

business insurance

Reporting weekly for corporate risk, employee benefit and financial executives/\$1.50 a copy; \$52 a year

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update

Infighting erupting among MGM insurers

LAS VEGAS—Several excess insurers that underwrote retroactive liability coverage for MGM Grand Hotels Inc. after a 1980 fire at its Las Vegas hotel are suing underlying retroactive insurers for failing to settle with the hotel company within their policy limits.

MGM offered to settle its claim against the retroactive insurers for \$50 million in November 1982, the

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Insurers still debating claims-made CGL form

By DOUGLAS McLEOD

NEW YORK—Major property/casualty insurers still are debating the virtues of the new claims-made general liability form introduced by the Insurance Services Office, and one major insurer isn't sure it will use the form.

Some insurers, including Hartford Insurance Group and CIGNA Corp., have reservations about several of the new form's provisions, or express worries about switching from the occurrence form commonly used today to the claims-made alternative.

But other insurers, including St. Paul Cos. and Travelers Indemnity Co., say they generally are satisfied with the policy and see only minor difficulties in making the transition from current forms.

ISO plans no further significant changes in the policy before filing it for approval with state insurance regulators later this year and next, though it will continue to review comments on the form, according to Senior Vp Richard Savage.

CIGNA plans to press its objections in hearings of the ISO executive committee, according to Assistant Vp Robert G. Warren. It doesn't expect to force any changes in the policy, though, and probably will use the new form if it is filed and approved as scheduled by November 1985.

Hartford, however, still holds out a hope of changing the new policy's provisions and has not yet decided whether it will use the form as currently written. Hartford is examining several alternatives to the ISO form, one of which is to file its own claims-made policy with regulators, according to Secretary David A. Sterling.

Although they generally support the new ISO policy, St. Paul and Travelers have made no commitment to use the form before its projected 1985 effective date, but Edwin J. Rinehimer, a Travelers associate director, said the insurer still "holds open the possibility of using it early."

Several other insurers contacted by *Business Insurance*—including American International Group Inc., Fireman's Fund Insurance Cos., United States Fidelity & Guaranty Co. and CNA Financial Corp.—declined comment on the new policy.

ISO, an insurer trade organization, last month unveiled the final draft of two new versions of its standard CGL policy, one with a claims-made trigger and one with a more traditional occurrence trigger (*BI*, Jan. 9).

Under the revised occurrence form, which differs little from CGL

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Reagan budget urges tax on health insurance

By JERRY GEISEL

WASHINGTON—Employers and employees beware: The Reagan administration isn't giving up its plan to tax health insurance premiums.

Despite intense opposition from employers, insurers and unions, the administration in its proposed budget for fiscal 1985 is asking Congress to pass legislation that would tax employees on employer health insurance contributions that exceed \$175 a month for family coverage or \$70 per month for individual coverage. The administration sees such a tax as a way to raise more revenue as well as a health care cost-containment move.

The administration also wants to cut federal and military pension costs in an effort to trim federal expenses, but is willing to increase the tax advantages of Individual Retirement Accounts for employees' spouses.

This isn't the first time the administration has proposed taxing health insurance contributions. Last year, the administration asked Congress to enact an identical plan, which Sen. Robert Dole, R-Kan., formally introduced as S. 640.

Both the administration's bill, and a related proposal suggested by Sen. Dole that would tax health care premiums exceeding \$100 a month for individual coverage or \$250 a month for family coverage, have been stuck in congressional committees.

But the lack of a favorable congressional response isn't discouraging the administration from trying again to get the proposal enacted.

The tax cap, which the administration says would

raise \$2.8 billion in fiscal 1985, "is a necessary idea," said Margaret Heckler, secretary of the Department of Health and Human Services. "It deserves serious consideration."

Ms. Heckler said she isn't discouraged that the tax cap plan hasn't generated much congressional support so far.

"We must allow an idea to mature," she said. Although few congressmen back the health care tax, benefit experts warn that employers should not assume that the plan isn't going anywhere.

"It is hard to kill a bill as long as the administration backs it," said James Dorsch, Washington counsel for the Health Insurance Assn. of America, an industry trade group.

In addition, some congressional leaders, like Sen. Dole, who chairs the Senate Finance Committee, will look at the tax cap plan favorably as a possible revenue-raising device, said Deborah Chollet, a research associate at the Employee Benefit Research Institute, a benefits think tank.

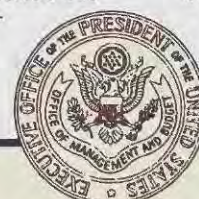
Furthermore, the plan could gain momentum if the Presidential Advisory Council on Social Security, as expected, officially recommends this month that a health care tax be enacted and the revenues used to shore up the financially troubled

Medicare trust fund, which pays health care benefits for retirees.

If the health care tax were enacted, it would cost both employers and employees.

For example, employees that earn between \$20,000 and \$29,999 would pay \$260 a year more in federal,

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Benefit targets of Reagan budget

Capping tax-free health insurance
= \$2.8 billion in new revenues

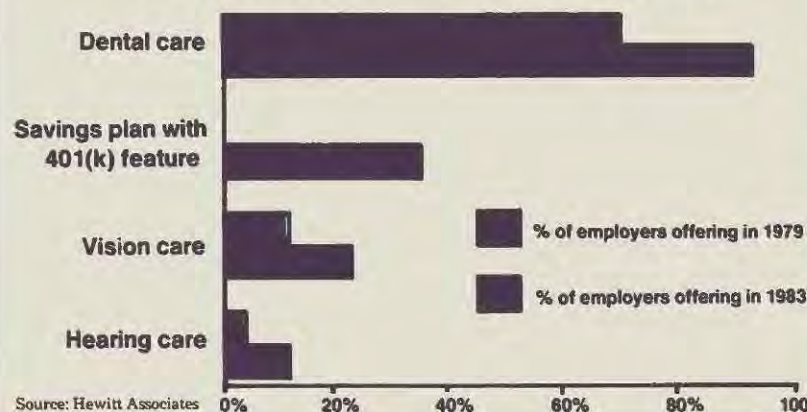
Cutting federal pension benefits
= \$400 million savings

Cutting military pensions
= \$300 million savings

Total: \$3.5 billion

Recession doesn't stop growth of benefits

How benefit programs expanded 1979-83



By JERRY GEISEL

LINCOLNSHIRE, Ill.—Despite tough economic times, employers are expanding their benefit programs for salaried employees, according to a new survey.

Dental insurance plans have become an almost universal benefit offered by 92% of employers, up from 70% in 1979.

Vision care and hearing plans also are rapidly expanding. Last year, 23% of employers offered vision plans to salaried employees, compared with 11% in 1979. During the same five-year period, the percentage of employers providing hearing care plans more than doubled to 11% from 5%.

Some benefit programs, already popular in 1979, are now even more widespread. For example, some 94% of employers last year provided post-retirement medical care benefits to their retirees, up from 88% in 1979.

And some benefits that were unheard-of in 1979 are rapidly becoming part and parcel of benefit programs. For example, 36% of employers with matched savings/thrift plans incorporated a 401(k) salary reduction feature in those plans last year. The 401(k) feature is named for that section of the Internal Revenue Code that allows pretax contributions to be made to a plan where they accumulate interest tax-free until they are withdrawn, usually at retirement.

On the other hand, more employers are boosting medical care deductibles. But with medical care costs increasing by double digits during the last few years, increases in deductibles really can't be viewed as benefit cuts.

These major expansions of employer-provided benefit programs for salaried employees are found in a survey of 250 major U.S. employers released this month by Hewitt Associates, a Lincolnshire,

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update

MGM's insurers fight each other

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third-layer excess insurers charge in cross-claims filed last week in the 8th Judicial District for the State of Nevada in Las Vegas.

If the claim had been settled for \$50 million, it would not have pierced the third layer, which attaches above \$70 million provided by two underlying layers of retroactive insurance. But, the claim was not settled and now the hotel company is seeking \$75 million—the amount of its final settlement with fire victims—plus about \$20 million to date in related legal costs (*BI*, Jan. 10, 1983).

The cross-claims are the latest salvo in the disputed coverage litigation brought last March by the hotel company against its retroactive insurers (*BI*, March 21, 1983). The cross-claims pit the third-layer excess insurers, who are defendants in the suit brought by MGM Grand, against the first- and second-layer excess insurance defendants.

If MGM Grand eventually wins its suit against the retroactive liability insurers, then the cross-claims seek subrogation on behalf of the third-layer insurers from the first- and second-layer insurers.

At least six of the nine third-layer excess insurers are participating in cross-claims against first-layer insurer Union International Insurance Co. Ltd. and its parent, broker Frank B. Hall & Co. Inc., and about eight second-layer insurers. The third-layer excess insurers participating in the cross-claims include St. Paul Surplus Lines Insurance Co., Northbrook Excess & Surplus Insurance Co., United States Fire Insurance Co., Northumberland General Insurance Co., Guardian Insurance Co. of Canada and Insurance Corp. of Ireland Ltd. However, one of the third-layer excess insurers, The Travelers Indemnity Co., will not be filing a cross-claim, said an attorney representing the insurer.

Butler resigns from AFIA

PHILADELPHIA—AFIA President and Chief Executive Officer Paul J. Butler resigned last week when CIGNA Corp. completed its acquisition of the international underwriting association.

Had Mr. Butler remained, he would have reported to CIGNA International President David W. Schrempf, who will be president of the combined operations (*BI*, Dec. 26, 1983, Jan. 30).

Last skywalk cases settled

KANSAS CITY—The last two cases in litigation stemming from the collapse of the skywalks at the Kansas City Hyatt Regency Hotel nearly three years ago have been settled, bringing the total liability costs for the disaster to \$108 million.

A wrongful death claim brought by Barbara Workman and her four children on behalf of Max Workman, who died of a heart attack a year and a half after the collapse, was settled for an undisclosed sum. The suit alleged in part that the emotional injury suffered by Mr. Workman, who witnessed the collapse, contributed to his death.

Also "informally and tentatively" settled as of last week was a suit brought by William Raridon, 26, who was pinned under the wreckage. An attorney for Mr. Raridon said the settlement is "one of the most substantial."

Iran pays \$14.7 for seized oil rig

LONDON—Reading & Bates Exploration Co. of Tulsa, Okla., and its insurers will split a \$14.7 million recovery from Iran awarded Jan. 26 by the U.S.-Iranian claims tribunal in The Hague, Netherlands.

The recovery is for losses associated with the 1979 Iranian government seizure of a drilling rig owned by Reading & Bates.

Reading & Bates originally estimated its losses at \$85 million, which included the cost of the rig, lost contracts and loss of production, a company spokeswoman said. Lloyd's of London and member companies of the Institute of London Underwriters paid an \$18 million claim to Reading & Bates shortly after the seizure.

So far, the claims tribunal has handed down 96 decisions for the 3,300 claims that have been filed. In all, U.S. companies are seeking \$4 billion for their expropriated assets (*BI*, Jan. 2).

House passes veterans' bill

WASHINGTON—The House last week passed legislation to provide partial compensation to military veterans whose health problems are linked to exposure to the herbicide Agent Orange in Vietnam and to radioactivity from atomic testing.

The legislation, Agent Orange and Atomic Veterans Relief Act, H.R. 1961, would set up a compensation program for veterans diagnosed as suffering from a limited number of diseases.

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Rulings on future claims favor asbestos firms

By STEPHEN TARNOFF

NEW YORK—The fortunes of asbestos producers that have filed for bankruptcy due to overwhelming asbestos litigation appear considerably brighter following two recent court decisions.

This optimism stems from decisions involving future asbestos claimants by U.S. Bankruptcy Court Judge Burton R. Lifland in Manville Corp.'s bankruptcy and by the 7th U.S. Circuit Court of Appeals in the bankruptcy of UNR Industries Inc. in Chicago.

Both courts have indicated that it is conceivable that claims of future victims of asbestos-related disease could be included in bankruptcy proceedings.

Judge Lifland's opinion especially says that future claimants have a "cognizable interest" that must be considered in the bankruptcy proceedings because they are a "central focus" of the litigation.

In the UNR case, the appeals court dismissed UNR's appeal of a lower-court ruling that future claimants were not entitled to a legal representative. However, the appeals court said that future claims could possibly be considered in bankruptcy proceedings.

The rulings are significant, attorneys say, because other courts hearing the novel legal question have ruled that future claimants could not be represented in the bankruptcy proceedings.

Besides benefiting asbestos defendants that have

filed for bankruptcy, the decisions also could benefit other asbestos defendants by furthering a global settlement of all asbestos cases, some attorneys say.

"It is the first time that any bankruptcy court has speculated along those lines (to include future claimants)," says Stephen J. Shimshak, an attorney for Keene Corp. with the New York firm of Anderson Russell Kill & Olick.

"What we're seeing at the very minimum is another view," or perhaps a rationale developing to include future claims.

Keene is the Manville co-defendant that sought a ruling that future claimants be included in the bankruptcy proceedings.

Manville, UNR and Amatec Corp. of Norristown, Pa., all filed for reorganization under Chapter 11 of the Federal Bankruptcy Act because they could not deal with the thousands of pending and future claims and still remain solvent. Manville and UNR say they are facing between 30,000 and 120,000 additional lawsuits from asbestos-disease victims.

However, Judge Lifland's decision could complicate things for Manville because, while it initially asked the bankruptcy court to rule on future claims, it did not include them as part of the reorganization plan it recently filed.

Instead, Manville is seeking the establishment of a

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Allianz eyes Armco units

By DOUGLAS McLEOD

MIDDLETOWN, Ohio—Armco Inc. is in the first stages of selling its insurance subsidiaries to Allianz Versicherungs A.G., both companies say, with a definitive agreement awaiting an examination by the giant West German insurer.

"I see it as a very preliminary agreement," said a spokesman for Armco Insurance Group Inc. in Milwaukee.

Allianz says it has agreed only to examine the Armco insurance units for possible acquisition. More definitive arrangements will depend on the outcome of the examination now under way.

Among the points to be determined in the review are the purchase price of the Armco insurance operations and whether Armco, the nation's sixth-largest steel producer, will assume any of the run-off risk on its current book of business.

Armco, which reported a \$672.5 million loss for 1983, announced last week that it intends to sell all of its foreign and domestic insurance operations. The operations include Armco Insurance Group, British National Insurance Co. Ltd. of the United Kingdom, British National Insurance Co. of Bermuda and Armco International Insurance Co. of Bermuda, which evolved from Armco's captive, Bellefonte

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Olympic committees insure this week's Winter Games

By JIM DAVIS

Like the competition itself, insurance for the Olympic Winter Games that begin this week in Sarajevo, Yugoslavia, has an international flavor.



Photo: Wide World

The committees will be covered when the Olympic flame is lit.

The International Olympic Committee, the Games' governing body, has taken out coverage for various risks led by the Paris office of American International Underwriters, an affiliate of American International Group Inc., says Damira Buzdovacic, an assistant vp at AIU.

And the Yugoslav Olympic Organizing Committee, the local group that is staging the Games, has purchased similar coverage led by ZOIL Sarajevo, a Yugoslav insurer that reinsured part of the risk with Lloyd's of London, she said.

The IOC, for instance, has purchased \$30 million in coverage for cancellation, abandonment or transfer of the Olympics, scheduled to begin Feb. 8. Of this, AIU wrote \$10 million, Ms. Buzdovacic said, though she would not disclose the premiums paid on this or any other coverage.

The IOC also bought \$5 million of insurance from AIU to protect against loss of the international television signal carrying the Olympics.

And, because the area south of Sarajevo is earthquake-prone, Ms. Buzdovacic said, the IOC also took out a \$5 million earthquake insurance policy with AIU should the Games be canceled because of a tremor.

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Battle over Michigan fund continues

By CAROL CAIN

LANSING, Mich.—The battle over who rules the Michigan Accident Fund is continuing.

The legal maneuvering over the state workers compensation fund is taking place on two fields—a federal district court in Kalamazoo and a circuit court in Livingston County—and probably will continue for some time.

errors & omissions

• The San Francisco agency that originally designed the malpractice program for the American Assn. of Oral & Maxilla Surgeons is Glenn, Nyhan & Associates. The name of the agency was misspelled in the Jan. 23 issue.

Several points are at issue in the two cases, but of main interest is a pending order by Insurance Commissioner Nancy Baerwaldt for an average 17% reduction in workers compensation rates charged by the Accident Fund.

The 72-year-old state fund originally was created to serve the residual market but since has become the fourth-largest writer of workers compensation coverage in Michigan, insuring about 10,000 small and medium-sized employers.

Employers are concerned that a 17% reduction in the Accident Fund's rates will result in a non-competitive market that could eventually lead to higher rates, and they fear this could prompt the state to form a monopolistic state fund.

And, commercial insurers say they cannot match a 17% reduction in rates. Eight underwriters filed a suit last October in Livingston County Circuit Court seeking an injunction (*BI*, Oct. 17, 1983). They lost that

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BENEFITING FROM COMPUTERS

Claims systems helping firms assess programs

By STEVE TARAVELLA

Denny's Inc., the La Mirada, Calif.-based restaurant chain, says it's saving almost \$1 million a year by using in-house computer terminals to self-administer the medical, dental and disability claims of about 26,000 employees.

The Automobile Club of Southern California contracted with a preferred provider organization last month after utilization data from its claims-handling computer showed such a move would be more cost-effective than raising employee deductibles.

And, using data from its computerized health claims system, Lamb Weston Inc., an Oregon-based potato processing company, recently decided to cap the amount of chiropractic benefits it will pay to cut excessive utilization.

Success stories like these are turning self-insured employers into computer believers. Many are abandoning their claims relationships with insurers and third-party administrators and are automating claims operations in-house.

Of 119 benefit managers recently surveyed by *Business Insurance*, 21% now have claims information terminals in-house, while 42% expect to have them by the end of 1985 (*BI*, Dec. 26, 1983).

Those who have switched to computers cite increases in productivity, improved cash management and reductions in both costs and errors as some of the most noticeable advantages.

"You're sitting in the driver's seat of your plan," explains Brenda Welsh, benefit manager for the Automobile Club of Southern California. "No one else has as much interest in it as yourself. You'll watch more carefully the flow of your claims than if someone else were doing it for you."

But, perhaps most importantly, they say the analytical information produced by the systems is an invaluable tool in assessing their benefit plans and determining exactly how money is spent.

The importance placed on these analytical reports reflects a shift in priority among benefit managers, observes Wayne J. Ferrentino, senior vp-marketing for ERISCO Inc., a software company.

As recently as three years ago, he explains, benefit managers who shopped for a computerized claims system were looking primarily for a way to cut down on administrative costs and to increase productivity. Data about plan utilization was regarded as an added bonus.

But, he notes, improved pro-

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Automation at Ryder cuts administration costs

By STEVE TARAVELLA

MIAMI—Computerized claims processing is putting the brakes on health administration costs at Ryder System Inc.

The Miami-based trucking giant has used a computer to administer claims for its self-insured medical plan since April 1982 and put dental claims on line in May 1983, citing significant savings and improved efficiency in both cases.

For example, Ryder saved more than \$500,000 in medical payments in just one year because the company's computer system caught almost 2,000 duplicate claim submissions—submissions that likely would have resulted in a second payment under Ryder's previous manual-processing system.

And, based on the number of claims paid per department employee, the benefit department's productivity has increased about 130% since 1981, when claims were processed manually, says Joseph G. Charles, Ryder's director of employee benefits.

The benefit department has enjoyed the increase in productivity without an increase in staff for the past four years, despite a 20% growth in claims volume over about the same period of time.

Ryder System has found automation an invaluable tool in assessing the utilization of the company's benefit plans. Using analytical data produced by the computer system, Ryder has made significant modifications in its benefit program.

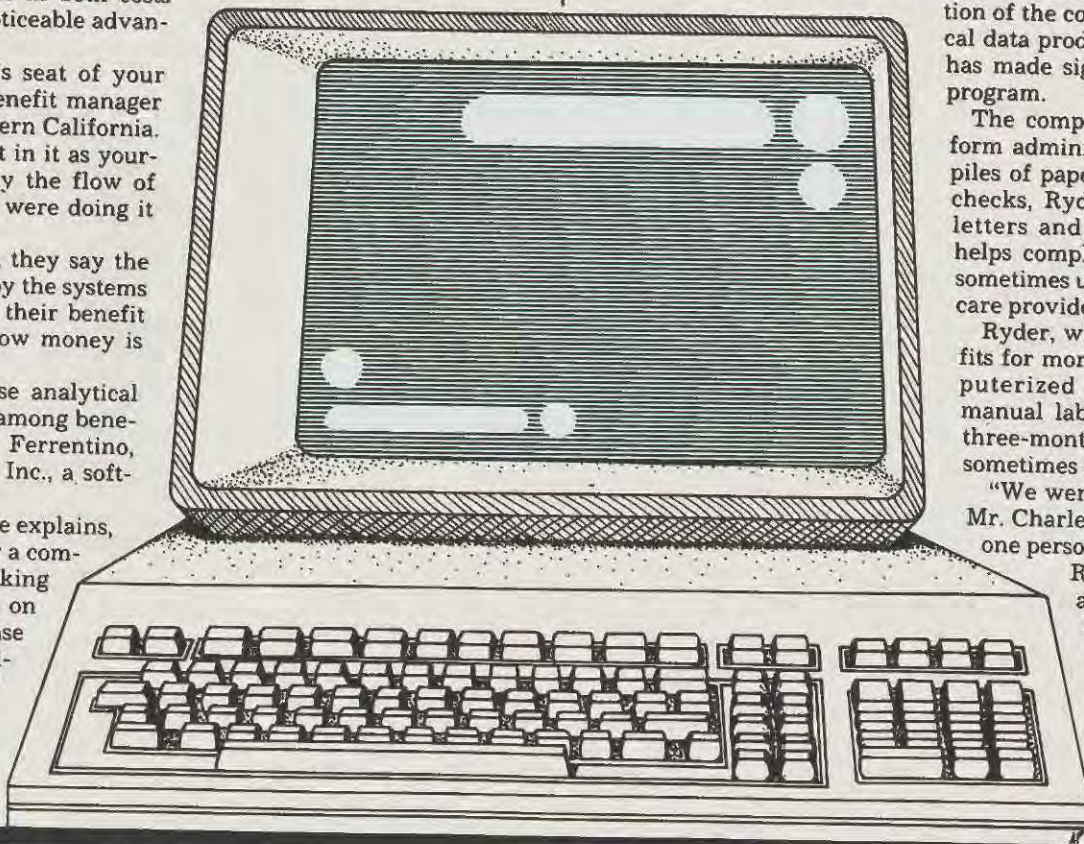
The company uses the system to quickly perform administrative tasks that previously meant piles of paperwork. In addition to issuing claims checks, Ryder's system also can generate form letters and personalized correspondence and helps complete 1099 forms, which self-insurers sometimes use to report payments made to health care providers.

Ryder, which has self-funded its health benefits for more than 25 years, turned toward computerized claims administration to reduce manual labor costs and to relieve the two- to three-month claims backlog that the company sometimes faced.

"We were bursting at the seams with paper," Mr. Charles remembers. "There's only so much one person can do."

Ryder System administers claims for about 15,000 employees and dependents covered under 21 different benefit plans at 18 separate companies, the largest of which is Ryder Truck Rental Inc. The holding company boasts annual revenues of more than \$2 billion.

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Older worker coverage adds little to costs

By JERRY GEISEL

WASHINGTON—Covering older workers under corporate health insurance plans is adding only a small amount to employers' health care costs, but bigger costs may be down the road.

Under a provision of the Tax Equity and Fiscal Responsibility Act of 1982, employers are required to enroll employees between the ages of 65 and 69 in their corporate health plans unless the employee chooses to be covered under the federal Medicare program.

The provision, which went into effect last year, was enacted to save the financially ailing Medicare program \$350 million a year.

At many firms, 100% of the older workers selected the employer plan over Medicare. Corporate plans are generally much more generous than the Medicare program, which has steep deductibles and high coinsurance requirements for hospital benefits.

But the added cost of opening corporate health insurance plans to older workers has been modest, often slightly more than 1%, because few employees stay on the job after 65, employers say.

For example, Borden Inc. in Columbus, Ohio, says providing primary health care coverage for older workers boosted its costs by \$250,000 to \$300,000, or about 1% of its total tab for health care. Borden, which has a U.S. workforce of 25,000, says all 200 of its older workers chose the Borden plan for primary health care coverage.

"It has been a manageable cost," said Michael Miller, director of employee benefits.

Covering older workers is boosting Washington-based Marriott Corp.'s \$35 million health care tab by about \$400,000. All but a couple of the 200 Marriott employees who are between 65 and 69 selected the company plan, said Robert Dankmyer, director of employee benefits. Marriott has about 50,000 U.S. employees.

Other employers' costs may be even less. For example, the Archdiocese of Baltimore has just two employees over 65 out of a workforce of 4,000 lay employees. "Most people retire at age 62," said John Mahoney, director of insurance.

While the cost of extending health care coverage to older workers has been modest, expenses could escalate sharply in the future

for several reasons, benefit managers and consultants say.

While older workers currently comprise a small percentage of the workforce, that percentage will increase, observes Art Young, benefits manager at Hewlett Packard Co. in Palo Alto, Calif.

More workers will stay on the job after age 65 because of continuing concerns about the financial future of the Social Security program, Mr. Young observed.

In addition, changes Congress made last year to the Social Security program to shore up its financial base probably ensure that workers will postpone retirement (*BI*, April 4, 1983).

For example, the age at which a worker can retire and collect full Social Security benefits will gradually increase to 67 in 2027. Currently, a worker can retire at age 65 and collect full Social Security benefits.

In addition, workers retiring at age 62 will have their initial Social Security benefits cut by 25% starting in 2009 and by 30% in 2027. Workers can now retire at age 62 and receive a benefit equal to 80% of the age-65 full benefit.

Also, Congress' decision to encourage older workers to enroll in corporate plans is a symbolic first step in the administration's and legislators' plans to shift more Medicare costs from the federal government to employers, experts say. It is predicted the Medicare program will run out of funds by 1990 unless changes are made.

Shifting health care coverage for older workers from Medicare to employers provides "short-term financial relief for Medicare," said Donald McKinnon, a principal in the Stamford, Conn., office of William M. Mercer Inc., a benefit consulting firm.

The next step to shore up Medicare—a drastic one—could be to require employers to provide primary health care to their retirees. Currently, many Fortune 500 companies provide supplemental health care benefits to retirees to pick up costs not covered by Medicare, while smaller firms often don't offer any post-retirement health care benefits.

The cost of extending health care coverage to retirees would mean billions of dollars in added costs for employers, said David Glueck, a vp with Towers, Perrin, Forster &

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Dayton Hudson sets up flexible accounts

Employees of Dayton Hudson Corp. in Minneapolis soon will be able to pay for non-insured health expenses and day-care expenses with pretax dollars deposited in their new flexible spending accounts.

The accounts—which were opened Feb. 1 for two Dayton Hudson divisions and will extend soon to all 10 operating units—are made possible by Section 125 of the Internal Revenue Tax Code. They are funded solely by employees through salary reductions.

Employees may contribute up to \$125 of pretax dollars per month to pay for health care expenses, like contributions toward medical and dental premiums, deductibles or other non-covered health costs. They may also contribute up to \$500 a month for reimbursement of

day-care expenses.

Reimbursements are made once a month. In addition, employees may opt into or out of the plan each month. At year-end, unused funds may be withdrawn as cash (as they may be at the end of any month during the year).

However, up to \$1,500 in the health care account and \$1,000 in the day-care account may be rolled over into the next year.

Although the company does offer a 401(k) savings plan to its workers, employees may not transfer unused FSA funds into their 401(k) accounts.

The two Dayton Hudson divisions that now participate in the

benefit beat

flexible spending account program are the company's corporate staff and Dayton's, a retail store chain. There are approximately 4,300 employees in the two divisions.

All 10 Dayton Hudson divisions, representing a total of more than 92,000 employees, will participate by early 1985.

Enrollment figures are not yet available, but the company expects 10% to 20% of the 4,000 retail store chain's employees and about 40% of the 300 corporate employees to participate in the FSA.

Early retirement

BankAmerica Corp., the San

Francisco-based bank holding company, is offering its salaried employees with 25 or more years of service special incentives to take early retirement.

The program, which went into effect Jan. 16, allows eligible employees who opt for early retirement to collect monthly cash payments equal to 50% of their monthly salaries for two years or until age 65, whichever comes first. The cash payments will be made in addition to the company's usual retirement benefits.

BankAmerica also will offer financial retirement counseling to the nearly 3,200 employees eligible for the program.

At least 1,000 of the eligible workers will decide to retire early, a company spokesman predicts.

BankAmerica employees have until March 15 to take the early retirement option.

In addition to pension benefits, the bank offers benefits available to early retirees that include group health and dental coverage that can be purchased at a group rate, free life insurance coverage, reduced loan rates and banking service fees and an education and recreation reimbursement plan, which will make a one-time \$300 payment to a retiree or spouse for an education or recreation class.

BankAmerica, the nation's second-largest bank holding company, made the early-retirement offer as part of its continuing efforts to reduce costs.

Through the first nine months of 1983, BankAmerica's profits fell 11%, to \$338 million from nearly \$380 million.

The spokesman could not say how much the company hopes to save through the program.

Life insurance

The Chicago-based American Hospital Assn. is sponsoring a payroll-deduction, whole life insurance plan underwritten by Aetna Life & Casualty Co. for its 5,000 member institutions.

The plan, called Aedvantage, was introduced to AHA hospitals late last year. To date, 15 hospitals are offering the program and nearly 50% of the eligible workers at each hospital have purchased coverage, said William Johnson, Aetna's associate director of sponsored marketing.

To be eligible, employees must be 18 to 65 years of age and must have been employed fulltime for more than a year.

The program has several advantages for employees, says Ken Epple, the AHA's risk manager.

"Competitive rates, liberal guaranteed standard issue and the membership cost are next to nil," he commented. "We expect it to do very well."

Employees can purchase a maximum of \$100,000 of coverage. Only amounts up to \$50,000, however, are sold on a guaranteed standard issue (a specific rate).

The cost of coverage under guaranteed standard issue varies according to age and sex groups, but no physical examination is required for employees to be covered under the program.

Any coverage exceeding \$50,000 is underwritten individually, with rates varying according to the employee's health, age and other factors.

Policies are reviewed annually for changes in mortality tables and employee premiums are adjusted accordingly.

In addition, \$10,000 of coverage can be purchased for spouses; children can also be covered, with the amount of coverage varying with the child's age.

No minimum amount of coverage is required and all payments are made through payroll deductions. However, the program is entirely employee-funded; participating hospitals do not contribute to the plan.

The plan is totally portable. Coverage can be maintained with premium billings sent directly to the home of employees who leave the hospital employer and elect to remain in the plan.

Benefit beat keeps insurance and employee benefit managers informed on what other companies are doing and of current developments in the employee benefit field. We'd like to know if you've made any changes. Please contact Sallie J. Drury, Associate Editor, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611; 312-649-5282.



**THIS IS THE WRONG
TIME TO FIND OUT
YOU DON'T HAVE
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It's too late after your business or your inventory has been badly damaged or destroyed.

That's why it's a good idea to consult an Independent Insurance Agent before you buy your business policy. An Independent Agent represents several



companies—not just one. So you get expert, professional advice on how to select the best business insurance coverage at the best price.

And right now your Independent Agent is offering an informative free booklet that can help make choosing the right business insurance a little easier. Get it. Before you need it.

You'll find the Independent Insurance Agent who's located nearest to you listed in the Yellow Pages right under the Big "I" symbol.



**THE MORE-THAN-ONE-COMPANY
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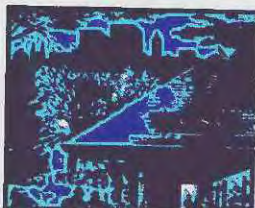
Highly Protected Risk.
That's a company that invests in prevention — for the sake of ultimate savings. More and more such companies are coming to Wausau for property insurance.

Wausau has the property engineering skills to help prevent major fire losses. And we work with policyholders on engineering new or existing buildings to qualify for extremely low HPR rates. If losses do occur, we have the financial strength to cover them.

What sets Wausau apart from other property insurers? Primarily it's training. A state-of-the-art Fire Protection Laboratory in our new training center (*left*) gives valuable, hands-on experience to our fire-protection specialists — and to policyholders' people, too.

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opinions



Dumb ideas don't always die

SOME DUMB IDEAS just won't go away.

The Reagan Administration budget again proposes taxing as income to employees premiums paid for health insurance by their employers that exceed \$840 for individual coverage and \$2,100 for family coverage.

The administration contends that this will ultimately help control the rising costs of health care. And, in fiscal 1985, it would add \$2.8 billion to the federal coffers.

We don't think that the tax cap would be all that effective in controlling health care costs. And we don't think it could be implemented equitably.

The argument that capping the amount of tax-free health insurance will control health care costs is nothing short of circuitous. One has to first assume that employers would respond to such a tax cap by either reducing the benefits in health care plans to lower their costs below the tax cap or by offering employees the option of selecting such a lower-cost health plan. Then one must assume that employees would opt for the cheaper plan if given the chance. Then one must assume that the reductions in benefits to make the plans cheaper would require employees to pay more toward the cost of health care. Then one must assume that if employees had to pay more of their health care costs that they would reduce their use of the health care system. And finally, one must assume that the tax cap will prevent employers from expanding health care benefits in the future.

We think the argument is lost on the first assumption. Many employers might very well just maintain their current health plans and let their employees pay

the tax on the value exceeding the tax cap. Those who do switch to a lower-cost alternative might just reduce the maximum benefit, which would be a mistake because it would leave employees exposed to catastrophic health care bills.

As for imposing a tax cap to induce employers to increase deductibles or coinsurance levels—it's redundant. Employers already are increasing deductibles and coinsurance, as a new Hewitt Associates study found (see story, page 1). They really don't need any added impetus to control health costs—they already are trying hard on a variety of fronts.

Finally, this tax cap could not be administered equitably. Employers that self-insure would have to put a "premium value" on their health plans. Employers would calculate their costs differently and could reduce or inflate the plan value depending upon what internal costs they allocated to the health plan. So, employees of different companies with equal benefits could be taxed differently.

And, there are substantial regional differences in the cost of health care that increase or decrease the cost of a health plan.

The employees that would be hurt the worst by a tax cap would be those living in high-cost areas and working for a small company that has to pay high insurance premiums to cover its employees because it can't self-insure and has no bargaining clout with insurers.

It's a dumb idea. And, employers should inform their workers about the proposal and enlist their support to fight it.

letters

Determining the size of the country's largest HMO

To the editor: In your Spotlight Report that highlighted HMO growth (BI, Dec. 19, 1983), you indicated that Health Plan of America was the largest hospital-sponsored operational HMO in the country, with 11,000 members.

You should be aware that PacifiCare, which was founded by the Lutheran Hos-

pital Society of Southern California and began operations as a federally qualified health maintenance organization in January 1979, has more than 72,000 members.

Terry Hartshorn
President
PacifiCare Inc.
Cypress, Calif.

Higher-paid workers lose with indexed plans

To the editor: I agree with your sentiment that salary-based cost-sharing systems for health insurance are not "fair." However, I believe that you missed the major and most overwhelmingly negative aspect of these plans.

Currently, health benefits discriminate overwhelmingly in favor of the lower-paid employee. Specifically, a \$1,500 annual medical insurance premium adds 10% to a company's cost for the \$15,000 employee. Conversely, for an employee

that earns \$50,000, the added cost to the company is only 3%.

To suggest that this current arrangement is unfair to the lower-paid employee is amusing. To the higher-paid employee, the additional burden and unfairness of the new salary indexed cost-sharing notion is ludicrous.

D.S. Frank
President
Unemployment Tax Council Inc.
Syracuse, N.Y.

■ The reference to Health Plan of America as the largest hospital-sponsored operational health maintenance organization was based on how many hospitals made a financial contribution to the HMO—in this case, 20 hospitals.

PacifiCare Inc., in comparison, is backed by the Lutheran Hospital Society of Southern California and its seven member hospitals. If the criterion had been number of members or contracting hospitals, PacifiCare would qualify as the largest hospital-sponsored health maintenance organization.

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.

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United States Life Insurance names Henderson president

Frank I. Henderson has been named president and chief operating officer of The United States Life Insurance Co. of New York, a unit of USLIFE Corp. that writes both individual and group life and health insurance.

Mr. Henderson succeeds **Gordon E. Crosby Jr.**, who continues as chairman of the life insurer and chairman, president and chief executive officer of the parent company. Prior to his promotion, Mr. Henderson had been vp-marketing at the life insurer.

Also at USLIFE, **John D. Gavrity** was named executive vp/chief actuary. He had been senior vp/chief actuary.

Other insurer changes:

Edmund N. Pascoe joined Harbor Insurance Co. and Pacific Insurance Co., both in Los Angeles, as senior vp. He is responsible for development and expansion of underwriting offices in Chicago, Dallas, Los Angeles, New York and San Francisco. Mr. Pascoe had been a second vp in charge of direct business markets for General Reinsurance Corp.

Gene G. Gopon joined North-

land Insurance Cos. in St. Paul, Minn., as president and chief executive officer. He succeeds **Paul J. Ochs**, who resigned. Mr. Gopon had been a senior vp and director of Bowes Holdings Inc. in Chicago.

Victoria A. Sarides named vp-commercial lines at Commercial Union Insurance Cos. in Boston. She is responsible for underwriting management of general liability, automobile and excess lines. She was most recently assistant vp-commercial lines.

Richard E. Guertin named vp-group pension operations at Massachusetts Mutual Life Insurance Co. in Springfield, Mass. He previously was second vp.

Excess/surplus

Robert J. Krupocki and **Charles T. Sponburgh** named vps at Shand, Morahan & Co. Inc. in Evanston Ill. Mr. Krupocki is responsible for claims for medical malpractice, insurance agents, insurance company and financial institutions. Mr. Sponburgh manages the miscellaneous/special risks claims department.

Roger J. Consolla named president and chief operating officer of L.W. Biegler Inc. of New York and Crum & Forster Managers Corp., both in New York City. Mr. Consolla had been vp of Dryden & Co. Inc. and Gibraltar Casualty Co. Mr. Consolla assumes his new posts from **Douglas W. Reid**, executive vp of Biegler of New York, who had been temporarily filling the posts.

John P. O'Connor appointed vp of Alliance Insurance Group of Illinois Inc. in Chicago. Alliance is a managing general agency for Central National Insurance Group of Omaha.

John A. Miller joined Maclean, Oddy & Associates Inc. in Dallas, as a senior vp. Mr. Miller had been a vp at Sweet & Crawford. Maclean, Oddy is a surplus lines subsidiary of British broker Sedgwick Group P.L.C.

Reinsurers

William A. Enouen to become temporary division president of Mead Reinsurance Corp. in Dayton, Ohio, when **George D. Kahler**, president of Mead Re, retires June 1. Mr. Enouen will hold the post until a permanent successor is named and will continue in his duties as corporate vp at parent Mead Corp.

James E. Dwane

promoted to senior vp of Prudential Reinsurance Co. in Newark, N.J. Mr. Dwane, who will continue to be in charge of the treaty department, also assumes responsibility for the facultative, captive and direct treaty departments.

Also at Prudential Re, **Thomas J. Gallagher** becomes head of the facultative department. Mr. Gallagher, a vp, had been head of operations of the Prudential Re facultative office in Los Angeles.

Trenwick Ltd. in Hamilton, Bermuda, elected **Paul Feldsher** as a vp. Mr. Feldsher joined the company earlier this year as a casualty underwriter for Trenwick Managers Inc. in New York.

Robert T. Guyer appointed ex-

ecutive vp and chief operating officer of Winterthur Inc., the manager of the U.S. branch of Winterthur Swiss Insurance Co. in New York.

Edward F. Holden

named senior vp at North American Reinsurance Corp. in New York. He serves as claims director for the corporation. He previously was vp-claims at North American Re.

Thomas F. McGrath III elected senior vp of Intere Intermediaires Inc. in New York. He manages the marine and aviation department. Also, **George P. Reeth** named vp of the marine and aviation department at Intere.

Timothy P. Makowski elected vp of Scor Reinsurance Co. Mr. Makowski is the manager of the Chicago regional office.

Agents/brokers

Arnold Bergson named chairman of Republic Hogg Robinson Inc. Mr. Bergson will continue as president of Republic Hogg Robinson of New York Inc.

David Isenberg named senior vp of the David C. White Agency Inc. in Rockville Centre, N.Y. He had been marketing vp of the firm. At the same agency, **William P. Noble** appointed vp of property, marine and automobile lines. He was underwriting manager of the property and marine department. Also, **Joseph Caruso Jr.** promoted vp of casualty underwriting. He formerly was casualty underwriting manager.

Reed Stenhouse of California appointed **Philip E. Beauchamp** senior vp. Mr. Beauchamp is also manager of the medical facilities unit in the brokerage's San Francisco office.

Frank B. Hall & Co. of Rhode Island Inc. elected **David Z. Webster** vice chairman and **Frank M. Angeloro** president. **Robert W. Fuller** was appointed senior vp and **William A. Bradley** assistant vp. Mr. Webster continues as chief executive officer and Mr. Angeloro remains chief operating officer.

Charles L. Jones has been elected chief executive officer of Rollins Burdick Hunter of Kansas Inc., succeeding **Alvin C. Burton**, who will continue as chairman. Mr. Jones had been president and chief operating officer of the brokerage's Kansas subsidiary.

Charles W. Furlong has been appointed senior vp and manager of the Boston office of Reed Stenhouse Inc. of Massachusetts. Mr. Furlong had been a vp and account manager in the office.

Other suppliers

Patrice Rochette promoted to vp of the personalized annual reports division of Employee Communications Services Inc. in Natick, Mass. ECS is an employee communications consultant.

Jay A. Catlin appointed senior vp and manager of the New York employee benefits department for Reed Stenhouse Associates Inc., the employee benefits division of Reed Stenhouse Cos. Ltd. Mr. Catlin had been vp and manager of several benefits departments at Johnson & Higgins.



Mr. Holden



Mr. Dwane

NEWS RELEASE

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datebook

MARCH 6. Preferred Provider Organizations conference in Washington, sponsored by the Clearinghouse on Business Coalitions for Health Action; \$150. Clearinghouse on Business Coalitions for Health Action, 1615 H St. N.W., Washington, D.C. 20062; 202-463-5976.

MARCH 6-7. International Reinsurance conference in London, sponsored by Kluwer Publishing Ltd.; \$475. Kluwer Publishing Ltd., 20/24 Ropemaker St., London EC2Y 9AS; 01-588-4274; telex 881-725.

MARCH 8-9. Hazardous Waste Litigation 1984 program in Chicago, sponsored by the Practising Law Institute; \$350. Also **April 12-13** in New York. Practising Law Institute, Dept. KSC, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

MARCH 8-9. The 1984 John B. Walker CPCU—FIIC seminar in Ontario, sponsored by The Society of Chartered Property and Casualty Underwriters and The Society of Fellows of the Insurance Institute of Canada; \$270. Colson Mulherr, Society of CPCU, Kahler Hall, Providence Road, Malvern, Pa. 19355.

MARCH 12-14. Advanced Government Risk Management seminars at the University of Arizona at Tucson, sponsored by the Public Risk &

Insurance Management Assn.; \$325. Dr. Nestor Roos, 2030 E. Broadway, Tucson, Ariz. 85719; 602-622-5174; or Natalie Wasserman, PRIMA, 1120 G St. N.W., Suite 707, Washington, D.C. 20005; 202-737-7556.

MARCH 12-14. Fundamentals of Insurance course in Houston, sponsored by Risk and Insurance Management Society; \$445 for members; \$545 for non-members. Also **June 4-6** in New York; **Sept. 10-12** in Chicago; **Dec. 12-14** in Atlanta. RIMS, 205 E. 42nd St., New York, N.Y. 10017.

MARCH 12-16. Fundamentals of Modern Safety Management seminar in Atlanta, sponsored by the International Loss Control Institute; \$625. Richard Jump, International Loss Control Institute, P.O. Box 345, Loganville, Ga. 30249; 800-544-6001; 404-466-2208.

MARCH 13. Data Workshop and National Statistical Data Base briefing in Atlanta, sponsored by the Health Research Institute; free. Also **April 10** in Boston; **May 22** in Chicago; **June 12** in New York; **July 17** in San Francisco; **Aug. 7** in San Diego. Health Research Institute, 49 Quail Court, Suite 200, Walnut Creek, Calif. 94596; 415-676-2320.

MARCH 13. Risk Financing & Captives briefing in Bermuda, sponsored by Risk Planning Group; \$250. Precedes International Captive Insurance and Reinsurance Forum, March 14-16. Risk Planning Group Inc., 722 Post Road, Darien, Conn. 06820; 203-655-9791; telex 996358.

MARCH 13. Risk Management Information Systems conference in St. Louis, sponsored by Corporate Systems; \$50. Matt Davis, Corporate Systems, Box 31780, Amarillo, Texas 79120; 806-376-4223.

MARCH 13-14. Health Care Cost Containment workshop in Atlanta, sponsored by the Health Research Institute; \$395. Also **April 9-10** in Boston; **May 21-22** in Chicago; **June 11-12** in New York; **July 16-17** in San Francisco; **Aug. 6-7** in San Diego. Health Research Institute, 49 Quail Court, Suite 200, Walnut Creek, Calif. 94596.

MARCH 13-15. Reasoning Reinsurance seminar in Irving, Texas, sponsored by the University of Dallas; \$475. Professor Bruce Evans, Reinsurance Management Institute, University of Dallas, Irving, Texas 75061; 214-721-5360 or 214-721-5299.

MARCH 14. Advanced Post-Graduate Cost Containment workshop in Atlanta, sponsored by the Health Research Institute; \$195. Also **April 11** in Boston; **May 23** in Chicago; **June 13** in New York; **July 18** in San Francisco; **Aug. 8** in San Diego. Health Research Institute, 49 Quail Court, Suite 200, Walnut Creek, Calif. 94596.

MARCH 14. Health Improvement/Prevention workshop in Atlanta, sponsored by the Health Research Institute; \$195. Also **April 11** in Boston; **May 23** in Chicago; **June 13** in New York; **July 18** in San Francisco; **Aug. 8** in San Diego. Health Research Institute, 49 Quail Court, Suite 200, Walnut Creek, Calif. 94596; 415-676-2320.

MARCH 14. Hospital Trustee workshop in Atlanta, sponsored by Health Research Institute; \$195. Also **April 11** in Boston; **May 23** in Chicago; **June 13** in New York; **July 18** in San Francisco; **Aug. 8** in San Diego. Health Research Institute, 49 Quail Court, Suite 200, Walnut Creek, Calif. 94596; 415-676-2320.

MARCH 14. Third-Party Administrator workshop in Atlanta, sponsored by the Health Research Institute; \$395; \$195 for subsequent registrants. Also **April 11** in Boston; **May 23** in Chicago; **June 13** in New York; **July 18** in San Francisco; **Aug. 8** in San Diego. Health Research Institute, 49 Quail Court, Suite 200, Walnut Creek, Calif. 94596; 415-676-2320.

MARCH 14-16. 8th International Captive Insurance and Reinsurance forum in Bermuda, sponsored by Risk Planning Group; \$675; \$600 for subsequent registrants from same company. Risk Planning Group Inc., 722 Post Road, Darien, Conn. 06820.

MARCH 14-16. Petroleum Insurance conference in New Orleans, sponsored by the Professional Development Institute; \$395. Mellina Mahan or Genevieve Mahan, Professional Development Institute, North Texas State University, P.O. Box 13288, Denton, Texas 76203.

MARCH 19-21. Reinsurance in the 1980s: Buying, Pricing and Negotiating seminar in New York, sponsored by Executive Enterprises; \$650; \$575 for subsequent registrants. Christine Wanakas, Executive Enterprises, 33 W. 60th St., New York, N.Y. 10023.

APRIL 1-6. 22nd Annual Risk & Insurance Management Society conference in New York; \$520 for members; \$620 for non-members. RIMS Conference Department, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

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THE
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Claims automation grows

Continued from page 3

ductivity has taken a backseat to detailed reporting data that can be used for decision-making purposes.

Some of the ways by which software systems break down claim activity include:

- By diagnosis, procedure, health care provider and coverage.
- By cost per region, state, city and/or locale.
- By age and status of employee.

Most systems also provide an analysis of savings due to coordination of benefits and non-payment of duplicate claim submissions.

"The reason we went to this system was to get data...period," says Jack Bush, insurance and risk manager of the Lockheed California Co. in Burbank. He is using the DiMed claims-handling computer system manufactured by California Interactive.

"We have to have that data—it's all part of our cost management program," he explains.

Using 20 computer terminals, the company processes about 150,000 claims annually for about 20,000 employees covered under 14 different self-insured medical plans.

Mr. Bush notes that the company is currently evaluating a variety of hospital pricing arrangements, using data produced by DiMed. The system indicated that a diagnostic-related-group (DRG) approach might be the most cost-effective in light of the company's needs.

If Lockheed eventually decides to adopt a DRG system to evaluate the cost-effectiveness of various hospitals, DiMed's reporting functions will help the benefit department track its success.

Data from a computerized claims-handling system is also used regularly by Denny's, which processed about 123,000 medical, dental and disability claims last year. Denny's uses a Claims Administration System, manufactured by System Development Corp., with 25 terminals with 11 claims employees.

Denny's does not use an on-the-premises mainframe, but taps into SDC's computer via telephone for a monthly fee.

SDC's monthly rate begins at \$4,000 for companies with an employee base of about 5,000, and decreases as the number of employees increase, explains Jim K. Foran, director of marketing and sales. Employers must also consider telephone line usage, which could run from \$100 to \$1,800 a month, he adds.

The utilization data showed Mary A. Sacre, Denny's manager of corporate group benefits, that employees were often spending two days in the hospital to receive treatment that could easily have been administered on an outpatient basis.

To reduce hospital costs, Denny's decided to cover outpatient treatment 100%, compared with 80% for inpatient treatment. Ms. Sacre says the change has been successful, noting a significant shift to outpatient treatment from one- to two-day hospital stays.

Also, based on reporting data, the restaurant chain decided to increase its annual employee deductible to \$200 from \$100.

And Denny's, which now

spends an average of \$5 to administer each claim, would be paying \$10 to \$18 per claim if the company were still contracting with the Orange County, Calif., TPA it used until May 1980, estimates Ms. Sacre.

She estimates the company has saved an average of \$1 million annually for the past three years by processing in-house instead of with the TPA.

The TPA, which processed claims manually, completed 15 to 18 claims daily, Ms. Sacre recalls. Today, Denny's processors complete 70 to 75 claims daily, using its automated systems.

The Automobile Club of Southern California also considered raising its deductible, but the data produced by its computerized claims system advised against it implementing such a change.

Continued on page 13

MARCH

12

EMPLOYEE BENEFITS: CONTROLLING COSTS

COMING SOON

FEBRUARY

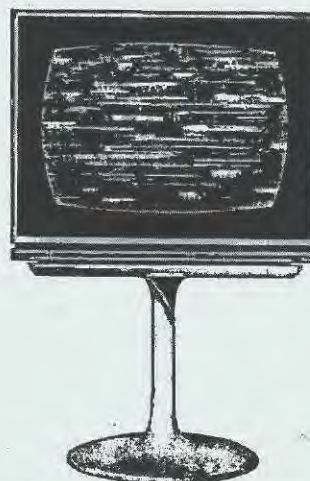
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Insurance Leaders in a New Age

Claims system cuts Ryder's administrative costs

Continued from page 3

Mr. Charles and Benefit Manager Renee Baderman studied the company's needs with assistance from Ryder's data processing division. They decided automation could reduce both backlog and administrative costs and searched the computer market for an appropriate claims-handling product.

After reviewing systems available from 12 major software vendors, they reduced Ryder's candidates to four: Automated Health Services Inc. in Countryside, Ill.; Information Systems of America in Atlanta; ERISCO Inc. in New York; and New York-based Woodward, Ryan, Sharp & Davis, now called Noble Lowndes International.

It was ERISCO's ClaimFacts that eventually was presented to top management. Management ap-

proved the purchase, for about \$300,000, including installation and training sessions. Ryder pays ERISCO an additional \$25,000 annual maintenance fee, for which Ryder is given any improvements or enhancements to the system.

Ryder operates the system on an IBM 4341 mainframe computer with 16 terminals.

"If I could take one word to describe ERISCO over the others we looked at, I'd use 'flexibility,'" Mr. Charles says.

He cites, in particular, ClaimFacts' single-screen processing function. This feature allows the user to operate in the top half of the screen while referring to completely different information displayed in the bottom half of the screen.

For example, if the processor ad-

justing a dependent's claim wants to verify the patient's name, the area in which information is entered will condense to the top of the screen to make room for the patient's file to appear on the bottom half of the screen.

The processor then can refer to the patient's medical history while simultaneously adjusting the current claim—all with the touch of a key.

Ms. Baderman points out another feature that drew Ryder to ERISCO. Since ClaimFacts can keep track of up to 10 plans simultaneously, the claims of employees who have been enrolled in several different benefit plans can be handled properly, she says.

If an employee transfers from one Ryder division—and benefit plan—to another, his or her utilization history remains easily accessible.

Or, if an employee files a claim for an expense incurred during the previous year, in which a lesser deductible applied, the system would note the fact and arrange for the appropriate payment.

After satisfying a \$200 annual deductible, employees and dependents are subject to a 20% coinsurance provision until medical costs reach \$5,000 or 15% of annual salary, whichever is less.

When out-of-pocket expenses reach one of those points, Ryder assumes full responsibility for the employee's major medical costs, up to a lifetime maximum of \$250,000.

Each of Ryder's 11 claims-processing employees now handles an average of 80 claims daily—more than what was processed manually in one week. And they will adjust about 130,000 claims this year, 30,000 more than they did in 1983, Mr. Charles estimates.

"If you asked any of them if they'd like to go back to doing it manually, not one of them would say yes," Mr. Charles says. "It's helped our productivity tremendously."

He estimates that administrative costs in the benefit department—with 30 employees, the largest administrative division in the company—were reduced by about 14.6% last year. And, he adds, Ryder's average hospital admission is less costly than that of any of the company's fellow members in the South Florida Health Action Coalition, a Miami-based employer health care coalition.

Mr. Charles attributes both of these feats largely to Ryder's use of ClaimFacts. "We use it to the nth degree," he says.

Wayne J. Ferrentino, senior vp-marketing for ERISCO, agrees that Ryder makes optimum use of the system.

"They're not afraid to use it. They'll go in there, get the data, pull it out and put it to use," he explains.

The data he refers to—a detailed breakdown of utilization of the company's benefits—provides information that an increasing number of benefit managers find helpful in modifying their companies' plans (see story, page 3).

Among other things, Mr. Charles has instant access to spending and cost information broken down by doctor, by hospital, by diagnosis and by region of the country, state, locale and even by ZIP code.

"The reporting and controls we get out of it are just invaluable," Ms. Baderman says.

For example, by punching a few keys, it can be determined how much money was spent on all normal maternities last year, or what was the average cost of a hernia operation in Des Moines.

The system red-flags those employees who do not seek the second opinion that Ryder requires before



Joseph Charles, Ryder's benefit director, and Benefit Manager Renee Baderman review claims on the computer system.

certain surgical procedures are performed and also notes what surgeries have been approved or denied, by which physicians and when. Ryder pays the cost of the second opinion in full, but only covers 80% of what it would normally pay for elective surgery if the employee does not seek the second opinion.

Establishing budgets and projecting future costs to top management also are much easier with automation, he explains, because it provides immediate access to current costs and incurred expenses and calculates inflationary increases.

"A lot of this information helped us make decisions. If we do any modifying of the plan, this will help us do it correctly," Mr. Charles notes.

One change spurred by data that ClaimFacts produced was a modification in Ryder's prescription reimbursement plan.

Until Jan. 1, Ryder employees submitted their prescription claims just as they did their medical expenses and benefits were paid under an 80%-20% coinsurance arrangement. But now, employees pay the first \$5 on every prescription, after which Ryder picks up the tab in full.

Although the actual savings to the company because of the change are not expected to be significant, Mr. Charles says the \$5 cap is "a very-appreciated benefit by the employees."

The change was brought about, Mr. Charles explains, because the computerized system helped the benefit department track rising drug charges and adjust benefit provisions accordingly. Other employers, without the benefit of such figures, have initiated similar prescription plans that require the employee to pay as little as \$1.

Mr. Charles expects the average pharmacy-filled prescription to cost about \$15 in 1984.

"With health costs today, employees have to participate in the costs of their medical care more than they did a few years ago," he says.

Training for the company's claims handlers was included in the purchase cost of the software system. ERISCO spent a two-week period on the premises weaning the administrators from manual to automated administration.

"I was amazed," Mr. Charles recalls. "It could've been one horrible mess, but it worked out super."

He speaks of one claims em-

ployee in particular who grumbled at automation through the initial stages of training, "but, who, by the second week, was one of the staunchest advocates of doing it this way."

Just prior to installation, incoming claims were facing a two-month to three-month wait, Mr. Charles notes. But within weeks after the training period, claims were being processed within one or two weeks of their submission.

Mr. Charles adds that the department's employees now have more time to respond to telephone and letter queries from employees about their claims—in 1983, the department received more than 23,000 letters.

The system's letter-generating feature comes into the picture here. "We can input as many types of letters as we want," Mr. Charles explains. He cites this function as a big timesaver, because letters can be input on the system by a claims processor, eliminating need for a typist.

And a recent enhancement to the system allows quick, free-form letter creation for correspondence that can't be handled with a standard form letter.

Ryder made such progress with ClaimFacts that the company was able to put its dental plan on the system in April 1983, one year earlier than projected. Mr. Charles credits the move largely to his employees.

"We had easily doubled our own productivity—they were up to speed and enabled us to absorb more work," he says.

The self-funded dental plan, which Travelers Insurance Co. had administered since 1978, is expected to produce about 30,000 claims this year.

"We enjoyed a good relationship with Travelers while we were with them," Mr. Charles explains. "We just thought this would be more cost-effective. We already know that our costs are lower than what they were charging us."

A recent enhancement to the dental system—described by Ms. Baderman as "a very, very big timesaver"—issues checks on a monthly basis, rather than on a per-claim basis, to orthodontists providing ongoing treatment to employees or dependents.

Mr. Charles says his claims employees are now at a saturation point and that because of the growing claims volume, several new employees may be added to the staff this year.



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The Professionals!

Reports suggest benefit changes

Continued from page 11

An analysis of claims activity indicated that hiking the deductible as a cost-shifting mechanism would result in an insignificant savings, reports Ms. Welsh. But an analysis of money spent on recent hospital stays, surgeries and outpatient treatments helped the club predict substantial savings if its employees were treated through a PPO.

So, on Jan. 1, the Auto Club incorporated Med Network into its self-funded plan. Med Network is a PPO marketed by Santa Ana, Calif.-based Admar Corp (BI, Oct. 31, 1983).

Employee contributions remain the same with the PPO: a \$100 annual deductible per employee, \$200 annual deductible per dependent and 10% copayments up to \$5,000. But, to encourage employees to use the PPO, they will only have to pay a maximum of \$5 per office visit if they use PPO-affiliated doctors.

And, seeking further savings, the Auto Club also changed its prescription drug plan. Prior to Jan. 1, employees were reimbursed for 90% of their prescription costs.

Employees now pay a maximum of \$2 per prescription, after which the Auto Club pays the remainder of the cost at a wholesale rate. The club made the change after reviewing reporting data.

Ms. Welsh says she conservatively predicts that the PPO and new prescription plan will save the Auto Club between 5% and 10% after just one year of use.

The Auto Club self-funds the medical and dental benefits for about 7,500 employees and retirees, processing about 5,000 claims per month. The organization's claims were handled through an administrative-services-only (ASO) arrangement with Bankers Life Co. prior to March 1977, when the Auto Club began leasing an in-house system from a major software vendor, though the club will not identify the vendor.

Like the Auto Club, Lamb Weston, the wholesale food manufacturer in Portland, Ore., is using data provided by its computer system to evaluate provider charges.

The company's software, Automated Claims Entry System, made by Noble Lowndes International, red-flags hospitals that routinely charge higher rates than others, notes Maury Lesperance, manager of employee benefits administration. This information allows Mr. Lesperance to conduct hospital cost comparisons.

Data recently produced by ACES indicated that the company has an unusually high utilization rate for chiropractic services. After analyzing that information, Lamb Weston decided to limit chiropractic benefits to \$350 per employee in each calendar year.

Although Lamb Weston is smaller than most companies using in-house automation, Mr. Lesperance says, "It still made sense to get it. Now we have a better idea of where the money's going." The company paid about \$200,000 for the system, including installation and training.

Lamb Weston processes about 25,000 medical, dental, disability and prescription claims annually for about 3,100 employees in Oregon, Washington and Idaho.

He says the system is particularly useful because it tracks the total time it takes for a claim to be completed, which helps the company set its reserve levels.

Claims analysis may be the most valued function of computerized systems, but employers also report large savings in administrative costs and increases in productivity.

Mr. Lesperance estimates that ACES, which was installed last February, has saved the company about \$100,000 in one year—half of

what Lamb Weston paid for it.

The company's claims were previously handled through an ASO arrangement with John Hancock Mutual Life Insurance Co. in Boston. "They kept increasing their ASO fees every year and we felt it was getting out of hand. We had to do something," he explains.

He says the fee Hancock charged rose from 5.5% of paid claims in 1979 to 8.5% in 1983.

Employers that are dissatisfied with the work of their TPA or other outside administrator, but who are overwhelmed by options

when shopping the computer market, rest assured: Benefit managers say most software vendors provide training sufficient to acquaint processors with the new purchase.

Installation and on-premises training are generally priced independently of the software, but they are often sold together.

Most benefit departments also pay an annual maintenance fee to the manufacturer—currently, 10% to 12% of the initial purchase price—for which they are given ongoing support and any new developments or enhancements to the system. ■

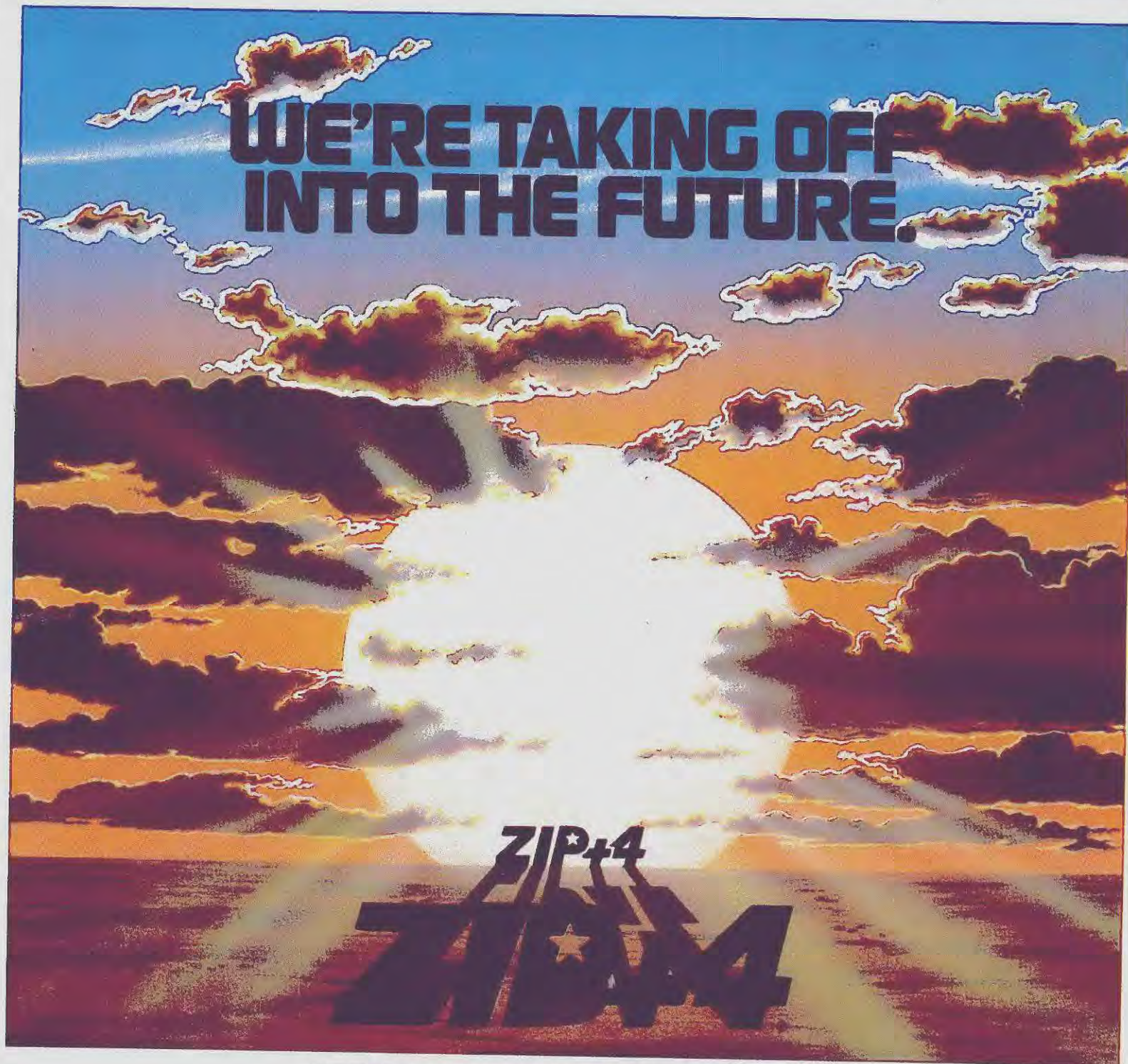
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Benefit claims systems aren't trouble-free

Computerized claims processing can save benefits departments money, but experts point out such systems are not without their problems.

Among the common complaints associated with automated claims-handling systems are frequent computer downtime, useless data reports, the long conversion process from a manual system to automation and lack of employee motivation.

To avoid additional problems, consultants advise employers against designing their own software systems.

"We don't recommend it. Cost-wise, it's not really efficient," says Mary Lou Maxie, a consultant with Towers, Perrin, Forster & Crosby in New York.

"They (benefit managers) have worked with insurance companies for so long, where they've gotten so little, that they can't believe these (software) companies can meet their needs. But they really can," she says.

Ms. Maxie explains that state-of-the-art software packages generally are responsive to benefit managers' needs, adding that many in-house data programmers lack the special training necessary to design efficient benefit claims software packages.

Wayne J. Ferrentino, senior vp-marketing for New York-based ERISCO Inc., a major software manufacturer, estimates that employers can often use a software package currently on the market, like ERISCO's ClaimFacts, for about 10% to 20% of the cost of developing their own product in-house.

James A. Kinder, executive director of the Self-Insurance Institute of America Inc. in Santa Ana, Calif., advises employers to closely examine the reporting features of an automated claims system before purchasing it.

"There's a lot of good information to be obtained, but there are also a lot of meaningless reports," he says.

He suggests that benefit managers ask themselves, "To what degree are you going to break down charges and what is the value of that information?"

Once a computerized system is installed in-house, benefit departments often aren't prepared for the long period of adjustment that some systems require, consultants say.

Kent M. Colburn, a consultant with Hewitt Associates in Lincolnshire, Ill., says some employers have unrealistic expectations of speedy installations, followed by immediate improvements in operations.

"Some are surprised," Mr. Colburn says of employers' reactions to actual conversion times. "But ultimately, if it's a good system, you'll get a payback."

Mr. Colburn suggests that when converting from a manual processing system, a benefit manager should allow from six months to

one year from the time of initial exploration of the market to actual installation.

He adds that complete installation could take between 60 and 90 days, and that costs can rise because of delays.

Claims employees may take up to a year to completely adjust to the new system, Ms. Maxie notes.

The attitudes of the claims employees are important to ensure an efficient working environment, notes Mary A. Sacre, manager of

corporate group benefits for Denny's Inc., the restaurant chain based in La Mirada, Calif.

Denny's has self-administered its medical, dental and disability claims with a computer since May 1980.

"Many who have automated systems have a tendency to put employees in one basic function and leave them there," Ms. Sacre notes. "But if you have a static group, you don't have a motivated group. Let them move around and learn more—ultimately, it'll give them a

chance to advance."

She reminds employers that claims employees who feel stuck performing one function are more likely to err than those who feel motivated and involved.

Another common complaint is the amount of downtime experienced with computers, during which time operating on a terminal is not possible.

Ms. Maxie says that two hours of downtime a week is the maximum an employer should have to bear,

but that some of TPF&C's clients report five to eight hours of downtime a week.

She advises employers to make the most out of these periods. "If you use that time to be productive in some other claims-related functions, it's not that bad," she says.

But Ms. Maxie adds that much of the information that was entered into the system just prior to a computer shutdown is frequently lost when the system resumes operating.



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Firms that supply benefit claims software

Among the benefit claims software manufacturers most frequently tapped by employers are: System Development Corp. in Santa Monica, Calif.; ERISCO Inc. in New York; Resource Information Management Systems in Oak Brook, Ill.; McDonnell-Douglas Automation Co. in St. Louis; Dyer, Wells & Associates in Atlanta; and New York-based Noble Lowndes International (formerly Woodward, Ryan, Sharp & Davis).

Others with a share of the market include: Advanced System Applications Inc. in Bloomingdale, Ill.; Benetics Corp. in Mountain View, Calif.; California Interactive Computing Inc. in North Hollywood; and Eastern Benefit Systems Inc. in East Orange, N.J.

Most of these firms provide only software, to be used on the employer's own mainframe or minicomputer. But because of the individual design of some systems, a few vendors, like Resource Information Management Systems and Benetics, sell hardware and software together.

Some too small for automation

Automation isn't for everybody.

Most benefit managers, consultants and software manufacturers agree that a complete in-house benefit claims system would probably be cost-effective for employers with 4,000 or more employees.

The precise cost of bringing claims administration in-house on the employer's mainframe computer varies depending on the number of employees, the number of benefit plans the company offers, the number of locations and the number of terminals on which the system is operated.

Self-insurers are most likely to computerize their medical claims handling systems. Dental plans appear to be the next most common benefit to be automated, followed by short- and long-term disability. Very few employers use their systems to administer pension benefits, consultants say.

Typically, an employer with at least 10,000 employees can expect to spend from \$75,000 for a basic system to administer medical claims to \$600,000 for a larger, sophisticated system that can process medical, dental and disability

claims. These figures do not include hardware costs, but take into consideration installation and training expenses.

But there are also less expensive ways to introduce automation into benefits claims handling.

Some employers opt for a partially automated system, in which claims are administered manually but are kept on file in a computer.

And, some employers, like the Automobile Club of Southern California, boast of a completely automated system, but via a service contract with a software manufacturer. They administer claims with their own terminals, but tap into the vendor's mainframe computer.

Fees are negotiable in these arrangements. Some pay a per-claim rate, which decreases as claim volume increases, and others pay a flat monthly fee.

This arrangement gives benefit departments instant access to computer time whenever needed—a luxury for those companies at which claims administration is a lower priority than the tasks of other departments clamoring for use of the company computer.

Among the advantages of self-administration is the ability to give more individual attention to the needs of employees, says Kent M. Colburn, a consultant with Hewitt Associates in Lincolnshire, Ill.

Many say they enjoy automated systems because of the resulting increase in productivity, and others particularly like check-issuing or letter-writing functions. They say these features reduce administrative headaches and make a significant dent in paperwork.

The check-issuing feature is generally the first function to be put to use when an employer installs a system, notes Mr. Colburn.

But most cite the importance of analytical data that the major software systems provide. These detailed reports on claim activity and program utilization help the benefit manager assess and modify provisions in his or her plan (see stories, page 3).

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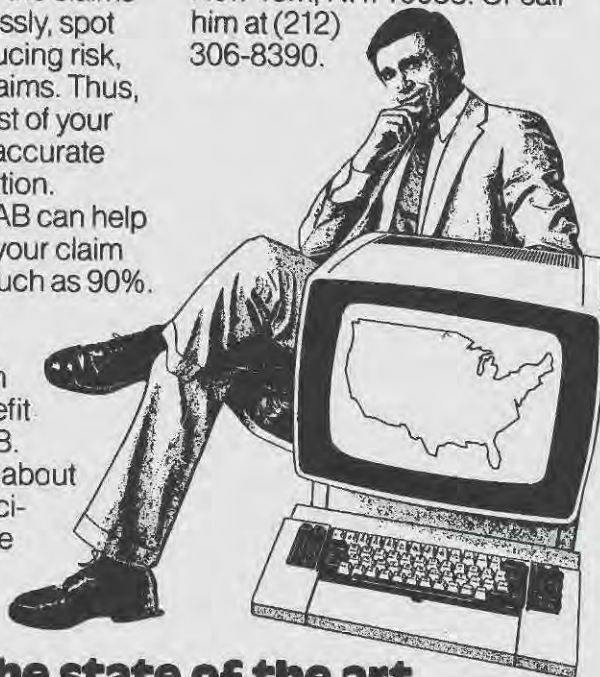
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NEW YORK—"Quantitative Techniques for Risk Management" is the subject of two-day seminars to be offered by The College of Insurance in San Francisco and Toronto.

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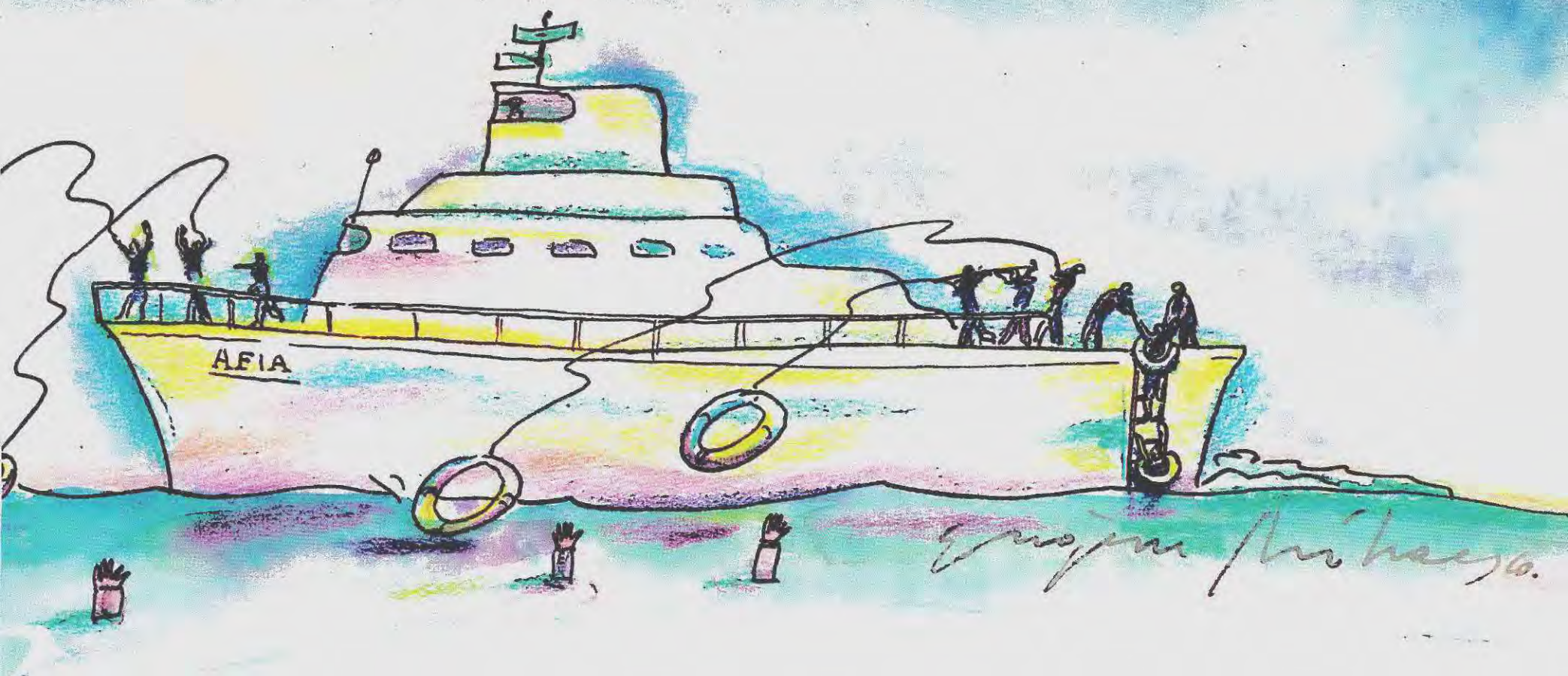
The program starts with basic mathematical concepts and covers such diverse topics as how to compute a maximum probable yearly aggregate loss, how to check computations of paid-loss retrospectively rated programs and how to figure the tax ramifications of retention.

The seminar will be taught by Albert J. Beer of The College of Insurance, who also is the author of the workbook that accompanies the course.

The fee for the course is \$485. The course will be held March 15-16 in San Francisco and April 5-6 in Toronto.

To obtain further information or to enroll in either of the sessions, contact the Property/Liability Insurance Division, The College of Insurance, 123 William St., New York, N.Y., 10038; 212-962-4111.





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LIMITING CONTRACTOR LIABILITY

Government may soon move to protect outside companies it hires

By Fred S. Souk

COMPANIES SUPPLYING goods and services for essential but inherently risky government programs—such as national defense, medical research and space exploration—have expressed increasing concern in recent years about the fairness of the existing allocation between the government and its contractors of the extensive tort liability that can arise from such programs.

The hundreds of lawsuits alleging harm from the military's use of the defoliant Agent Orange in Vietnam is but one of many events that have dramatized the potentially catastrophic liability exposure of contractors.

Responding to contractor concerns, Congress now is considering several bills designed to alleviate contractor liability problems. As a result of a series of oversight hearings held by the Senate Judiciary Committee's subcommittee on administrative practice and procedure, the chairman of the subcommittee, Sen. Charles Grassley, R-Iowa, introduced S. 1839 in September.

The bill seeks to establish a comprehensive system for determining government responsibility for harm caused by government programs and for dealing with catastrophic losses arising from such programs. A virtually identical bill, H.R. 4199, was introduced in the House of Representatives by Rep. Tom Kindness, R-Ohio, in October.

The bills address two basic liability problems faced by government contractors:

- The government fault program.

Court decisions have established the principle that in many instances where contractors are sued by government employees for injuries arising from contract activity, the contractor cannot obtain contribution or indemnity in a third-party action against the government. The contractor has no recourse against the government even though it may have been partially or wholly at fault in causing the harm to the employee.

The government fault "problem" has been exacerbated by the continuing expansion of the doctrine of strict liability that enables injured persons to sue contractors successfully for harm caused by aspects of their products imposed by the government through specifications.

While some courts have begun to recognize a "government specifications defense" for contractors caught up in such lawsuits, other courts have refused to adopt the defense or have severely restricted its applicability.

- The catastrophic liability problem.

In providing goods and services for many government programs, contractors are exposed to a liability risk that exceeds

available insurance and could cause financial disaster not only for the contractor but also for injured persons unable to obtain compensation from the contractor.

Although the government possesses statutory authority to indemnify contractors for excessive liability in some situations, the authority is far from comprehensive and has been used very sparingly, with the result that conscientious contractors have been deterred from participating in risky government projects.

Government agencies sometimes have included indemnification clauses in contracts even though statutory authority to do so was unavailable, but the usefulness of this practice was eliminated by a recent ruling of the comptroller general that said that such clauses violate the Anti-Deficiency and Adequacy of Appropriations Acts.

Expansion of statutory authority for government agencies to provide indemnification has been recommended by a variety of groups over the past 20 years. Most notably, the Commission on Government Procurement called for enactment of a comprehensive indemnification statute in 1972. To date, however, that recommendation has not been implemented.

To rectify the government fault problem, S. 1839 and H.R. 4199 provide (in Section 4 of each bill) for equitable reduction of a contractor's liability to a government employee in proportion to the government's fault in causing the employee's harm.

To ensure that the employee receives a fair recovery for injuries, the government's right of subrogation arising from worker compensation payments to the employee also is reduced by the same proportion.

In each instance, the proportion of reduction is determined by the judge, based on evaluation of such factors as the government's responsibility for specifications that caused the harm, the government's supply of defective parts or service to the contractor and the government's misuse or alteration of a product after delivery. The government has a right to intervene in actions where equitable reduction is sought, but is not required to do so.

S. 1839 and H.R. 4199 seek to resolve the catastrophic liability problem by requiring (in Section 5) that an indemnification clause be included in any government contract that involves risks that:

- Are unusually hazardous or nuclear in nature.
- Give rise to the possibility of liability against which the contractor cannot reasonably be protected through commercial insurance coverage or self-insurance.

Contracting agencies can require an indemnified contractor to maintain an appropriate amount of financial protection, and government indemnification applies only above the level of that financial protection. The indemnification clause may not be used in contracts for goods or services that the contractor also supplies to

non-governmental purchasers for uses or applications substantially the same as those of the government. In addition, indemnification is not provided for claims or losses caused by the willful misconduct or lack of good faith of the contractor.

Both bills provide that the decision of whether the conditions for inclusion of an indemnification clause are present shall be made in advance by the head of the contracting agency or someone designated to make that determination. They further require that, upon application of a contractor or subcontractor, determination will be made as to any past, present or future contract or contract category or class.

A contractor or subcontractor aggrieved by any determination of the contracting agency may appeal to the U.S. Court of Appeals for the District of Columbia Circuit.

Also pending in the House of Representatives is a bill, H.R. 4083, which adopts a more limited approach to the contractor liability situation. The bill was introduced in October 1983 by Rep. Sam Hall, D-Texas, chairman of the House Judiciary Committee's subcommittee on administrative law and governmental relations. It addresses the government fault problem, but not the catastrophic liability problem.

In contrast to the equitable reduction approach contained in H.R. 4199, which requires no government payments, H.R. 4083 requires the government to pay in different amounts. The government must pay contractors indemnification in proportion to its responsibility in causing harm to any person, either by specifications for the product imposed by the government or by its misuse or modification of the product. The bill would not, however, provide for indemnification where:

- A service, rather than a product, is supplied by the contractor.
- The contractor participated in any way in designing the specifications for the product.
- The claim against the contractor arose outside the United States.

- The claim arose under admiralty or maritime jurisdiction.

- The product was designed in accordance with commercial standards or was generally available to persons other than the government.

- The contractor's liability was covered by insurance.

Action on pending legislation has begun already in the Senate. Sen. Grassley's judiciary subcommittee held a legislative hearing on S. 1839 in October 1983.

At the hearing, contractors voiced strong support for S. 1839. T. Richard Brown, chairman of the National Assn. of Manufacturers' Task Force on Indemnification of Government Contractors (and vp of TRW Corp.'s electronics and defense sector) stated that S. 1839 not only would provide fairness for contractors but also would be cost-effective by fostering enhanced competition for government contracts.

Jeffrey Weinsten, president of Winfield Manufacturing Co., testifying on behalf of the American Apparel Manufacturers Assn., emphasized the concern of small defense contractors about the government fault and catastrophic liability indemnification provisions.

Further action on S. 1839 by the Senate is expected early in the second session of the 98th Congress.

Hearings have not yet been held on the two bills pending in the House, but Rep. Hall's judiciary subcommittee is slated to schedule hearings soon after the second session of the 98th Congress begins.

In light of present legislative activity, contractors are closer than ever to resolving their liability problems with the government. With further concerted effort, passage of a bill in this Congress is a distinct possibility.

Fred S. Souk is a partner in the law firm of Crowell & Moring in Washington.



El Nino whips up property losses

Continued from previous page
generally high rates and lack of capacity.

This situation is caused not only by the capricious and catastrophic nature of the flood risk but also by an historic tendency toward adverse selection: Only businesses in flood-prone districts want to buy flood insurance. This makes it impossible for insurers to achieve an attractive spread of risk.

Multinational corporations have been able to purchase flood insurance for foreign exposures under master difference-in-conditions policies from international underwriters. Before the impact of El Nino on North and South America and the rain in Spain, the primary motivation for securing flood coverage on the master policy was local

management's lack of concern about flood risk, coupled with what were perceived to be high rates.

Now, unavailability of local coverage as well as the inadequacy of government's response where insurance is provided by a state fund are further motivations to seek master difference-in-conditions coverage.

El Nino and the rain in Spain have demonstrated that local cover is not only expensive, inadequate and often unavailable, but that local management will invariably fail to be well-insured against catastrophes.

Corporate risk managers need to be aware of the possible gaps in coverage and take the initiative to prevent a natural disaster from becoming a corporate calamity.

The Perspective section, which is a forum for readers' opinions, is compiled and edited by Assistant Copy Editor Claudette Dampier. She can be reached at 312-649-5282.

Hayden named to benefits post at CIBA-Geigy

Dianne Hayden, 33, is assistant director of corporate employee benefits, a new position at CIBA-Geigy Corp. in Ardsley, N.Y. She is responsible for managing and administering the company's medical, dental, disability and life insurance programs for salaried, hourly and unionized employees. Ms. Hayden joined the company in 1973 and has worked in the employee benefits department since early 1983. She received a bachelor of arts degree in psychology from Syracuse University in Syracuse, N.Y., and a master of business administration degree from Iona College in New Rochelle, N.Y. Ms. Hayden reports to Michael Whelan, director of corporate employee benefits.



Ms. Hayden

Kentucky Fried Chicken Corp. in Louisville, Ky., has announced

comings & goings: buyers

two new positions in its risk management department:

Reginald L. Geloran, 41, is now manager of risk management, handling the property/casualty and safety programs for the company. Before joining KFC, he worked at Howard Johnson Co. in Braintree, Mass., for 15 years, 10 of which he spent in the risk management department. Most recently, he was property/casualty insurance supervisor. He received a bachelor of science degree from Northeastern University in Boston and is a deputy member of the Risk & Insurance Management Society. Mr. Geloran reports to Tom Briggs, director of loss prevention and administrative services.

Artie E. Ferrell, 34, is KFC's new corporate claims manager, handling workers compensation, general liability and automobile liability claims. Before joining KFC, she was assistant claims manager at Humana Inc. in Louisville, Ky. She

also has worked in the claims department of several insurance companies. Ms. Ferrell received a bachelor's degree in psychology from Transylvania University in Lexington, Ky. She is a deputy member of the Risk & Insurance Management Society. Ms. Ferrell reports to Mr. Geloran.

George B. Netherton IV, 35, has joined The Coca-Cola Co. in Atlanta as entertainment risk manager. In this new position, he will be responsible for the risk management functions of the company's entertainment business sector. Prior to joining The Coca-Cola Co., Mr. Netherton was assistant manager of corporate insurance for Sperry Corp. in New York. He received a bachelor of business administration degree from The College of Insurance in New York, a master of business administration degree from Fordham University in New York and the Associate in

Risk Management and the Chartered Property & Casualty Underwriter designations. Mr. Netherton will report to William H. Quay, assistant treasurer and director of risk management.

Joseph A. Barone is risk and insurance manager for Witco Chemical Corp. in New York, a new position. He will handle property/casualty insurance for the company. Mr. Barone joined Witco in 1973; he most recently served as assistant insurance manager - fi-



Mr. Barone

nance. He received a bachelor of science degree from New York University and attended The College of Insurance. He is also a director of the New York Chapter of the Risk & Insurance Management Society; he had been vp and secretary. He is a member of the workers compensation committee of the New York Chamber of Commerce. He reports to Roger G. Bellevue, director of insurance and risk management.

We'd like to report on staff changes in your company's risk management, safety or employee benefits department. Just drop a note to Claudette Dampier, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611; or call 312-649-5282. We would also like to receive photographs.

Lloyd's wants London court to rule on disciplinary powers

By STACY SHAPIRO

LONDON—Lloyd's of London is asking a London High Court to decide if it can use the new disciplinary procedures under the Lloyd's Act of 1982 for alleged offenses that occurred while the Lloyd's Act of 1982 was still in effect.

The court's ruling will affect Lloyd's disciplinary proceedings against Terence Dooley and Raymond Brooks, two underwriters for syndicates managed by Brooks & Dooley (Underwriting) Ltd.

Lloyd's announced last month it would bring charges against Messrs. Brooks and Dooley following a probe into the relationship between Brooks & Dooley's syndicates and Fidentia Marine Insurance Co. of Bermuda (BI, Jan. 9).

The court decision also could affect the outcome of Lloyd's investigations into alleged wrongdoings at Alexander Howden Group P.L.C. and Minet Holdings P.L.C.

All three cases occurred before the Lloyd's Act of 1982 went into effect in January 1983.

The Lloyd's Council recently passed a retroactive bylaw that says that the market's new expanded disciplinary procedures may be implemented even if offenses occurred before the new Lloyd's Act went into effect.

Workplace noise

Health and safety inspectors in Britain are going to crack down on excessive workplace noise, says the newly appointed director of the British Health and Safety Executive.

Inspectors will make sure that workers are not exposed to levels of noise higher than 90 decibels in an eight-hour day unless they are wearing adequate hearing protection equipment, John Rimington says.

"We reckon that at least 1 million workers work in surroundings that could damage their hearing," he notes.

"Our inspectors will therefore be increasing the attention they pay to noise and making it clear that scrupulous adherence to the code is the minimum that can be expected in today's conditions."

Companies that do not comply with the HSE's inspection stan-

london line

dards can be shut down after a warning.

Mr. Rimington noted that insurers are increasingly concerned about the high cost of compensation for workers who have suffered hearing loss.

The European Community, of which Britain is a member, is currently studying a proposed directive that would reduce the level of allowable noise to 85 decibels (BI, Nov. 14, 1983).

Blizzard losses

British insurers are starting to tally the millions of dollars they expect to pay for losses from blizzards in Northern England and Scotland.

If this winter's biting temperatures and snowfalls continue to equal 1981's records, claims will exceed normal winter storm losses by 240 million pounds (\$338.4 million), a British Insurance Assn. spokesman said. A third of these losses will be from commercial storm damages, he said.

Although the insurers are already seeing claims because of the snow and the cold, they expect even more claims after the snow thaws and flood damages are reported, a BIA spokesman said.

CU acquisition

Commercial Union Assurance Co. P.L.C. is acquiring a French life insurance company, L'Epargne de France, the company announced.

According to the agreement, CU will pay 19.4 million pounds (\$27.4 million) for the insurer. The deal must be approved by French regulatory authorities.

"This purchase will be in accordance with our declared policy of expanding our worldwide life operations," said Cecil Harris, chief executive of Commercial Union.

Israeli broker

The largest banking company in Israel is setting up an insurance broker in the United Kingdom.

The Bank Leumi Group an-

nounced last month that it is opening Leumi Insurance Service (U.K.) Ltd. Bank Leumi said it will seek registration from the Insurance Brokers Registration Council and the British Insurance Brokers Assn. and hopes the company will be accepted eventually by Lloyd's of London as a broker.

L.I.S. is commencing business immediately and intends to provide brokerage services in all classes of commercial property/casualty insurance and reinsurance.

Ian K. White, formerly an officer with Factory Mutual International in Britain, has been appointed managing director of the new company.

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Fireman's Fund opens financial risk unit

Fireman's Fund Insurance Cos. has formed a new home office department to develop and underwrite financial insurance products.

The department, a division of Fireman's Fund's specialty lines operations, offers coverage for municipal lease agreements, housing agency bonds, limited partnership agreements, commercial paper and other financial instruments. The department also will manage the insurer's participation in the Municipal Bond Insurance Assn.

Vp Michael Djordjevich has given up his post as treasurer of the company to head the new department.

Separately, Fireman's Fund has expanded its environmental laboratory as part of a relocation to new quarters.

Along with industrial hygiene analyses, the lab performs water and soil analyses, asbestos testing and arson-related studies.

The lab—known as Fireman's Fund Risk Management Services Environmental Laboratory—has moved from San Francisco to 3700 Lakeville Highway, Petaluma, Calif. 94952.

Insurer to expand

Physicians & Surgeons Liability Insurance Co. of Munster, Ind., has changed its name to Universal Fire & Casualty Co. The insurer, which has specialized in medical malpractice coverage since its formation in 1976, will expand into other property/casualty coverages, says Dr. Sidney R. Goldstone, chairman.

John E. Seward Jr. has been elected president and chief executive officer of the company.

EDP department

Shand, Morahan & Co. Inc., an

underwriting manager based in Evanston, Ill., has formed a new department to specialize in electronic data processing risks.

The new department will offer coverage for unauthorized computer access, electronic data processing professionals errors and omissions and other computer-related insurance products.

Gene Patterson, an assistant vp, will head the department.

Offices consolidated

Allstate Insurance Co., citing mounting expenses and rate competition, says it will consolidate the operations of its facultative reinsurance regional offices.

Most functions of the New York office will be transferred to the Boston office. Casualty functions of the Los Angeles office and all functions of the Dallas and downtown Chicago offices will be channeled to Allstate's North American branch office in South Barrington, Ill.

The consolidation is expected to be completed this week. About 73 employees will be transferred within Allstate or parent Sears, Roebuck & Co., or will be terminated.

Name change

The Victory Insurance Co. Ltd., a London-based reinsurer, has changed its name to The Victory Reinsurance Co. Ltd.

Benefit consultant

A new consulting firm, Protector Insurance Planning Corp. of

Worcester, Mass., has been formed to assist employers in the design and management of employee benefit programs.

John P. Foran will serve as president of the new company. Mr. Foran started the new business with David R. Grenon and John J. Cahill, who are president and vp, respectively, of The Protector Group, a Massachusetts-based insurance agency.

Protector Insurance Planning Corp. is located at 12 Norwich St., Worcester, Mass. 01608; 617-757-6303.

Acquisitions

Corporate Risk Managers Inc., a risk management consulting firm based in Eden Prairie, Minn., has acquired Strauss Zahn Co., a consulting firm in Milwaukee. Strauss Zahn will merge with a CRM Risk Managers division in Brookfield, and its offices will move to 675 N. Brookfield Road, Brookfield, Wis. 53005.

Bruce C. Davis Co., a surplus

lines brokerage based in Seattle, has been acquired by Johnson Matthey Finance Inc., an affiliate of Johnson Matthey & Hinton Hill Ltd., a London-based insurance broker. The firm's name will be changed to Johnson Matthey & Davis Inc.

Continental Corp. announced its acquisition of United Standard Assurance Co. of Indiana for \$8.5 million in cash and stock. Continental said it planned to change the life, health and annuity insurer's name to William Penn Life Assurance Co. of America.

Marsh & McLennan Cos. Inc. has acquired Hickling-Johnston Ltd., a Canadian management consulting firm, for \$4.1 million Canadian (about \$3.28 million U.S.). Hickling-Johnston will be merged into the Canadian operations of William M. Mercer Inc.

New offices

Bituminous Insurance Cos. of Rock Island, Ill., has opened a new branch office at Grand Center Executive Suite, 5400 N.W. Grand Blvd., Oklahoma City, Okla. 73112; 405-942-6888.

Separately, Bituminous announce-

ed that its Des Moines, Iowa, branch will become a regional office and that its Omaha, Neb., office will become a service office with policy issue and related functions centered in Des Moines.

English & Associates, a structured settlements firm based in Mission Viejo, Calif., has opened a Midwest branch office at Sperry Univac Plaza, 8600 West Bryn Mawr Road, Suite 4, Chicago, Ill. 60631; 312-399-2051.

Advanced System Applications Inc., a health claims software consultant, has opened a new regional office at 1600 Market St., Suite 3316, Philadelphia, Pa. 19103.

Milliman & Robertson Inc., an actuarial consulting firm, has opened a new office at 750 N. St. Paul St., Dallas, Texas 75201; 214-754-0133.

Comstock Insurance Co. has moved its primary lines office from San Francisco to suburban Foster City. The new address is 1065 Hillsdale Blvd., Suite 404, Foster City, Calif. 94404; 415-562-6100. ■

PBGC's deputy director named to head agency

By JERRY GEISEL

WASHINGTON—The Pension Benefit Guaranty Corp. has a new executive director.

Charles Tharp, 33, the youngest executive director in the agency's nine-year history, took over last week to replace Edwin Jones, 67, who resigned last month for personal reasons.

Mr. Tharp has been with the PBGC for about a year as the agency's deputy executive director. He previously was involved in pension portfolio management, real estate and insurance for General Investment Funds, the in-house pension manager for General Tire & Rubber Co.

He also was a member of the board of directors of Trans-General Life Insurance Co. of Chevy Chase, Md., another General Tire subsidiary.

Social Security

Congressional action to plug a loophole in the Social Security law may have prevented a mass exodus of public employers from the retirement program.

Under the Social Security Amendments Act of 1983, state and local governments lost their right to drop out of the Social Security program as of March 1983 (BI, April 4, 1983).

That change in law canceled pending terminations from 635 state and local governments employing 227,704 workers, according to the Social Security Administration's Office of Research, Statistics and International Policy.

Had these public employers been allowed to opt out of Social Security, the program would have lost more than \$1 billion in payroll taxes during 1984 alone. Some 187 of the employers requesting to drop out were in California, while 105 were in Texas.

Prior to the passage of the Social Security Amendments Act, public employers could flee Social Security to escape paying steadily increasing FICA payroll taxes.

For example, between 1959 and 1982, some 967 public employers—including 349 in California and 204

washington

in Louisiana—dropped out of Social Security. Those entities employed 242,283 workers, the Social Security Administration estimates.

Pension office

The Labor Department is overhauling its pension plan office.

The Office of Pension and Welfare Benefit Programs, which enforces the Employee Retirement Income Security Act, will become a separate unit and report directly to Labor Secretary Raymond Donovan.

The pension office previously had been part of the Labor Management Services Administration, which has many other responsibilities.

Giving the pension office more independence within the Labor Department will "strengthen ERISA enforcement through increased efficiency and productivity," Mr. Donovan said.

Tuition benefits

Employers should begin withholding taxes on payments they make for educational assistance programs that are not related to employees' jobs, an Internal Revenue Service spokesman said.

Amounts paid by employers for educational assistance programs had been excluded from employees' taxes under Section 127 of the tax code. But that exclusion expired on Dec. 31, and Congress has not yet taken action on legislation, S. 249, introduced by Sen. Robert Packwood, R-Ore., to continue the exclusion (BI, Jan. 23).

Opposite effect

Younger military and federal retirees will get bigger increases in their pension checks than older retirees—the opposite of what Congress intended when it placed caps on cost-of-living adjustments.

In an effort to save money, Congress agreed several years ago that retirees under age 62 would receive

a cost-of-living adjustment of 3.6% in June 1984, or half of what it thought the inflation rate in 1983 would be.

Retirees age 62 and older were promised that their pension benefits would continue to be automatically increased to match the rise in the Consumer Price Index.

In 1983, however, the CPI increased by 3.3%, so pension benefits for older retirees will increase by that amount, 0.3% less than the adjustment for younger retirees.

It is possible, though, that Congress could change its mind and order a new cost-of-living schedule for federal and military retirees.

Captive ruling

Captive insurance companies licensed in the U.S. Virgin Islands are not exempt from the excise tax imposed on premiums paid to foreign insurers that insure U.S. risks, the Treasury Department says.

The exemption from the tax, which is 4% on direct property/casualty insurance and 1% on reinsurance and life/health insurance, only applies to insurance policies signed in a "domestic" state or territory.

"Removal of the premium excise tax in the case of foreign insurers with an agent in the Virgin Islands could provide a small boost to Virgin Islands employment, at the cost of encouraging the use of captive offshore insurance companies as a tax-avoidance device," said John Chapoton, assistant secretary for tax policy.

The Treasury Department position is a blow to backers of legislation, 15-0573, introduced in the Virgin Islands Legislature that would make it easier for employers to set up captive insurance companies (BI, Dec. 12, 1983). ■

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agent/broker topics

A regular editorial section exclusively for agents and brokers

Knowing where you're going

Proper planning can increase sales

By PAMELA DeFIGLIO

Planning may mean the difference between success and failure.

You've heard that a million times, right? It sounds good. It may have even prompted you to mentally mumble, "Yeah, might as well start a business plan for the agency (or brokerage) one of these days—when I get around to it."

Planning, like exercise or buckling your seatbelt, is something you know is good for you but is easy to put off. Successful agents say you shouldn't.

The president of the largest privately owned agency in California says he got that way by planning.

"Planning is everything. It's not an adjunct to agency operation, it's a prerequisite to agency operation," says Don Martin, president of Cal-Surance Group in Torrance, Calif., the nation's 31st-largest broker based on 1982 revenues of \$6.16 million (BI, June 27, 1983).

Today, Cal-Surance is one of the nation's leading marketers of errors and omissions coverage for insurance agents, Mr. Martin says, explaining, "We're strong in E&O by design. Four years ago, we didn't have a single client. That was market planning."

Examining where the market opportunities lie is just one part of the agency's operational plan, which it began in earnest five years ago.

"We think planning is critical to running a successful agency," adds Jim Hoiness, president of Hoiness LaBar Insurance in Billings, Mont.

He says his agency, which employs 57 people, used to "flockshoot," a hunting term meaning to shoot into a flock of birds without really aiming, before it developed an agency plan.

"We had our best year ever in 1983, and we think the planning did it because the market didn't change," says Mr. Hoiness, adding that revenues rose 15% compared with 1982.

Cal-Surance's Mr. Martin says the agency starts its planning process by naming goals it hopes to reach, without worrying about how they will actually be accomplished.

"It's similar to when (President) Kennedy said we'll put a man on the moon by a certain date," he explains, adding that President Kennedy didn't know *how* it would be done, just *that* it would be done.

But, agents who have never drawn up a formal agency plan should start with a different approach from Cal-Surance's, most planning experts advise.

The agent's first step in the planning process, they say, should be to take stock of where the agency is currently. The agent must analyze the company's various financial reports, including its balance sheet and profit-and-loss statement, they say.

Then, the agent should compare the agency's numbers—for example, its revenues per employee—against other agencies'. This gives the agency an indication of how well it's doing compared with other agencies of similar size and type.

One plan designer, Larry Marsh of Marsh, Berry & Associates in Cleveland, does more than compare an agency against average figures—he also pits it against optimum figures.

If an agency has a revenue per employee of \$52,000, for example, the company is in line with a hypothetical norm of \$50,000 per employee. However, if the agent learns that a similar-sized agency produces \$90,000 of revenue per employee, it becomes apparent the agent can do much better. And, that may turn into a goal.

Mr. Marsh's computerized agency plan, which has a

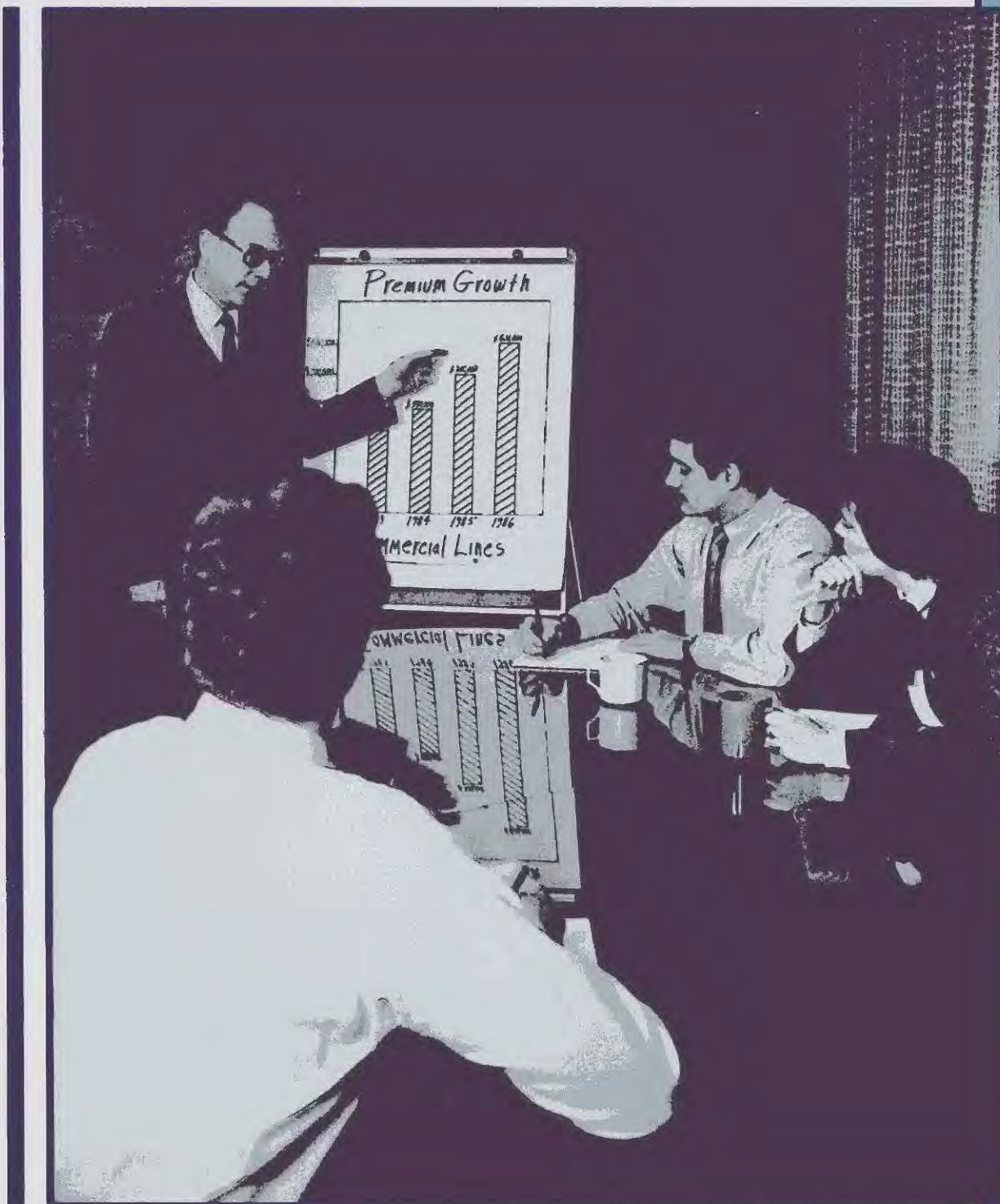


Photo: Mary Herlehy

financial slant, provides agents with 17-page quarterly reports that consist of three parts. The first compares an agency with others so the agent can see where improvement should be made; the second aligns budgeting with the chosen goals; and the third shows trends, which can alert an agent to developing problems in the agency (see story, page 22D).

Another plan, the "Business Plan for Agents" developed by Commercial Union Insurance Cos. in Boston, requires agents to fill out five to eight pages of information. CU then returns a fat, computer-customized manual called "Where You Are Now" and a series of action modules called "Where You Want to Go." The package provides demographic information by county to help agents choose new markets in which to set goals (see story, page 22D).

This type of market research was suggested by in-

surance industry consultant George Nordhaus, president of Insurance Marketing Services in Santa Monica, Calif., in a planning seminar he conducted for many years, though he has since abandoned it for other activities.

Market research helps agents to understand what business they're in, Mr. Nordhaus explains. It reveals what the market shows a need for, which could be anything from financial services to inexpensive auto insurance.

Although market research may indicate the need for a certain type of insurance or service, an agency may not be able to deliver it.

For example, research may indicate that writing restaurant business would be profitable in an agency's market territory, but the agency may not

Continued on next page

Informal plan works well
for agency in New York
Page 22B

Financial wizardry not needed
to become a successful planner
Page 22D

IIAA helping locate, train
customer service personnel
Page 22F

Careful planning can direct an agency to new business

Continued from previous page
have any insurers that will write that coverage or any producers who know enough about it to sell it.

In such a scenario, he says the agency can elect to find an insurer that will write restaurant business and encourage its producers to develop the necessary expertise, or it can focus on other goals.

Kathy Pasley, assistant vp of Commercial Union's agency relations marketing service who played a principal role in designing its agency planning program, explains that her department can analyze an agent's trade territory by county demographics and standard industrial codes and pick out the most promising industries on which to focus. CU, she says, can even estimate how many premium dollars would be available in each industry in a particular area.

Despite the potential insurance business these industries might hold, however, the agent would have to possess or develop the means to write and service the business, she points out.

In addition to market research, Mr. Nordhaus emphasizes that an agency should establish a hierarchy of objectives in planning. This hierarchy includes goals that can be attained with short-term, intermediate and long-term strategies.

He emphasizes that planning requires a commitment from the top person in an agency on down the line. "Planning is a total commitment situation and agents have to spend time on it to make it work," he says.

Many agencies today are firmly committed to planning, notes Carol Hammes, executive vp of Hales Associates, an agency consulting firm in Oak Brook, Ill.

And planning is a four-step process, Ms. Hammes explains:

- Step One, analyzing the agency in the present, is accomplished by examining financial statements and comparing an agency's revenues and expenses against averages for similar-sized agencies.

- Step Two, deciding where you want to be, is a matter of looking at what you've got and figuring out what you want. Agents must examine whether they want to remain independent, branch into new markets, like financial services, or concentrate on becoming the largest shop in town. To do this, an agent must write a mission statement, which is a brief definition of what the agency wants to be.

- Developing a road map for getting from where you are to where you want to be is Step Three. First, the agent must develop major strategies, such as creating a risk management services department. Next, the agent must spell out the actions necessary to realize the strategy, such as deciding what services the new department will provide.

These detailed goals should be concrete, so that they can be delegated to an agency employee who will bear responsibility for completing them by a certain date. This puts a tremendous motivating force on the employee and those delegated to do the work. Once the goals are completed, the major strategies will be fulfilled and the plan will naturally evolve.

- Step Four consists of monitoring the plan to make sure it works.

A budget must be set up and monthly meetings should be held where responsibilities can be assigned and the plan can be modified.

The plan must be flexible and changeable, Ms. Hammes stressed.

One agent who is following Ms. Hammes' advice is Walter Corcoran, executive vp and chief executive officer of MacIntyre, Fay & Thayer in Newton, Mass. The 83-employee agency began developing its plan last May.

"The ability to have an external and objective influence in the planning process is useful, and Carol was very helpful. It's a little early for us to tell you the plan's been a roaring success, but we had a good year in 1983 and grew 11% in total revenue," he says.

Mr. Corcoran says that his company's mission statement outlines five general policies such as its desire to recognize its employees as its most valuable asset.

From this, 10 strategies, like improved personnel training and establishing a system for employee advancement, branch into numerous specific goals such as developing a plan to ensure that employees realize that advancement at the agency is possible.

The agency's executive committee meets weekly to review the plan, which is presented to employees semiannually.

"The plan's been very helpful to us," Mr. Corcoran comments. "It gives stockholders a specific measure to see how well management is performing."

"If we complete the business plan effectively, our financial objectives will be met."

Mr. Hoiness of Hoiness LaBar, another agency that works with Ms. Hammes, says his agency's mission statement describes the agency as dedicated to maintaining a leading position in southeastern Montana and northern Wyoming by providing risk and financial management services to all types of businesses and individuals.

Hoiness LaBar's staff meets monthly to plan strategies and listen to ideas from clerical as well as management personnel.

"It motivates and focuses people. You communicate monthly about what's going on in the agency," Mr. Hoiness says.

Another important ingredient in agency planning is the place and time you set aside for planning.

Every November, Mr. Hoiness gathers his department heads and sweeps them off for several days to a mountain resort for an annual planning retreat. He says that the fresh location and absence of phone calls and other interruptions make for a productive atmosphere.

Don Martin of Cal-Surance also advocates this approach. "We hold planning meetings out of town because it creates an atmosphere of thought," he says. He also notes that a meeting is unwieldy when more than eight employees are included in the same session.

In addition to monthly update meetings, Cal-Surance starts its annual planning every August.

The first meeting, which is preceded by six days of preparation, deals with setting goals, determining corporate philosophy, setting a budget—including sales and expense forecasts—and examining the organizational chart for the coming year.

The second meeting, which follows the first by about a month so that ideas discussed there can simmer, includes completing the organizational chart and reviewing the agency's "gap plan." This reflects

the gap between what the agency would achieve in the coming year if it made no changes and what it is expected to achieve in light of the goals it sets.

Among the topics discussed at the meeting are whether rates will go up or down, whether the company should enter new markets or open new offices, whether new staff positions should be established and a discussion of the employee bonus plan.

"Then we print up the plan—and it's obsolete," Mr. Martin jokes.

Nathan Butwin Co. in Great Neck, N.Y., follows a technique similar to Cal-Surance's gap plan, although it is much less formal.

Lawrence J. Butwin, secretary/treasurer of the 20-person agency, says he starts his annual planning by taking the previous year's figures and assuming revenues will be the same for the coming year. Then he figures in expenses that will increase. He also figures in a mathematical factor to account for lower premiums due to falling rates. At this point, income is lower and expenses are higher than last year's. And Mr. Butwin notes that if his book of business was left as it is, it would undoubtedly shrink because other agencies would steal some accounts.

To combat this losing scenario, he calculates how much commission income his

agency will need to make a profit and how much premium it must generate to earn that amount. Then, he sets down on paper his ideas for generating new accounts and entering new markets during the coming year.

Holmes, Murphy & Associates in Des Moines, Iowa, with annual revenues in excess of \$5 million, has a business plan that is more structured than Mr. Butwin's but less comprehensive than some other agencies' plans.

According to President Robert Dee, the 80-employee agency incorporates planning into its monthly production meetings. Its one-year plan projects a 15% growth in commission from sales in all lines and considers markets the agency will pursue, coverages it will sell, locations it will target and personnel it will hire.

Its five-year plan merely sets general goals for sales and production.

If you're becoming convinced that an agency plan can improve your business, Mr. Martin at Cal-Surance has a couple of other tips to pass along.

"Every other year, we ask managers to write their retirement speeches, what would they like to have done in their careers," he says, explaining that it makes the managers think hard about what they must do to achieve these goals.

Mr. Martin is also particularly fond of organizational charts. "They force you to see the situation as it is," he comments. He advises agents to look for squiggly lines, which indicate an employee reports to two supervisors. Such a situation is confusing, he says.

Three years is the optimum time frame in which to project your thinking, Mr. Martin continues. If planning for even that amount of time seems a huge, imposing job, the fact that some Japanese firms are working on 100-year plans may put your task into a more favorable perspective.



The Butwin brothers—Jerry, left, Stanley and Larry—accomplish much of their planning during informal meetings.

Successful agent admits planning could aid agency

By PAMELA DeFIGLIO

GREAT NECK, N.Y.—Can a casual but continuously assessed agency business plan work as well as a formal, written plan?

Hard work and a no-frills operating style, coupled with constant informal meetings among agency principals, seem to work well for Nathan Butwin Co. Inc., says President Stanley Butwin, though he admits that things could be even better if the agency started business planning, which is one of his goals.

The three principals, all brothers, meet several times a week in the office or over meals to comb the details of their organization. However, actual financial planning takes place only once a year when the officers look at the previous year's figures, project how much expenses will rise and target ways to increase business.

"We believe the personality of an organization starts at the top," Mr. Butwin says. "The principals work very hard and so our employees work very hard, too."

The agency doesn't employ non-insurance personnel, like an office manager or personnel manager, and its bookkeeping and claims checking departments consist of one employee, he explains.

The Butwin agency's 20-member staff must be versatile and industrious, but Mr. Butwin says they are rewarded with generous salaries, bonuses and a liberal pension and profit-sharing plan.

In order to retain high compensation, the agency attempts to add more business without adding staff, notes Larry Butwin, the agency's secretary/treasurer. "We assign each person the maximum amount of work they can handle—and then some," he says.

And, the agency succeeds in achieving above-average productivity. Larry Butwin puts the agency's revenue-per-employee at slightly more than \$90,000 for the property/casualty division, though Stanley Butwin notes this is a projection based on revenues for the first three quarters of 1983 and may be somewhat approximate.

Additionally, Stanley Butwin says he believes the agency has exceeded its projections for 15% annual growth in both 1982 and 1983, although final figures for last year are not yet complete.

How does the agency achieve such high productivity? Larry Butwin says that the agency management describes the competitive insurance industry situation, as it sees it, to the employees.

He discusses with employees the predictions that about half of today's insurance agencies will go out of business in the next few years, stressing their agency won't be among the fatalities—provided the employees give it their all.

Besides employee motivation, streamlined office systems and prioritization of work make the Butwin agency hum efficiently. The agency makes maximum use of its word processor for repetitive operations, and the Butwins teach employees to prioritize their duties so that the most urgent work gets the earliest attention.

"We have a physically efficient setup," says Stanley Butwin. "There are no large spaces or work modules. Since we were able to plan the space ourselves, we gave every employee a private office."

"Because each person has a separate function and works by himself, this system works. We don't have a lot of secretarial help. No one has a private secretary and there's only one typist, so we try to keep letters to a minimum."

The agency also believes it's good business to treat its insurers well. "We nurture our relationships with our insurers," notes Stanley Butwin. "We try to explain to them that the best policy for an insurer to have is an old account with an old broker."

"The worst for them to have is a new account with a new broker because a new broker isn't going to be able to tell them about the loss experience, whereas an old pro will know the account's history."

The Butwin agency makes a point of selling relatively low-service coverages like umbrella liability, fiduciary liability, boiler and machinery insurance, directors and officers liability and disability benefits. "You put the policy on the books and don't have to do much else with it," Stanley Butwin comments.

Although 95% of the agency's property/casualty business is devoted to commercial lines, it doesn't specialize. Instead, it tries to delve into uncommon markets to avoid heavy competition.

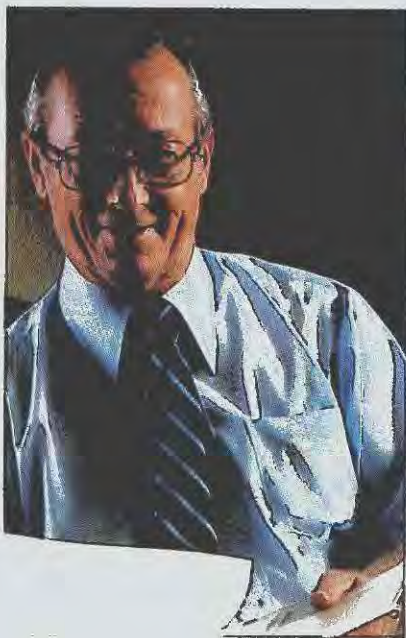
The third brother, Jerry Butwin, also spends plenty of time doing homework in his position as head of the agency's life insurance division, which produces approximately one-third of the agency's revenue, although that figure varies from year to year. Thorough research is a must since he makes presentations on such topics as pensions, employee benefits and deferred compensation.

Stanley Butwin admits that the agency's lack of a formalized plan may be one of its shortcomings and ruminates that it may yet put to use a planning manual it bought but has so far neglected.



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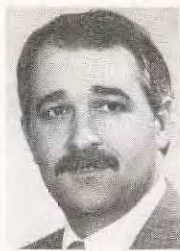
MENTOR, Ohio—Agents don't have to run away from planning programs just because they're short on financial management expertise, one consultant says.

"Insurance agents have always found the budgeting, planning and controlling process frustrating. This is due to the fact that their own expertise is normally in sales and/or underwriting rather than financial management," says Larry Marsh, a partner in Marsh, Berry & Co. Inc.

To help such agents, Mr. Marsh's firm offers IMPAC-3, which it describes as "an early warning tool and financial management aid for insurance agents."

Agency subscribers to IMPAC-3 submit profit-and-loss statements, balance sheet and other financial

data to Marsh, Berry. In return, they receive a detailed, 17-page report that is divided into three interrelated sections.



Mr. Marsh

The first section, the Goal Selection Package, attempts to determine where the agency's goals lie. Mr. Marsh says he believes that most agencies, consciously or unconsciously, set their sights in one of five directions:

- Internal growth, meaning fast revenue growth.
- Productivity, or high revenue per employee statistics.

- Reward, meaning high owner compensation.

- Cash management, meaning how well the agency collects and invests its funds.

- Valuation, meaning the agency's fair-market value.

Marsh, Berry assumes every agency desires a sixth goal, profitability, which he says is not usually incompatible with the others.

The second section in IMPAC-3, the Budget Forecast Package, helps adjust the agency budget to meet its goals. Marsh, Berry identifies the agency goals by evaluating the agency's current results in relation to each of the preceding five criteria. It then makes budget assumptions to further those goals.

The agent has the option to change these budget assumptions

every quarter. According to Mr. Marsh, this allows the agent flexibility and eliminates seasonal fluctuations, thereby overcoming the two biggest problems most agents encounter in budgeting.

The third section, the Trend Indicator and Monitoring Package, helps indicate the agency's financial health in various areas, like productivity or collections.

If the agency is starting to slip into a danger area, Marsh, Berry would be able to detect that by comparing financial ratios computed in this package and would be able to recommend that the problem be corrected before it reaches crisis proportions.

Many business plans determine how well an agency is doing by comparing various measurements

to average figures compiled by agencies of roughly the same size. But, along with these comparisons, the firm compares the client to the high performers in each category, allowing an agent to see what others are achieving.

Subscribers to IMPAC-3 are charged an initial fee of \$1,200, and the regular quarterly reports, which monitor and update the agency's progress, cost \$225 each. The initial fee includes a user's manual, which provides critical, understandable instructions for using the reports.

For more information, contact Marsh, Berry & Co. Inc. at 5838 Heisley Road, Mentor, Ohio 44060; 216-354-3230; or Tower Suite 1023, 666 Lake Shore Drive, Chicago, Ill. 60611; 312-664-6884.

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Insurer helps agents look toward future

Most insurance agents and brokers don't acquire management skills by osmosis when they expand, says George Frazier, a consultant to Commercial Union Insurance Cos.

That's why Mr. Frazier, who is also principal of Anderson-Frazier Insurance Agency Inc. in Hope, Ark., along with Kathy Pasley and David Taylor, two other members of the CU agency relations marketing services department, developed the insurer's Business Plan for Agents program.

The three-part format of the Commercial Union plan includes sections on "Where You Are Now," "Where You Want to Go," and action modules to remedy specific agency problems.

The business plan program requires agents to complete a questionnaire and mail it to CU, which will draw up a custom-computerized report within two to four weeks.

The first part of the report, the "Where You Are Now" manual, rates the agency as to how well it fares in a number of areas, including controlling its costs, its productivity and its market characteristics.

A section at the end of the "Where You Are Now" manual explains that most agency problems fall into one of three categories—sales, operational or financial. By answering a checklist that is included, the agent can determine the areas into which his companies' problems fall.

Once the problem area is defined, the manual refers the agent to specific remedies to be found in action modules, which are problem-solving kits, available from Commercial Union.

Also included is a regional map generated by CU's nationwide data base, which indicates the counties in the agency's trade territory that offer the best prospects for increasing business.

CU offers updated market demographics every year so agents can keep abreast of changes. It also encourages the agents to hold regular planning meetings to monitor their progress. According to Ms. Pasley, many agents do monitor and revise their plans every year.

Ms. Pasley says the CU Business Plan is available only to CU agents and costs \$500. More information about the plan can be obtained from local CU offices or CU's Marketing Services Department, One Beacon St., Boston, Mass. 02108; 617-725-7263.

Agency planners face personnel problems, too

FLINT, Mich.—Agency planning doesn't mean just crunching numbers. While tracking revenues and expenditures, your plan must also consider an agency's most important assets: people.

In a smoothly running agency, employees should give clients courteous service, work efficiently and receive satisfaction from knowing they've done a good job. A personnel plan can go a long way in ensuring clients good service and keeping employees happy.

"The purpose of a personnel plan isn't to be a miserable, obnoxious employer, it's to be fair," says Don Eve, president of Eve Insurance Agency Inc. in Flint, Mich.

Mr. Eve and his wife started the agency in 1973 and were confronted with personnel issues early in the company's development.

"We knew we needed a personnel plan when we got the third employee," Mr. Eve comments, adding that raises and vacations immediately became problems he and his wife hadn't dealt with previously.

Mr. Eve says he looked into buying a personnel manual but couldn't find one. So, he decided to write his own.



Mr. Eve

He "stole" ideas from personnel manuals in other industries and tried them out in his agency.

Then in 1979 and 1980, Mary Beth Bolen, the agency's operations manager, wrote the personnel practices into a working personnel manual adaptable to other insurance agencies, and Mr. Eve offered it for sale. He says he has sold more than 1,000 copies at \$50 each.

One of the most important reasons an agent should have a personnel manual, Mr. Eve says, is to keep terminated employees from collecting unemployment compensation to keep the agency's unemployment insurance rates low.

He states that an agency can lower its unemployment insurance costs by doing three things:

- Furnishing employees with written rules in the form of a personnel manual.
- Applying the rules uniformly to all employees.
- Giving a problem employee written notice that he or she is on probation and will be terminated if problems recur.

Mr. Eve says that if the employer does those three things, a terminated employee won't be able to collect unemployment compensation.

To be sure that employees are aware of this procedure and all the rules, the Eve agency asks starting employees to sign a form which says they have read and understand the personnel manual. In case a problem arises, this document shows that the employee knows of the rules the employer has set down.

What if a valuable employee has a bad habit of calling in sick frequently, which would be cause for dismissal according to the Eve Agency's personnel manual? Should an exception be made for someone who does his or her job particularly well?

"It imposes a discipline on the employer too, doesn't it? No, you can't play favorites. You must administer the rules to everyone," Mr. Eve says.

Not all the agents who have bought and adapted the Eve personnel manual agree on this point, however. Al Voiren, president of

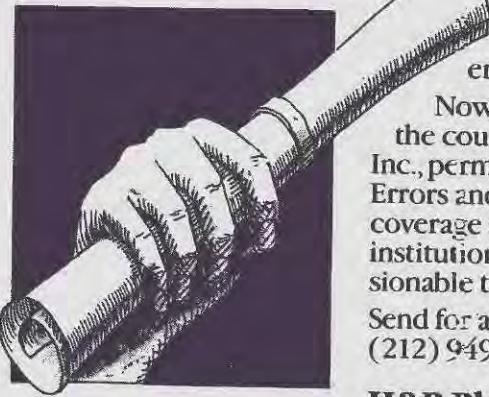
AVA Insurance Agency Inc. in Chicago, says he finds the manual very helpful, but had to make some adaptations.

For instance, he changed the rules regarding tardiness. Since most employees take public transportation to the agency's downtown location and often have more than an hour-long commute, the agency is flexible when employees arrive late.

In general, Mr. Eve feels that if employers are experiencing trouble with their employees, one of three things is at fault: "You hired the wrong people, they're not trained properly or they're not supervised properly," he says.

Continued on next page

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Agency planning includes looking at personnel problems

Continued from previous page

The manual begins with a short history of the Eve agency that includes organizational charts that show how it developed and illustrate its current organizational structure. It also features job descriptions.

The "personnel policies" section outlines policies on attendance, hours, dress, benefits, employee education, holidays, leaves of absence, sick days, overtime, probation, vacations and other topics.

The manual also cultivates employees' positive attitudes by including topics like courtesy, honesty, sense of humor and professionalism.

The section on "salary program" provides information on how much employees can earn, when they receive raises and the criteria upon which salary increases are based.

Mr. Eve stresses that agents must adapt the specifics in the manual to their own agencies.

"We tailored the manual," notes Susan Kirby, vp of the AVA agency. "We ruled out some things because they didn't apply."

For instance AVA changed the agency hours, the employee classifications and performance evaluation

forms. It also rewrote the job descriptions to better describe those at AVA.

"It's helped us to organize better than we had done before," comments Mr. Voiren, president of the seven-employee firm that specializes in architectural and engineering risks. "Set procedures are important as any business starts to grow."

Before a personnel policy was instituted at AVA, Ms. Kirby explains, employees could receive two different answers to the same question, depending on whom they asked. Now, the manual answers employees' questions before they are even raised, she says.

C.K. Johnson, president of Beneficial Insurance Agency Inc. in Chicago, says the personnel manual is "working out very well" in his agency, which employs 20 people, though the agency changed several components, including the payment schedule.

Although Beneficial has not terminated any employees since instituting the personnel policy, it has put some workers on probation.

"Probation turns 'em right around. It's very effective," Mr. Johnson said.

IIAA programs focus on customer service

If one of the keys to your agency business plan is retaining as many customers as possible, you have to make sure your customer service representatives are among the best.

The Independent Insurance Agents of America has come up with two methods to help agents improve the quality of their customer service reps.

The first, the Customer Relations Course, is designed to train your current customer service reps to do a better job. The second, the Customer Dynamics Inventory, tests candidates for customer service jobs to determine if they have the right skills.

The Customer Relations Course, which lasts eight hours and can be

presented in one, two or more sessions, was designed to put the value-added concept into the manner in which these employees service your customers, according to Kevin O'Brien, director of marketing for the IIAA's Agency Services Division.

The course is divided into four segments: relating (customer contact), discovering (customer profiling and expiration dating), suggesting (handling renewals) and support (claims handling). It teaches employees self-management, like how to control their feelings when dealing with irate customers.

"Finding out what (customers) really want is one of the most difficult things to do," he says, adding that students learn how to turn a no-win situation into a win-win situation, one in which the customer ends up being satisfied without berating the employee.

"It makes you feel more in control when someone comes at you with 'Why isn't this claim covered?'" says Mary Ellen Sutton, assistant manager of personal lines at the Dobson McOmber Agency Inc. in Ann Arbor, Mich.

Ms. Sutton worked her way up from a customer service position to management in the agency and now trains customer service reps. She recently took the course in Southfield, Mich.

"You learn that it's your decision whether that person's going to ruin your day or not," Ms. Sutton explains. "It's not that irate customers are going to hurt you personally, it's just their misconception about a policy or what an agency's supposed to do for them."

"It doesn't work to get huffy with them if they get huffy with you. It's better to just listen and empathize with their problems, then find out what they really want. If they don't like the insurance industry, I can't help them. But if their claim check's late, there's something I can do about that," she says.

"Basically, it's taking a bad situation and turning it into a win-win situation. I don't think anybody realizes the amount of negative calls these customer service reps have to deal with."

Customer service reps also learn how to capitalize on customers' phone questions by recognizing them as sales opportunities. They must learn to ask questions like "By the way, do you have your homeowners policy with us? Oh no? Well, could you tell me the expiration date of your present policy?"

Another part of the course shows employees how to avoid problems that could lead to errors and omissions lawsuits.

"The general attitude stressed is for the customer service rep to be as helpful as possible, but also be effective when dealing with clients," the IIAA's Mr. O'Brien comments.

The course can be given by an agency principal or office manager, who needs only a couple of hours to prepare by looking over the leader's guide, he added. State associations also give the course from time to time.

Agencies may purchase the course kit, which includes a leader's guide, two audio cassettes and four trainee guides, for \$240 from the IIAA. Extra trainee guides cost \$140 per set of four. The IIAA provides a toll-free number, 800-221-7917, that interested agents may call to obtain more information.

Ms. Sutton says a large part of the course's value came from the recognition that "the customer

Continued on facing page

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Continued from facing page
service rep isn't just 'the girl.' You have a very valuable function in the agency."

The Customer Dynamics Inventory also reflects the importance of the customer service representative position. Its basic function is to test candidates for customer service representative positions to determine if they have both the personality and skills to do the job properly.

Once an agency has interviewed candidates for a customer service rep position and narrowed its choice to one or two hopefuls, it can administer the hour-long CDI with nominal supervision. The test can then be sent for evaluation to Personality Dynamics Inc., the company that designed it.

The company guarantees that it will evaluate the test the same day it receives it and phone the agent with the results.

The CDI rates job candidates on eight criteria and offers a bottom-line recommendation as to how strongly the candidate is recommended or not recommended. The eight criteria are:

- Organizational ability/self-discipline.
- Level of responsibility/ability to come through.
- People orientation/ability to relate with others.
- Motivation to please others/tact, courteousness and diplomacy.
- Detail strength/diligence and accuracy.

'It doesn't work to get huffy with them if they get huffy with you,' Dobson McOmber's Ms. Sutton says.

- Language skill.
- Arithmetic skill.
- Overall service motivation.

It's not yet known how well the CDI can predict the success of a customer service rep candidate because "the CDI has been on the market too short a time to provide meaningful statistics," says Herbert Greenberg, Personality Dynamics' president.

The test was announced in August but didn't go on the market until October, he noted.

However, Mr. Greenberg says he expects the test to be highly accurate in measuring candidates' capabilities since it is an adaptation of the Personality Dynamics Inventory, a test that measures a person's ability to succeed in a sales or managerial position.

The PDI was introduced by his firm in 1961 and endorsed by the IIAA as a test for sales candidates in 1975.

"With the PDI, we have all kinds of data. It's been used to test more than 500,000 people from 11,000 companies, including 3,000 insurance agencies," Mr. Greenberg says.

Of the people recommended by the company and eventually hired in high-turnover industries, like life insurance sales, "63% were in the top half of their sales force after 14 months," Mr. Greenberg notes.

"Of those we didn't recommend but who were hired anyway, 7% were in the top half of their sales force."

For low-turnover industries such as property/casualty insurance sales, 70% of recommended and 10% of non-recommended candidates were in the top halves of their sales force, he adds.

While the PDI can measure a candidate's ability for a customer service position, Mr. Greenberg and his wife Jeanne, the executive vp of the

firm, agreed with IIAA that it would be useful to design a test specifically for customer service reps.

Although CDI contains "the part of PDI most helpful in recruiting the qualities necessary for customer service reps," the psychologists added a few skill tests, like vocabulary and arithmetic ability, to ensure the candidates possessed those skills. They also stripped away sections that measure sales and managerial ability.

Another reason for a separate customer service rep inventory is that it costs less to evaluate. Personality Dynamics does not charge for the test booklet or answer sheets, but charges \$55 for each CDI that is evaluated. On the other hand, \$110 is charged for each PDI evaluation.

Although the CDI costs less, Mr. Greenberg warns that it cannot be used for sales and managerial candidates because it does not measure those abilities.

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A computerized loss-estimating system has been developed by Marshall & Swift for agents to use when adjusting claims.

The program features a national data base that contains the costs of repairing or reconstructing damage to buildings in the U.S. or Canada. It takes into account depreciation, exclusion, deductible and coinsurance considerations.

Agents use the system by assessing the damage at the loss site with a coded form and phoning the data to Marshall & Swift, which will issue a statement of loss for an average of \$4 to \$5.

For more information, contact Marshall & Swift, 1617 Beverly Blvd., P.O. Box 26307, Los Angeles, Calif. 90026; 800-421-8042 or 800-252-2227 in California.

agent/broker products & services

Fidelity claims

Fidelity claims handling techniques are revealed in publications from CMA Consulting Group. The company offers two separate publications: "The CMA Fidelity Consultant's Training Manual," priced at \$165 plus \$3 postage, and "Glossary of Suretyship and Related Disciplines," priced at \$12 plus \$2 postage. Both items together cost \$150, plus \$5 postage.

The first volume of the training manual discusses essential features of suretyship, fidelity bonds, loss prevention, investigating loss, proof of loss and fraud investiga-

tion. The second volume contains checklists and questionnaires to be used in an investigation.

The glossary is a 130-page volume of terms used in fidelity coverage that is cross-referenced.

To obtain the materials or more information, write Training Manuals, CMA Resources Training & Development Division, P.O. Box 2287R, Morristown, N.J. 07960.

Agency management

The Independent Insurance Agents of America's two-volume "Agency Management Service" is intended to save agents money and

improve agency efficiency.

The publication offers chapters on management, advertising, money, legal problems, marketing, automation, agency purchases, accounting and taxes. It is kept current by a continuing series of bi-monthly updates.

The manuals cost \$115 for IIAA members and \$145 for non-members. For more information, write to Independent Insurance Agents of America Inc., P.O. Box 739, Santa Monica, Calif. 90406.

Catastrophe advice

Advice on the special roles of agents, insurers and independent adjusters in the chaotic aftermath of a catastrophe is provided by Property Claim Services' "Catastrophe Loss

Adjustment Procedure Manual."

The manual costs \$10 and may be ordered from the Education & Training Unit, Property Claim Services, 700 New Brunswick Ave., Rahway, N.J. 07065; 201-388-5700.

Financial planning

A guide to financial planning computerization, "The Financial Planner's Computer Guide," is available from The College of Financial Planning.

The guide offers the novice valuable hardware and software information and details comprehensive software packages for the experienced computer user. The cost is \$70. Contact The College of Financial Planning, 9725 E. Hampden Ave., Denver, Colo. 80231. ■

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a/b topics briefs

FAIA reinstates its executive vp

A hurricane of sorts has ravaged the Florida Assn. of Insurance Agents. Its executive vp, Tom Johnson, resigned on Nov. 21, but the association revealed that his resignation had been forced by three association officials who wanted to promote Fred Karl, vp and general counsel, to executive vp.

At a Dec. 19 meeting, 107 FAIA members demanded a general meeting to vote on whether Mr. Johnson should be reinstated.

On Dec. 23, the executive committee reinstated Mr. Johnson as executive vp and accepted Mr. Karl's resignation. FAIA President Harvey Brown resigned along with several other officers and board members. The association is now regrouping to continue its business.

Safety program

The National Assn. of Professional Insurance Agents is encouraging manufacturing companies to improve product safety. PIA, along with the National Safety Council, co-sponsored a national awards program to reward companies that promote product safety through design or manufacturing, education and management. Entries in the awards contest were judged by a panel of product safety experts. Face Guards Inc. of Roanoke, Va., won first place in product development and Whirlpool Corp. took first place in public education awards.

New CGL form praised

The Independent Insurance Agents of America is praising the new comprehensive general liability policy form devised by the Insurance Services Office. IIAA said the new policy, which includes both a claims-made and an occurrence form, is "much improved." It commended ISO for the extensive test marketing of the new forms.

Computer service

Are you ready to read news on your computer? IIAA's new Electronic Information Service features daily news of the insurance industry and a marketing data highlights section, limited access electronic mail, a bulletin board, an agency management area and an IIAA order area. IIAA says that any agency with an in-house system, personal computer or terminal can use the information service. The service is free to IIAA members and costs \$100 for non-members. ■

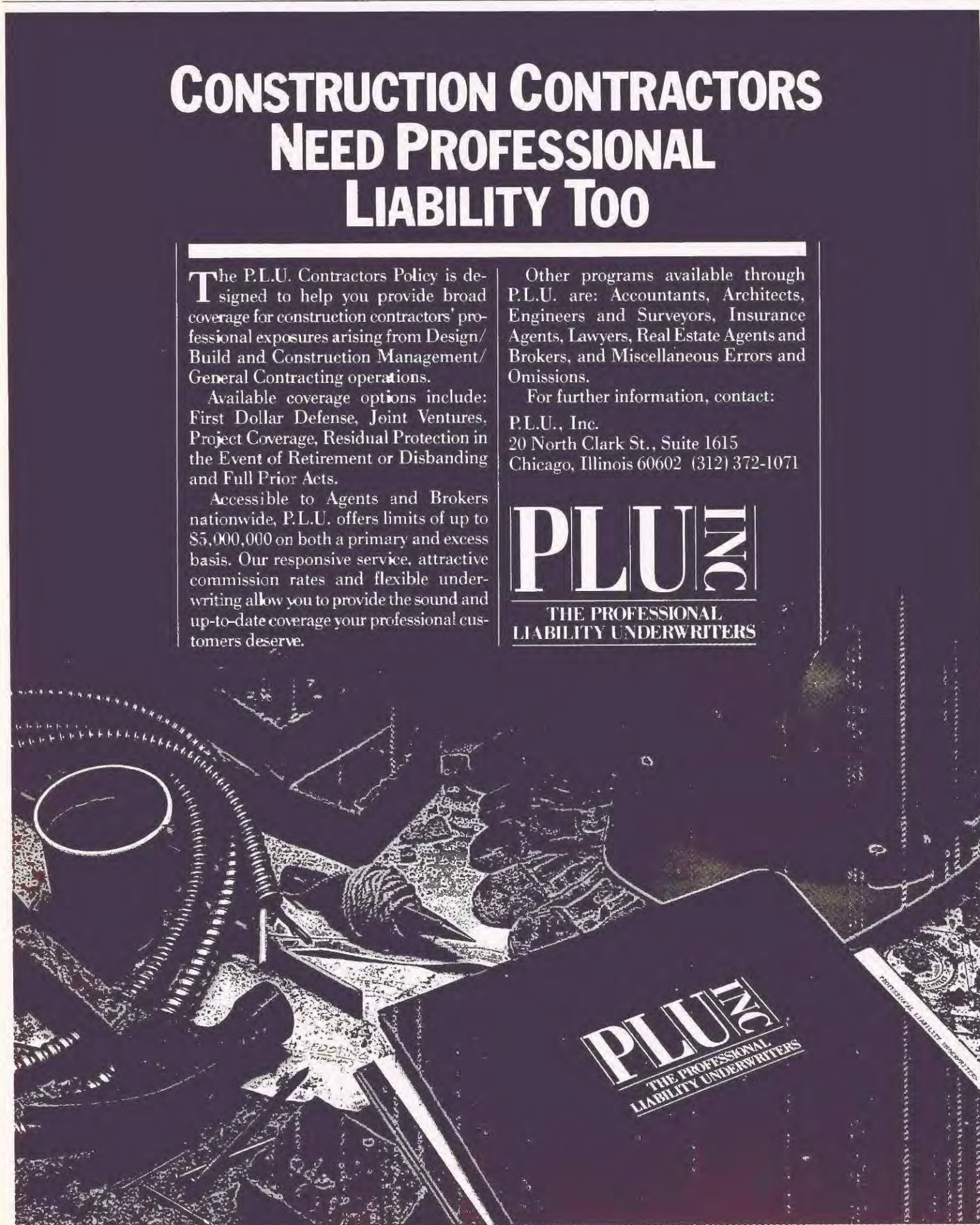




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Battles over Michigan comp fund continue

Continued from page 2

round Jan. 18, but a subsequent request for a rehearing has been taken under advisement by Circuit Court Judge Stanley J. Latreille.

In his Jan. 18 decision, Judge Latreille ruled that Ms. Baerwaldt may adjust Accident Fund rates. He also rescinded a preliminary injunction barring the reduction. However, because the judge has not yet entered his new order, the preliminary injunction is still in effect.

"This case involves the dual role that the Michigan insurance commissioner plays as administrator of the Accident Fund under Chapter 7 of the Workers Disability Compensation Act and as insurance commissioner under Chapter 24 of the General Insurance Code," the judge said.

"This court believes that the insurance commissioner's action in lowering the Accident Fund's rates could only be illegal if her primary intention was to stimulate competition in the industry," the judge said in his decision.

The judge referred to testimony by the Insurance Bureau's chief actuary, Kevin Clinton, who said he was asked by the commissioner in August to make rate recommenda-

tions for the Accident Fund.

Mr. Clinton testified that his initial conclusion was that the Accident Fund could absorb a 65% overall rate reduction, especially in light of a \$112 million surplus. But after omitting income earned on assets from his calculations, he came up with the 17% figure.

After ordering the reduction, Ms. Baerwaldt, in public statements, said it would stimulate competition. But Judge Latreille said this kind of rhetoric "was nothing more than a public official's attempts to dramatize for public consumption what she was doing." He further said competition was a natural "secondary effect" of the order, but since it was not the primary intent, her order was not illegal.

But insurers, in their petition for a rehearing, hope to submit proofs to show that Ms. Baerwaldt is deliberately reducing the Accident Fund rates to stimulate competition with rates so low that they would be out of line with the rest of the market.

The insurers also asked for a reinstatement of the preliminary injunction.

Meanwhile, Ms. Baerwaldt is preparing to put the rate reduction

into effect "at the first possible legal date (as soon as the injunction is removed)," she said.

"We're proceeding with the mechanics for the (lower) rates... so we'll be ready," Ms. Baerwaldt said. Initially, the lower rates were to take effect Jan. 1, and there still is a question whether they will be retroactive, she said.

But the reduction in rates isn't the only legal issue in Michigan involving the insurance commissioner and the Accident Fund.

About 90 miles southwest of the Livingston County Courthouse, another legal tug-of-war recently took place in a U.S. District Court in Kalamazoo.

In that case, which was filed in May 1981, the directors of the Accident Fund sued the commissioner, who attempted to take over the assets of the fund and classify its employees as state workers. Her action was based on an unsolicited 1976 attorney general's opinion that said the fund was a state agency subject to control by the insurance commissioner.

Since that time, the state has agreed that the assets of the fund belong to the policyholders and not the state. But at a Jan. 9 court hear-

ing, U.S. District Court Judge Richard Enslen abstained from ruling on whether the fund is a state agency and its staff state employees.

Judge Enslen believes the matter should be heard in state court, rather than federal court, even though a pension plan is involved. He reaffirmed that ruling Jan. 24 when he denied a petition for an injunction pending an appeal of his ruling that the issue is a state matter.

"I think we're going to plow ahead in the belief that what we think is true," said Ted Swift, a Lansing attorney who represents the Accident Fund. He's with the law firm of Foster, Swift, Collins &

Coey.

"We'll probably wind up in state court," Mr. Swift said, indicating he probably wouldn't initiate that action unless the insurance commissioner's acts on her threats to take over the fund.

"There's no question that the insurance commissioner has the authority over the Accident Fund and that the board is advisory," Ms. Baerwaldt stated.

The commissioner's attorney, Assistant Attorney General Harry Iwasko, said the state probably will take some action, but first will attempt to negotiate with the Accident Fund. However, Mr. Iwasko refused to explain the details of such a negotiation.

College offers reinsurance course

NEW YORK—The College of Insurance will offer its six-hour "Brief Course in Reinsurance" five times in the next five months. The course will be given in New York and Chicago.

The course is designed for new reinsurance personnel, primary underwriters, agents, brokers and risk managers with limited knowledge of the concepts of reinsurance.

In New York, the course will be given Feb. 23-24, March 29-30, May 10-11 and June 21-22. Tuition is \$115.

In Chicago, the course will be offered Monday, April 9. The tuition, including lunch, is \$150.

For more information about the course, contact The College of Reinsurance, 123 William St., New York, N.Y. 10038.

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Insurance Management: vps, directors, managers of insurance, risk, benefits, compensation, safety, security, etc.	6,604
Associations	1,133
Government, Unions, Educational Institutions	799
Commercial Consumers	
Sub-total	24,376
Insurance Agents & Brokers	9,655
Insurance Cos.	5,461
Financial Institutions	441
Actuaries, Attorneys, Adjusters, Appraisers & Consultants	2,977
Others allied to the field	1,083
TOTAL	43,993

*Source: Business/Occupational breakdown of qualified circulation, November 7, 1983 issue, as submitted to BPA for December 1983, BPA Publisher's Statement.

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Allianz studies purchase of Armco insurers

Continued from page 2
Insurance Co.

Not included in the sale are two lease finance and industrial credit subsidiaries, Armco Financial Corp. of Dallas and Armco Financial Services International in Europe.

Armco also announced the resignations of H.T. (Ted) Cohn, group vp and chief executive officer of Armco Financial Services Group, and William Samengo-Turner, president of the group's London-based financial services operations.

Mr. Cohn will join the actuarial consulting firm of Tillinghast, Nelson & Warren, where he will specialize in insurance company mergers and acquisitions. Mr. Samengo-Turner's plans were not announced.

Armco cited the massive tax writeoffs generated by its steel-making and manufacturing operations as the main reason for wanting to unload the insurance group. For instance, the company recently shut down a Houston steel-making plant, resulting in a \$296 million charge against third-quarter earnings.

Losses in 1982 and 1983 combined to produce nearly \$1 billion

in tax-loss carry-forwards, eliminating the need for tax deductions generated by the underwriting losses of its insurance group.

"It will be many years before Armco will pay any taxes, so it doesn't make any sense for the company to maintain a property/casualty operation" for tax purposes, Mr. Cohn observed.

The insurance group has lately been an added drain on Armco's earnings. Armco boosted the reserves of its insurance units by \$75 million in 1983's fourth quarter to cover unexpectedly large losses, and it blamed that expense for most of its total \$46.8 million fourth-quarter loss. A total of about \$180 million was added to the insurance group's reserves last year.

For the first nine months of 1983, Armco Insurance Group posted net

written premiums of \$448.2 million, an aftertax underwriting loss of \$76.6 million and a combined ratio after policyholder dividends of 117.1%. It reported an aftertax operating loss of \$50.3 million for the period.

Under a "letter of understanding" reached with Allianz, the purchase price for the operations will be between 1.5 and 2 times their book value, currently about \$300 million, according to Mr. Cohn. The exact price will be subject to further negotiation.

Another subject of discussion will be whether Armco will assume responsibility for any future losses on its current book, either as a reinsurer or otherwise. Armco executives say they don't expect to retain any such risks as a condition

of the sale.

"When and if we sell the insurance operations to Allianz, we're going to sell everything. We don't anticipate any contingent liability," said James H. Giffen, Armco vp for corporate strategy and development.

Allianz officials, however, say that no decision has yet been reached on the extent of Armco's participation, if any. Allianz has also made no plans yet for reinsuring the Armco business, if it is acquired.

The agreement with Armco is in its "very, very first stages," explained Josef Kolb, an Allianz spokesman in Munich.

Meanwhile, Armco will continue to insure its own risks with the insurance group subsidiaries, according to Mr. Cohn, who said that the company has no plans to move the

its insurance program to new markets.

Armco acquired Armco Insurance Group, formerly NN Corp., for \$394.5 million in stock in 1980 and merged it with its other insurance operations. The largest segment of Armco Financial Services, the insurance group is composed of 13 domestic subsidiaries including Northwestern National Insurance Co., Pacific National Insurance Co., Talbot Bird & Co. of New York and Armco Special Risks.

Allianz, West Germany's largest insurer, has recently sought to expand its property/casualty operations in the United States and elsewhere. It recently lost out to Britain's B.A.T. Industries in a bid to acquire Eagle Star Holdings P.L.C., a British insurance holding company (BI, Nov. 7, 1983).

Olympic groups buy coverage

Continued from page 2

Also included in the IOC's package is \$10 million of coverage from AIU protecting against non-participation by the U.S. team, certain world-class athletes or any of the world's six leading amateur hockey teams. Ms. Buzdovacic did not know if other insurers were also participating on this risk.

AIU wrote all the IOC's coverage in early 1983 through its special property department. The coverage was brokered by Faugere & Juth-eau S.A. in Paris.

Ms. Buzdovacic noted that AIU also wrote travel accident insurance for tour groups headed for the Olympics along with ZOIL Sarajevo, the Yugoslav insurer. Because the number and duration of the tour packages is uncertain, she explained, the amount of coverage cannot be determined.

Yugoslav law required the YOOC to place its coverage through a committee of five state insurance companies formed in the summer of 1980. Ms. Buzdovacic said. ZOIL Sarajevo acted as the lead insurer on this coverage.

"The most difficult thing for the organizing committee was identifying the risks they wanted to cover," she said. "To do this, they used information obtained from previous Winter Olympics."

The YOOC's insurance includes \$10 million in general liability coverage and \$30 million in coverage for cancellation of the Games or loss of the television signal, Ms. Buzdovacic said.

Reinsurance for the YOOC's coverage was placed with Lloyd's through Bosra Re, a Yugoslav reinsurer. Ms. Buzdovacic said AIU was offered some of the reinsurance, but the company decided not to participate in the YOOC's coverage since it was already insuring the IOC.

Schneiderman joins firm

CHICAGO—Rebecca Schneiderman, former chairman of the Illinois Industrial Commission, has joined the Chicago law firm of Johnson & Drodzick Ltd.

Ms. Schneiderman resigned from the commission in March and was a consultant for Gov. James Thompson before joining the firm.

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Reagan budget

Continued from page 1

state and Social Security taxes if health insurance premiums were considered part of an employee's taxable income. Employees earning more than \$50,000 might be slapped with an additional \$400 a year in taxes, according to the National Center for Health Services.

In addition, employers would have to pay more than \$175 million in added Social Security taxes if health insurance premiums were taxed.

The administration, though, believes these costs are justified. Ms. Heckler said if a lid were placed on tax-free health care benefits, employees would become more "disciplined" in their use of health care services.

That could lower demand for health care services and thus put the brakes on soaring health care costs.

But insurers and employers have argued that the tax, which would affect about one-third of workers covered under employer-provided health plans, wouldn't have any effect on the cost of health care.

In fact, some experts contend that the tax could actually increase the cost of health care as companies eliminate cost-containment features, like coverage for second opinion surgery, to keep employees below the tax cap.

In addition, employers say the tax would discriminate against employees in areas of the country where health care costs are high. The tax also would penalize workers employed in high-risk industries, like mining, that are charged higher health insurance premiums.

Finally, the growing number of

employers that self-insure their health care plans would find it difficult to administer the tax since they often don't know what their total health care costs are until many months after the end of a year. That's because many claims are incurred at the end of a year and are not paid until the next year.

In the area of federal workers' pensions, the administration also wants to overhaul the Civil Service Retirement System, the nation's largest retirement plan, to reduce the government's costs.

For example, benefits under the new plan would be based on a federal employee's highest five years of salary instead of the highest three years of salary.

In addition, the next cost-of-living adjustment to federal retirees' pension checks would be delayed until January 1985. The payment is now set for June. All future COLAs also would be made in January.

Beginning in 1986, the COLA for retirees would be limited to the increase in federal white-collar pay or the Consumer Price Index, whichever is less. Also, civil service retirement COLAs for benefits exceeding \$10,000 would be limited to 55% of the COLA for amounts below \$10,000.

Also, contributions federal employees must make toward pension benefits would increase to 9% of salary by 1986 from 7% currently. This would increase receipts by \$900 million. The benefit reductions would cut costs by \$400 million in 1985.

Military pension benefits also would be slightly trimmed. For example, the June COLA would be delayed until January 1985 and all future adjustments would be made

in January. This is predicted to save \$300 million in 1985.

It isn't clear if Congress will trim benefits offered by the Civil Service and military retirement plans. There is a desire on Capitol Hill to cut costs, but Congress usually lacks the enthusiasm to cut benefits in the two huge plans in an election year, said Frank McArdle, director of communications and education at EBRI.

The administration, however, does have an excellent chance of winning congressional approval of its plan to allow employees with a non-working spouse to contribute up to \$4,000 a year to an Individual Retirement Account, up from the current \$2,250 limit.

The measure will be endorsed by women's groups and has no major opposition.

But, some pension activists concede that they are ambivalent about the plan.

"From a tax policy and retirement-income policy point of view, IRAs don't make much sense since they don't help those (the lower class) who need retirement income the most," said Karen Ferguson, director of the Pension Rights Center.

But the Reagan administration proposal would eliminate a basic inequity in the tax law now that doesn't give a homemaker the right to contribute the same amount to an IRA as an employee working for a company, Ms. Ferguson added.

Other agencies affected by the Reagan administration's proposed budget for fiscal 1985 include:

OSHA

The Occupational Safety and Health Administration says it will

issue fewer safety and health rules next year, but its field officers will visit the same number of worksites as they do this year.

In the administration's proposed budget, OSHA says it will issue 13 health and safety regulations in fiscal 1985, compared with 18 this year.

However, OSHA estimates that it will conduct a total of 70,500 inspections at employer worksites, the same number it expects to conduct this year.

To conduct those inspections and draft and publish the new safety and health rules, the administration wants Congress to appropriate \$217.7 million for OSHA, up from \$210.9 million in 1984.

Pension office

The Office of Pension and Welfare Benefit Plans, which helps administer the Employee Retirement Income Security Act, says it will conduct a total of 2,320 benefit plan reviews and investigations, up from 2,060 this year, according to the proposed budget.

In addition, the pension office, which now reports directly to Secretary of Labor Raymond Donovan, says it will issue 2,798 ERISA exemptions, variances, interpretations and regulations in fiscal 1985, down from 2,839 in fiscal 1984.

The pension office also estimates that employers will file 920,000 ERISA-related reports next year, down slightly from 922,000 in fiscal 1984.

To regulate the nation's private pension plans, the administration has asked Congress to appropriate \$29.3 million for the pension office, down from \$29.2 million in fiscal 1984.

PBGC

The Pension Benefit Guaranty Corp., which guarantees workers' and retirees' basic pension benefits, estimates that employers in fiscal 1985 will fold 102 pension plans with insufficient assets to pay promised benefits, the same number as in fiscal 1984.

The PBGC predicts that income from termination insurance premiums that employers with pension plans pay will rise to \$248 million compared with the \$93.86 million it actually received in fiscal 1983.

That estimate, however, assumes Congress will pass legislation, H.R. 3930, pending in the House Education and Labor Committee, that would raise the annual PBGC premium to \$6 per plan participant from \$2.60.

In addition, the agency, which was created by ERISA, estimates that it will pay out \$182 million to participants enrolled in pension plans that failed and were taken over by the PBGC. In fiscal 1983, the PBGC paid out \$131.4 million in benefits.

OPIC

The Overseas Private Investment Corp., which provides political risk insurance to U.S. companies investing in less developed countries, estimates its insurance revenues will rise to \$39.5 million in fiscal 1985, up from \$37.3 million in fiscal 1984.

OPIC's insurance revenues have been steadily increasing during the last several years as more employers have become concerned about protecting their foreign investments in light of more turmoil in foreign countries.

New CGL forms

Continued from page 1

forms used by insurers now, an insurer is responsible for losses that occur during the policy period, no matter how long after the policy's expiration a claim is presented.

Under the claims-made form, however, an insurer is responsible for claims first presented during the policy period, regardless of when the loss occurred.

The new claims-made form is designed to protect insurers from demands for coverage many years after an insurance policy has expired to pay claims for bodily injury claims that laid latent for years, such as asbestosis.

Other features of the new claims-made form include:

- An aggregate cap limiting the insurer's total liability for losses in any one policy year. Beneath the aggregate policy limit, per occurrence limits are imposed for bodily injury and property damage; per fire limits for fire damage to premises rented by the insured; per person limits for medical payments;

and per person or per organization limits for personal injury and advertising injury.

Separate per occurrence and annual aggregate limits are imposed on products/completed operations bodily injury and property damage risks.

- No retroactive date, meaning that losses occurring before the policy's inception date will be covered as long as the claim is first presented during the policy period. This coverage is considered excess of other primary and excess insurance.

- An extended-tail provision allowing indefinite extension of the reporting period for claims, as long as the loss occurred before the policy's expiration. This coverage, also considered excess of other primary and excess insurance, would be available at a one-time additional premium.

- A revised pollution exclusion barring coverage for environmental contamination, bodily injury or property damage arising from the insured's intentional acts or from

"gradual emission, discharge, release or escape (of pollutants) from any source."

The revised exclusion, also contained in the new occurrence form, replaces one that bars coverage for pollution incidents unless they are "sudden and accidental." Courts have interpreted "sudden and accidental" broadly in favor of policyholders.

Hartford objects both to technical points of the policy coverage and to problems involved in its implementation, according to Mr. Sterling.

Among the technical objections are the following:

- The new pollution exclusion, though better-drafted, doesn't solve the problem of defining which pollution incidents are covered and which aren't. Mr. Sterling said the new exclusion "may invite litigation," as the old exclusion did, in determining what constitutes a gradual pollution incident.

Hartford would rather exclude all pollution risks, allowing a buy-back of the coverage for those with nominal pollution exposures and requiring those with more serious exposures to buy a separate environmental impairment liability policy.

- The extent of property damage coverage is "difficult to sort out" under the new form because of numerous exclusions. Among these are exclusions for property in the insured's care, custody or control; damage to the insured's products; damage arising from work performed by the insured; and damage related to business risks such as loss of use, recall, replacement or disposal of the insured's product, work or other impaired property.

Hartford generally would clarify what it considers "complex wording" and would grant some additional coverage for damages from the named insureds' products and work, according to Mr. Sterling.

- The new forms provide for unlimited coverage of defense costs, where Hartford would impose a separate limit for defense.

"It becomes very difficult to price the product when an underwriter has no idea how much he will pay out in defense costs," Mr. Sterling said.

ISO's Mr. Savage said, however, that defense costs likely will be reduced since a major point of contention under the present CGL forms—how "occurrence" is to be defined—is eliminated.

- Hartford worries that umbrella and excess coverage may not be as widely available on a claims-made basis. Concurrence problems could arise if two different coverage triggers, claims-made and occurrence, are used in primary and excess policies for the same insured.

Hartford also feels that "unnecessary complications" would result if policies with two separate coverage triggers are involved in the same loss.

"We are not going to accomplish what we set out to do. We are not going to be able to reduce litigation costs," Mr. Sterling said.

Hartford is joined by CIGNA in its concern about how the switch to the claims-made form will be implemented.

Both companies worry that the availability of two coverage triggers will result in adverse selection, with higher-risk accounts gravitating to the claims-made form. If rates for the claims-made policy are significantly lower, as ISO expects, and the one-time premium for extended tail coverage is limited, insurers' operating results could deteriorate further, Mr. Sterling complains.

The result could be premium hikes that would not be limited to claims-made policyholders.

The two companies also worry about the increased burden on agents and brokers, who probably will have to offer two quotes—one for claims-made and one for occurrence coverage—for every risk.

The difficulties of explaining the new forms and handling transitions from occurrence to claims-made also could result in some policy-

holders being misinformed, leading in turn to greater exposure of agents to errors and omissions claims.

Hartford would like to see ISO file the new policy on an "advisory form" basis, with no rate schedule and no maximum cap on the extended tail premium, Mr. Sterling said. The result would be less frequent use of the form.

Mr. Savage said that ISO may consider such a move.

"That's not a scenario I would totally dismiss," he said. "But that is not our present plan."

St. Paul and Travelers, meanwhile, are not troubled by the concerns that worry Hartford and CIGNA.

Maintaining two systems—one for handling claims-made underwriting and the other for occurrence—may be a temporary problem, but not a serious one, points out Fred P. Themmes, a senior underwriting officer with St. Paul.

Neither is the extra burden on agents of providing two quotes for a risk a significant problem, adds the Travelers Mr. Rinehimer.

Mr. Rinehimer doesn't expect claims-made rates to necessarily be cheaper than those for occurrence policies, especially for larger risks where rates are heavily negotiated.

"I don't think people will flock to the claims-made form because it will be a lot cheaper," he said. "For many companies, it will mean the difference between having an affordable market versus not having any affordable market."

He added that premium shortfalls caused by lower rates or adverse selection are still within the underwriter's control.

Concurrence between primary and excess policies probably will not be any more of a problem than it has been to date, he added, pointing to the coverage disputes that have arisen in asbestos litigation.

"Our record of concurrence in the past has been abominable," he observed.

St. Paul's only objection to the form is the lack of a total pollution exclusion, Mr. Themmes said.

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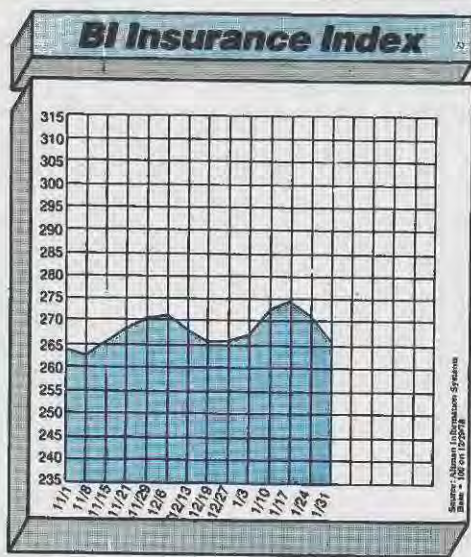
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Insurance industry stocks closed lower for the second week in a row as the *Business Insurance* stock index fell 6.7 points to 264.9 from 271.6 during the trading period ending Jan. 31. Thirty-seven stocks were down, 15 closed unchanged and 10 posted gains. The leading gains were reported by *Avenco Corp.*, 9.3%; *Poe & Associates Inc.*, 5.0%; *Jefferson National Life Insurance Co.*, 3.4%; *Northwestern National Life Insurance Co.*, 2.8%; and *E.H. Crump Cos. Inc.*, 2.4%. The largest losses were posted by *Mission Insurance Group Inc.*, 14.0%; *Integrated Resources Inc.*, 11.2%; *Statesman Group Inc.*, 10.3%; *Fremont General Corp.*, 10.0%; and *Emett & Chandler Cos. Inc.*, 9.7%. The *BI* index reported a 2.5% drop, while the New York Stock Exchange composite posted a 1.6% decline during the same trading period.

British Issues

31 Jan	Price	P/E	Div.	Yield	High-Low
Companies	pence		pence	%	pence
Comml Union	188	31.3	16.86	9.0	193-188
Eagle Star	700	21.3	27.86	4.0	700-700
Genl Accident	462	13.6	26.43	5.7	470-402
Gdn Royal Exch	540	13.8	30.71	5.7	540-530
Phoenix	428	18.6	26.00	6.1	440-413
Royal	535	13.7	39.28	7.3	535-525
Sun Alliance	1425	16.4	78.57	5.5	1513-1425

Brokers

	Price	P/E	Div.	Yield	High-Low
	pence		pence	%	pence
CE Heath	355	8.9	22.86	6.4	355-347
Hogg Robinson	160	12.3	9.43	5.9	160-152
JH Minet	145	11.2	7.57	5.2	147-145
Sedg Grp	235	11.8	11.43	4.9	238-232
Stenhouse Hldg	134	12.9	9.43	7.0	136-134
Stew Wrightson	340	11.3	22.57	6.6	340-332
Willis Faber	700	14.5	30.00	4.3	704-700

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

Analyst sees profit growth for top British brokerages

By LEN STRAZEWSKI

BRITISH INSURANCE brokerages are rebounding nicely from the competitive market of the past five years and are heading for substantial earnings growth, according to a recent report by Simon & Coates, a British investment analysis firm.

But this growth, the report also notes, still will lag significantly behind the boom days of the 1970s, despite all the lessons the brokerages have learned about maximizing investment income, minimizing expenses and working in a competitive environment.

The report, written by analyst Peter Virgin, reviews the financial results of seven publicly held brokers based in the United Kingdom: C.E. Heath P.L.C.; Hogg Robinson Group P.L.C.; Minet Holdings P.L.C.; Sedgwick Group P.L.C.; Stenhouse Holdings (which recently merged with Reed Stenhouse Cos. Inc. in Canada); Stewart Wrightson P.L.C.; and Willis Faber P.L.C.

Based on the financial results of these brokers, the report says that "the prospects for the U.K. insurance brokerage industry are better now than they have been at any time in the previous half-decade."

"There is a body of incontrovertible evidence that the reinsurance market is, at last, firming up. Economic recovery, worldwide, will lead to improvement in brokerage (revenues) from the industrial client base. Brokerage investment income is no longer inflated by artificially high rates of short-term interest."

"Finally, the difficulties experienced by the insurance industry during the past five years have taught U.K. brokers lessons in expense control, which are not going to be quickly forgotten."

Mr. Virgin cautions, however, that brokers and investors should not expect an immediate return to annualized underlying growth of more than 20%.

"It is more a matter of 1984 looking significantly better than 1983 and of 1985 looking significantly better than 1984," he says.

S&C predicts that the British brokerage industry will announce an aggregate pretax profit of 172.8 million pounds (\$241.9 million) for 1983, up 1.3% from 170.6 million pounds (\$238.8 million) in 1982. In 1984, profits are

expected to increase by 6.7% to 185.6 million (\$259.8 million). The company is not issuing any specific profit predictions for 1985.

Although this projected growth seems reasonably strong, the report notes that the brokerage industry in Britain previously posted double-digit gains through the early 1970s, including a tremendous 32.7% increase in profits in 1977 to 123.7 million pounds (\$173.2 million) from 93.2 million pounds (\$130.5 million) in 1976.

In 1978, the brokerage industry's profits grew 18.3% to 146.3 million pounds (\$204.8 million).

What causes British brokerage profits to fluctuate? That's the key question S&C had to ask to understand changes in the industry and predict future growth. Market rate environment, expense control, changes in profit margins from worldwide business and investment income all contribute, the report says.

"The first and most important question which needs to be asked is: Are the profits of the U.K. insurance broking sector tied to the movements of the insurance cycle?" the report states. "At first sight, there would appear to be a body of evidence in support of the contention that they are; 1977, after all, was a year when premium rates in many major lines were buoyant and when there was still a significant lack of capacity in many sections of the U.S. insurance industry."

The theory holds true through 1979, the report says, as pretax profits slipped 1.4% to 144.3 million pounds (\$202 million) following a sudden downturn in property/casualty insurance rates and a general expansion in worldwide capacity.

"The theory then breaks down. Competitive conditions intensified in world insurance markets in 1980 and then in 1981, and yet the underlying profits of the U.K. insurance broking industry staged a strong recovery in both years. In 1981, indeed, the rate of growth—12.6%—compares quite well with the level achieved in 1978, before competitive conditions became fully established."

Simon & Coates abandoned the theory that market competition alone directly led to downward changes in profitability, the report says. In fact, competition can galvanize as well as destroy, it says.

"The strong operating performance of the sector in 1980 and 1981 can partly be put down to the fact that management action was taken to improve profitability. Head counts were reduced, centralized controls were strengthened, moves were taken to improve internal credit procedures and treasury operations were made more sophisticated."

The report notes that while improvements in expense control seemed to lag about one year behind the change in the insurance marketplace, expense growth slowed significantly in every year between 1979 and 1982.

After posting expense growth rates nearing 20% from 1977 through 1979, the rate of expense growth dropped to 17.4% in 1980, 14.6% in 1981, 10.4% in 1982 and an estimated 10.2% in 1983. S&C predicts the expense growth will balloon to 12.5% in 1984, but says the increase will be exceptional and unrelated to overall management trends.

"This is excellent performance on the part of management," the report says. "The 10.4% growth rate in 1982 was less than half the figure of 21.4% in 1979."

"It would appear, at first sight, that we expect the rate of growth in expenses to accelerate next year, reaching 12.5%, (but) this is more apparent than real." The report notes that several extraordinary items will affect expenses in 1984, including the accounting of several acquisitions and changes in corporate real estate occupancy.

Investment income will also be a positive factor in profitability, the report says. Investment income has increased steadily since 1977, the report says, peaking at 83.4 million pounds (\$116.8 million) in 1982. Although S&C predicts that lower interest rates will cause overall investment income to drop a bit to 81.1 million pounds in 1983 (\$113.5 million), the analysts expect a solid investment income rebound to 87.8 million pounds (\$122.9 million) in 1984.

Although the report notes many strong, positive factors that will support brokerage profit growth, some negatives will help keep future profit increases below the records of the 1970s. The biggest negative factor is still the competitive property/casualty insurance market and a resulting shrinkage of profit margins on worldwide business.

"Between 1976 and 1982, profit margins more than halved," the report says. "There are many reasons why things have gone so badly. First and foremost, the insurance world entered, in 1979, a downward twisting rating spiral whose viciousness finds no parallel in the post-war world."

"Economic stagnation, furthermore, is not good news for brokers. A closed factory pays no premium and hence no brokerage (commissions)."

Despite a rebound of the world economy and indication that the commercial insurance and reinsurance market is finally turning, the British brokers' operating environment is not likely to change so quickly that annual profit increases will return to the 20% range. Brokerage revenues, the report points out, are only expected to increase about 7% in the 1983 final results and only 9% this year.

Financial briefs AIG storm losses

American International Group Inc. says it will pay \$10 million in claims for losses arising from the severe cold weather that gripped most of the nation between Dec. 17 and Dec. 30.

AIG received about 2,300 claims for damages in 44 states.

The severe weather was responsible for total insured losses of \$585 million in 41 states, according to the American Insurance Assn.

AIG will include the claims payments in its fourth-quarter earnings report, due March 5.

Alexander & Alexander

Alexander & Alexander Services Inc. has declared a regular quarterly dividend of 25 cents per common share, payable Feb. 28 to shareholders of record Feb. 1.

BI Industry Stock Report

JAN. 31, 1984 1/25/84 THRU 1/31/84

Insurance Cos.

Insurance Cos.		Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol. (000)
Aetna Life & Cos Co	NYSE	36.00	0.0	5.7	2.64	7.3	36.63	36.00	687.5
American Bankers Ins Group	OTC	14.63	-1.7	11.8	0.50	3.4	14.88	14.33	38.7
American Gen Ins Co	NYSE	21.88	-1.7	9.6	0.80	3.7	22.50	21.83	894.1
American Indty Fint Corp	OTC	21.75	-7.4	18.9	1.12	5.1	22.25	20.75	14.6
American Intl Group Inc	OTC	58.25	-6.0	9.8	0.44	0.8	61.50	58.25	1,326.7
American Natl Ins Co	OTC	21.88	-6.9	7.9	0.96	4.4	23.75	21.88	123.4
Aneco Reins Ltd	OTC	3.50	-6.7	25.0	0.00	0.0	3.63	3.50	33.1
Avenco Corp	AMEX	22.13	9.3	13.7	0.58	2.6	22.25	20.50	8.1
Banks Iowa Inc	OTC	49.00	2.1	15.8	1.52	3.1	49.00	48.00	3.2
Bitco Corp	OTC	16.50	0.0	0.0	1.33	8.1	16.50	16.00*	19.6
Carolina Gas Ins Co	OTC	6.50	-3.7	0.0	0.20	3.1	6.50	6.50	5.4
Chubb Corp	OTC	63.00	-8.4	8.2	3.12	5.0	68.38	62.75	305.2
Combined Intl Corp	NYSE	34.63	-2.8	10.3	2.00	5.8	36.50	34.63	407.4
Continental Corp	NYSE	26.38	-2.3	35.6	2.60	9.9	27.00	26.38*	629.2
Crawford & Co	OTC	16.00	-1.5	11.3	0.66	4.1	17.00	16.00	36.0
Crown Life Ins Co	OTC	123.50	0.0	8.1	3.20	2.6	123.50	123.50	1.0
Employers Cas Co	OTC	32.00	0.0	7.1	1.20	3.8	32.25	32.00	3.9
Equifax Inc	NYSE	26.25	-1.9	10.9	1.60	6.1	26.88	26.25*	22.0
Farmers Group Inc	OTC	39.25	-4.6	9.7	1.36	3.5	41.13	39.25	366.1
Fremont Corp Amer	OTC	25.00	-6.5	7.6	0.88	3.5	26.50	25.00*	137.3
Fremont Gen Corp	OTC	13.50	-10.0	0.0	0.48	3.6	15.25	13.50	134.6
Great West Life Assurn Co	OTC	270.00	0.0	9.7	12.00	4.6	270.00	270.00	0.0
Hanover Ins Co	OTC	53.00	0.5	6.8	0.88	1.7	53.50	53.00	17.8
Hartford Steam Boiler Insptn	OTC	55.00	0.0	8.0	3.00	5.5	55.00	54.50	6.3
Jefferson Natl Life Ins Co	OTC	45.50	3.4	15.3	0.76	1.7	45.50	44.00	13.5
Kemper Corp	OTC	37.25	-1.7	8.0	1.80	4.8	38.13	37.25	128.1
Lincoln Natl Corp Ind	NYSE	66.50	1.9	9.6	3.36	5.1	66.75	66.13	128.2
Mission Ins Group Inc	NYSE	21.50	-14.0	8.7	1.00	4.7	25.25	21.50*	621.3
Nationwide Corp Ohio	OTC	41.75	0.0	15.3	0.70	1.7	0.00	0.00	NOT TRADE
Northwestern Natl Life Ins	OTC	37.25	2.8	9.8	1.50	4.0	37.25	36.25	17.5
Ohio Cas Corp	OTC	44.25	-4.3	9.1	2.52	5.7	45.75	44.25	59.5
Old Rep Intl Corp	OTC	32.38	-9.1	7.2	0.90	2.8	35.63	32.38	144.4
Orion Cap Corp	NYSE	29.50	0.0	14.2	0.76	2.6	29.50	28.00	182.7
Preferred Risk Life Ins Co	OTC	20.75	0.0	7.9	0.67	3.2	20.75	20.75	1.8
Provident Life & Acc Ins Co	OTC	70.00	0.7	8.6	2.60	3.7	70.50*	69.50	37.8
St Paul Cos Inc	OTC	54.50	-4.8	7.4	2.80	4.1	57.25	54.25	362.6
SAFECO Corp	OTC	56.75	1.8	8.5	2.60	5.6	57.50	56.75	91.2
Sri Corp	OTC	17.00	-5.6	7.4	0.68	4.0	17.75	16.75	97.6
Seibels Bruce Group Inc	OTC	21.38	0.0	12.1	0.80	3.7	22.13	21.38	58.1
Statesman Group Inc	OTC	8.75	-10.3	7.6	0.15	1.7	9.88	8.75	46.4
Tokio Marine & Fire Ins Co	OTC	112.25	-2.6	22.7	0.96	0.9	116.75	112.25	13.8
Travelers Corp	NYSE	30.75	-4.7	7.7	1.92	6.2	32.13	30.00	1,213.7

JAN. 31, 1984 1/25/84 THRU 1/31/84

		Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol. (000)
United Fire & Cas Co	OTC	32.00	0.0	11.4	0.88	2.8	32.00	32.00	0.1
United States Fid & Gty Co	NYSE	54.75	-2.0	9.6	3.84	7.0	55.75	54.50	339.2
United Svcs Life Ins Co	OTC	25.38	0.0	7.4	1.00	3.9	25.50	25.38	7.1
Utlife Corp	NYSE	26.00	-4.6	7.4	0.96	3.7	27.00	26.00	156.5
Washington Natl Corp	NYSE	27.00	1.9	12.9	1.08	4.0	27.00	26.75	158.1
Zenith Natl Ins Corp	OTC	14.25	0.0	9.6	0.60	4.2	14.75	14.25	34.2
				9.8		3.9			
INSURANCE COMPANIES									
		AVERAGE		9.8		3.9			
Agents/Brokers									
Alexander & Alexander Svcs	NYSE	22.00	-1.1	0.0	1.00	4.5	22.63	22.00	208.8
Baldwin & Lyons Inc	OTC	37.00	-2.6	15.4	0.80	2.2	38.00	37.00*	5.3
Corroon & Black Corp	NYSE	24.50	-3.9	15.4	1.00	4.1	25.25	24.50	17.0
Crump & W Cos Inc	OTC	10.88	2.4	14.9	0.40	3.7	11.25	10.88	42.7
Emett & Chandler Cos Inc	OTC	10.50	-9.7	28.4	0.00	0.0	10.75	10.50	3.7
Hall Frank B & Co Inc	NYSE	23.63	-1.6	21.5	1.53	6.5	24.13	23.63	314.1
Integrated Res Inc	AMEX	23.75	-11.2	7.7	0.00	0.0	26.50	23.75*	437.9
Marsh & McLennan Cos Inc	NYSE	45.75	-6.4	13.1	2.20	4.8	48.25	45.75	216.0
Poe & Assoc Inc	OTC	5.25	5.0	0.0	0.00	0.0	5.25	5.00	0.2
Reed Stenhouse Cos Ltd	OTC	12.13	-1.0	14.8	0.60	4.9	12.50	12.00	12.6
				16.6		3.5			
AGENTS/BROKERS									
		AVERAGE		16.6		3.5			
Conglomerates/Holding Cos.									
American Express(Fireman's Fd)	NYSE	30.00	-2.8	11.9	1.28	4.3	30.38	30.00	3,826.0
Anderson Clayton(Ranger/PanAm)	NYSE	32.25	-0.8	15.0	1.32	4.1	33.00	32.25	71.1
Arco Inc	NYSE	21.25	-6.6	0.0	0.40	1.9	22.00	21.25	526.3
Baldwin Utd Corp	NYSE	2.75	-4.3	0.0	0.00	0.0	2.88	2.75	172.4
CIGNA Corp	NYSE	41.00	-2.7	7.0	2.48	6.0	41.75	40.75	746.0
City Investing Co. (Home Ins.)	NYSE	37.50	-2.9	9.3	1.80	4.8	38.88	37.50	495.5
CNA Finl Corp (CNA)	NYSE	22.00	0.0	7.2	0.00	0.0	22.00	21.25	67.6
Control Data (Comm. Credit)	NYSE	45.00	-3.5	10.7	0.66	1.5	47.13	45.00	1,140.1
General Re Corp	NYSE	59.00	-5.2	12.5	1.28	2.2	61.50	58.25	784.0
Gulf Utd Corp	NYSE	29.88	-2.8	9.2	1.32	4.4	30.88	29.88	503.9
ITT (Hartford Group)	NYSE	43.50	-4.4	9.8	2.76	6.3	45.25	43.25	1,505.1
Optimum Hldg Corp	OTC	5.38	-2.3	41.3	0.00	0.0	5.50	5.38	3.3
Sears Roebuck & Co. (Allstate)	NYSE	36.88	1.4	10.7	1.52	4.1	36.88	35.38	2,695.5
Teledyne Inc (Argonaut)	NYSE	170.13	0.7	11.4	0.00	0.0	170.13	167.75	499.7
Transamerica Corp									
(Occidental & Fred S. James)	NYSE	26.75	-4.5	9.7	1.56	5.8	27.75	26.63	370.0
				13.8		2.7			
CONGLOMERATES/HOLDING COS.									
		AVERAGE		13.8		2.7			

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Why buy Workers' Comp. any differently?



Photograph courtesy of Sotheby Parke Bernet.

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So if you value your business, shouldn't you be talking with the experts?

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