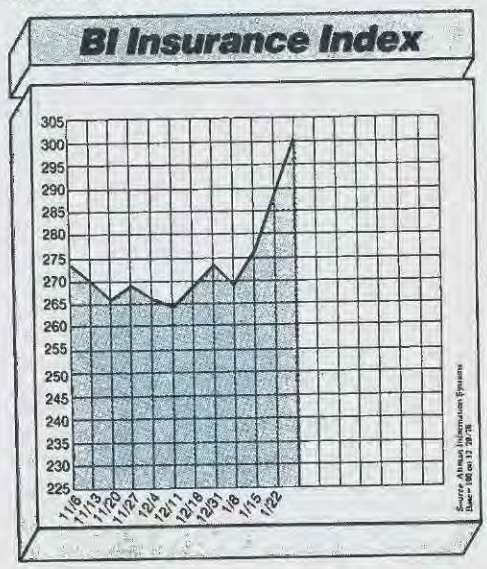
BI Industry Stock Report

Insurance Cos.		Jan. 29, 1985 Price	% Chg.	P/E	$ Div.	% Yld.	1/23/85 thru 1/29/85 High	Low	Vol. (000)
Aetna Life & Cas Co	NYSE	39.75	7.4	20.4	2.64	6.6	39.75*	38.25	1,°38.8
American General Corp	NYSE	27.88	0.0	10.3	0.90	3.2	28.25*	27.63	1,628.1
Amern Heritage Life Invt Co	NYSE	31.25	0.0	12.5	1.08	3.5	31.38	31.00	3.5
American Indty Finl Corp	OTC	15.25	0.0	0.0	1.12	7.3	15.25	15.00*	6.0
American Intl Group Inc	NYSE	72.00	5.1	14.1	0.44	0.6	72.00	70.50	522.0
Aneco Reins Ltd	OTC	1.63	0.0	0.0	0.00	0.0	1.63	1.63	6.6
Avemco Corp	AMEX	21.25	1.2	11.7	0.60	2.8	21.38	20.75	9.4
Bitco Corp	OTC	11.75	2.2	2.1	0.40	3.4	11.75	11.75	14.5
Business Mens Assurn Co Amer	OTC	49.25	0.0	8.6	1.94	3.9	49.75	49.25	27.4
Carolina Cas Ins Co	OTC	3.25	0.0	0.0	0.00	0.0	3.25	3.25	3.4
Chubb Corp	NYSE	52.50	-0.2	18.4	2.20	4.2	52.75*	52.13	298.6
Combined Intl Corp	NYSE	40.25	4.5	10.2	2.08	5.2	41.00	39.00	317.6
Continental Corp	NYSE	38.38	2.0	109.6	2.60	6.8	38.38*	37.00	803.6
Crown Life Ins Co	OTC	122.00	3.0	8.0	4.00	3.3	122.00	120.75	0.8
Durham Corp	OTC	36.88	0.0	11.3	1.16	3.1	37.00	36.75	34.4
Farmers Group Inc	OTC	57.00	5.3	12.3	1.52	2.7	57.00*	54.25	771.6
Fremont Gen Corp	OTC	21.00	12.8	0.0	0.48	2.3	21.00*	19.25	255.0
Great West Life Assurn Co	OTC	325.00	0.0	8.7	12.00	3.7	325.00	325.00	0.0
Hanover Ins Co	OTC	32.75	9.2	15.6	0.56	1.7	32.75*	30.25	86.5
Hartford Steam Boiler Inspctn	OTC	60.50	0.0	20.0	3.00	5.0	61.00*	60.50	4.2
Kans City Life Ins	OTC	77.00	0.0	12.5	2.60	3.4	77.00	76.00	3.8
Kemper Corp	OTC	46.88	4.7	33.2	1.80	3.8	46.88*	45.50	98.3
Liberty Corp S C	NYSE	29.00	0.0	13.9	0.72	2.5	29.13	28.75	49.4
Lincoln Natl Corp Ind	NYSE	40.50	0.3	9.4	1.84	4.5	40.50	39.50	269.1
Mission Ins Group Inc	NYSE	7.38	-6.3	0.0	0.50	6.8	8.00	7.13*	296.5
Monumental Corp	OTC	29.38	0.0	13.2	1.30	4.4	29.38	28.75	5.6
Northwestern Natl Life Ins	OTC	34.88	6.1	13.5	0.80	2.3	34.88*	32.88	504.6
Ohio Cas Corp	OTC	47.88	3.5	18.0	2.68	5.6	48.00	47.75	80.9
Old Rep Intl Corp	OTC	31.00	0.8	6.2	0.88	2.8	31.50	30.75	161.5
Orion Cap Corp	NYSE	22.75	4.6	252.8	0.76	3.3	23.00	22.50	41.4
Protective Corp	OTC	20.75	0.0	9.8	0.62	3.0	20.75	19.13	108.7
Provident Life & Acc Ins Co	OTC	84.50	4.3	7.9	2.88	3.4	84.50*	81.00	73.5
St Paul Cos Inc	OTC	52.13	-0.7	0.0	3.00	5.8	54.00	52.13	538.9
SAFECO Corp	OTC	34.88	2.6	11.5	1.50	4.3	34.88	34.00	1,164.1
Sri Corp	OTC	19.00	4.1	15.7	0.68	3.6	19.63*	18.75	68.2
Seibels Bruce Group Inc	OTC	22.75	3.4	0.0	0.80	3.5	22.75	22.38	511.8
Statesman Group Inc	OTC	6.50	2.0	9.7	0.15	2.3	6.50	6.25	106.8
Tokio Marine & Fire Ins Co	OTC	142.25	-1.9	24.6	1.05	0.7	145.00	138.50	14.0
Torchmark Corp	NYSE	34.88	0.0	11.7	1.00	2.9	34.88	33.38	238.5
Travelers Corp	NYSE	41.38	3.4	10.4	2.04	4.9	41.38*	40.75	2,476.2
United Fire & Cas Co	OTC	21.00	2.4	0.0	0.80	3.8	21.00	21.00	0.9
United States Fid & Gty Co	NYSE	28.13	1.8	9.0	2.08	7.4	28.63	27.25	709.4
Uslife Corp	NYSE	37.88	1.0	10.6	1.04	2.7	38.00*	37.50	375.1
Washington Natl Corp	NYSE	24.75	2.6	13.7	1.08	4.4	24.88	24.63	99.8
Zenith Natl Ins Corp	OTC	14.50	1.8	11.5	0.68	4.7	14.50	14.25	76.8
INSURANCE COMPANIES	AVERAGE			15.0		3.6			
Agents/Brokers									
Alexander & Alexander Svcs	NYSE	25.63	-1.0	284.7	1.00	3.9	26.00	25.50	1,052.7
Baldwin & Lyons Inc	OTC	47.00	4.4	20.3	0.80	1.7	47.00*	45.00	0.7
Corroon & Black Corp	NYSE	38.38	12.9	23.0	1.00	2.6	38.38*	32.63	821.4
Crump E H Cos Inc	OTC	21.75	-3.3	19.4	0.44	2.0	22.00	21.75	85.5
Emett & Chandler Cos Inc	OTC	11.00	0.0	0.0	0.00	0.0	11.00	11.00	0.0
Gallagher Arthur J & Co	OTC	31.00	1.6	21.5	0.22	0.0	31.00*	30.50	42.8
Hall Frank B & Co Inc	NYSE	25.00	-2.0	38.5	1.00	4.0	25.88	24.50	600.0
Marsh & Mclennan Cos Inc	NYSE	60.50	0.8	29.2	2.40	4.0	60.50*	59.50	254.9
Poe & Assoc Inc	OTC	7.00	12.0	0.0	0.00	0.0	7.00*	6.25	13.1
Reed Stenhouse Cos Ltd	OTC	20.00	3.9	28.6	0.60	3.0	20.13*	19.38	601.8
AGENTS/BROKERS	AVERAGE			32.0		2.5			
Conglomerates Holding Cos.									
American Express(Fireman's Fd)	NYSE	42.00	9.1	15.1	1.28	3.0	42.00*	39.88	5,892.0
Anderson Clayton(Ranger/PanAm)	NYSE	35.88	0.7	16.9	1.32	3.7	36.50*	35.75	73.1
Aracc Inc	NYSE	11.00	1.1	0.0	0.00	0.0	11.00	10.75	410.4
CIGNA Corp	NYSE	47.13	2.7	38.9	2.60	5.5	47.13	46.25	866.8
City Investing Co. (Home Ins.)	NYSE	39.75	1.9	9.6	2.00	5.0	39.75	39.13	869.7
CNA Finl Corp (CNA)	NYSE	38.00	-5.0	18.5	0.00	0.0	38.63	38.00	108.5
General Re Corp	NYSE	68.75	6.6	24.0	1.44	2.1	68.75*	65.50	637.5
ITT (Hartford Group)	NYSE	31.13	-2.7	8.5	1.00	3.2	31.88	31.13	2,017.5
Optimum Hldg Corp	OTC	0.38	99.5	0.0	0.00	0.0	0.38	0.19	16.2
Sears Roebuck & Co. (Allstate)	NYSE	36.38	7.0	8.8	1.76	4.8	36.38	34.63	4,725.9
Teledyne Inc (Argonaut)	NYSE	265.75	4.3	14.6	0.00	0.0	266.50	254.75	185.3
Transamerica Corp (Occidental & Fred S. James)	NYSE	28.00	2.3	12.1	1.64	5.9	28.00	26.75	1,215.7
CONGLOMERATES/HOLDING COS.	AVERAGE			17.2		2.0			

*Record high/low since Jan. 1, 1984

System design: Altman Information Systems

BI Insurance Index



The *Business Insurance* stock index reached a record high, breaking the mark set last week. For the period ending Jan. 19, the *BI* index of insurance industry stocks closed at 301.4 points, up 12.3 points from 289.1 points on Jan. 22. A total of 43 stocks were up, seven were down and eight were unchanged. The biggest gains were posted by Optimum Holding Corp., up 99.5%; Corroon & Black Corp., up 12.9%; Fremont General Corp., up 12.8%; Poe & Associates Inc., up 12%; and Hanover Insurance Co., up 9.2%. The biggest losses were posted by Mission Insurance Group Inc., down 6.3%; CNA Financial Corp., down 5%; Crump Cos. Inc., down 3.3%; Frank B. Hall & Co. Inc., down 2%; and Tokio Marine & Fire Insurance Co., down 1.9%. The *BI* index rose 4.3% for the period, while the NYSE composite rose 2.1%.

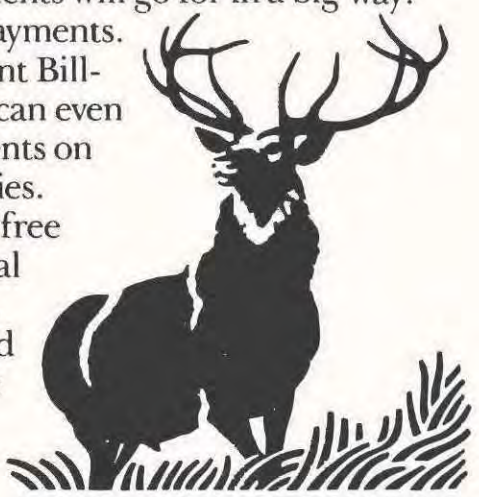
12 more reasons to sell business insurance from the company with the stag.

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