

JANUARY 10, 1983

business insurance

UPDATE

Lloyd's names outsider as its first chief executive

LONDON—Lloyd's of London's new 27-man council, meeting for the first time last week, immediately appointed Ian Hay Davison, a senior partner at Arthur Andersen & Co., as the market's first chief executive officer.

Mr. Davison, who will take office Feb. 1, will be given a seat on the Lloyd's Council with limited voting powers and hold the rank of deputy chairman even though he is
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Reporting weekly for corporate risk, employee benefit and financial executives/\$1 a copy; \$40 a year

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Soft market to endure throughout the year

Property/casualty insurers are screaming for higher rates and higher-quality risks, and they might get them—by 1984.

Leading insurers contacted for this year's special market preview section, which starts on page 3, told *Business Insurance* that higher rates and tighter underwriting standards are part of their New Year's plans for most major lines of coverage. But, most agree that actual cost increases for anything other than professional liability coverages are unlikely before the end of this year.

Other market observers agree. "We are still planning for the same soft market we saw in 1982," remarks Tinley H. Irvin, president of Alexander & Alexander Inc., echoing the comments of several brokers and risk management consultants.

"The casualty insurance markets are still very competitive and there is incredible softness in the property insurance markets, especially for large risks. Moreover, some insurers are starting to file for downward rate deviations in workers compensation, previously a rather stable coverage," Mr. Irvin explains.

Financial analysts also point out that despite mounting underwriting losses, the property/casualty insurance industry continues to make an overall profit.

Underwriting losses jumped 63.8% to \$10.4 billion in 1982, according to A.M. Best Co., and the industry's overall combined ratio topped out at about 111%. However, investment income grew 12% to \$14.9 billion and continued to rebut underwriting losses. Net earned premiums also continued to grow, climbing 10.2% to \$101.9 billion. Policyholders surplus grew 11.5% to \$60 million, up from \$53.8 million.

Pretax net income, despite insurers' fears about inadequate rates, could total as much as \$4.5 billion for 1982.

The coming year, observers agree, may be another story. The Insurance Services Office, the industry-supported statistical and rating bureau, predicts an industry-wide combined ratio of 114% for 1983, past the point at which investment income can buoy losses, says ISO President Daniel J. McNamara. "At 114%, broad-based multiline insurers as a whole have reached the precipice. Some individual companies will be under severe pressure.

"If the industry stays on its present course, some companies could become insolvent, which would hurt all members of the industry."

The market for group health insurance also looks like it will remain the same in 1983. But, unlike property/casualty insurance, the "same" means a continuation of rate increases of more than 20%.

J&J unit suing its insurers for Tylenol recall expenses

By RHONDA L. RUNDLE

NEWARK, N.J.—Tylenol maker McNeilab Inc., a unit of Johnson & Johnson, is suing its insurers to recover at least \$110 million in product recall and business interruption expenses incurred to remove its Extra-Strength Tylenol pain reliever from the market last fall.

Eight excess and umbrella liability insurers, whose policies include coverage for product liability losses, and one all-risk property insurer are named as defendants in a lawsuit filed by McNeilab in the U.S. District Court in Newark Nov. 23, but only recently served.

The suit asks the court to decide whether there is coverage under the defendants' policies for costs associated with McNeilab's production halt and nationwide recall of Extra-Strength Tylenol capsules after some were laced with cyanide.

McNeilab's insurers are expected to vigorously oppose the suit. Excess and umbrella liability policies typically exclude coverage for recall expenses. And business interruption coverage is triggered by physical

damage from perils that typically do not include voluntary product withdrawal.

But Johnson & Johnson's manuscript insurance policies, which cover McNeilab and other subsidiaries, could be atypical. Indeed, the litigation is likely to focus on the specific language and possible ambiguities of the defendants' customized policies.

The nationwide Tylenol recall touching off the litigation followed the discovery in September that some bottles of the product had been laced with lethal cyanide. Seven Chicago-area residents died after ingesting contaminated capsules. After a brief hiatus, McNeilab recently resumed sales of Extra-Strength Tylenol capsules in tamper-resistant



Whom McNeilab is suing

Insurer	Coverage
North River	\$19.9 million
Transit Casualty	\$500,000
Employers of Wausau	\$4.6 million
Aetna Casualty & Surety	\$12.5 million
American Centennial	\$5 million
Granite State	\$10.9 million
First State	\$5 million
Northbrook Excess & Surplus	\$9 million
All-risk property policy	
Affiliated FM	\$50 million

packages. The Tylenol maker's business interruption loss and extra expenses associated with the recall are undetermined, but will exceed the \$50 million limits of its all-risk property insurance policy underwritten by Affiliated FM Insurance Co., an affiliate of Allendale Mutual Insurance Co.

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Proposed settlement may cap MGM claims at \$115 million

By BETSY SHARKEY

LAS VEGAS, Nev.—MGM Grand Hotels Inc.'s total liability costs arising from the 1980 fire in its Las Vegas hotel may be capped at about \$115 million if a tentative settlement for all remaining claims against the company is approved.

But whether the insurers that will be called upon to shoulder the settlement costs are pleased with the settlement terms and just how much they might agree to reimburse MGM remains unclear.

In the proposed settlement reached last week, MGM agreed to pay a total of \$75 million to close out the approximately 450 remaining lawsuits if all the stipulations of the settlement are reached. The company already has settled about 2,000 claims for more than \$25 million, bringing the total projected settlement costs to about \$105 million, with miscellaneous costs and legal fees comprising the remaining expenses.

Although the suits name 112 other defendants, MGM was identified as the lead defendant and its settlement represents the lion's share of what plaintiffs can expect

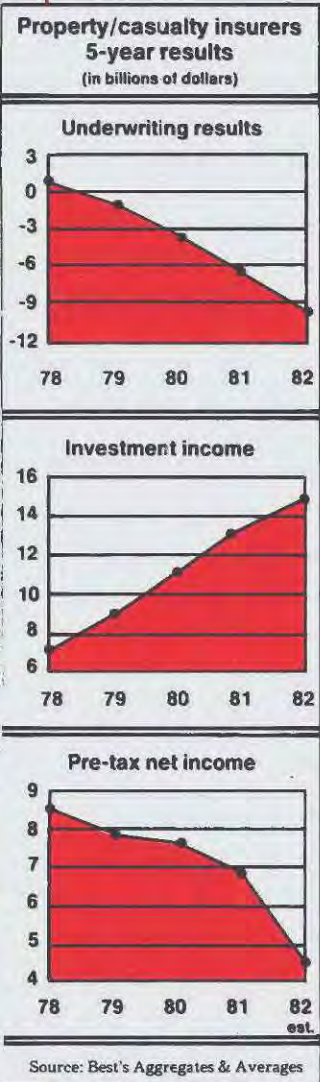
Hyatt settlement cast into uncertainty

A proposed state court settlement of the litigation following the 1981 Kansas City Hyatt Regency Hotel disaster was cast into uncertainty last week when a federal judge ordered many of the plaintiffs who had agreed to the proposal back into a federal class action. In addition, the state court did not approve the settlement as expected. For details, see page 66.

to recover. If approved, the \$75 million out-of-court settlement would fall well below the \$600 million in compensatory and \$2 billion in punitive damages originally sought by plaintiffs.

At the time of the fire, the 26-story hotel-casino had \$30 million in liability coverage, which has been exhausted by early settlements and legal costs.

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NEWSPAPER

UPDATE

Lloyd's names chief executive

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not a Lloyd's member. Although Mr. Davison said he will have the necessary authority to police the marketplace, it is not clear whether his authority exceeds the powers of the Lloyd's chairman (BI, Dec. 20).

Mr. Davison, who previously served as chairman of the task force reviewing Lloyd's auditing procedures, said his first priority will be to make sure underwriters and syndicates fully disclose their insurance interests and reinsurance arrangements. Then, he said, "There can be no question of secret dealings."

The new council also set up investigation procedures, a disciplinary committee and an appeals tribunal at its meeting last week.

Record work comp settlement

LOS ANGELES—In what is believed to be the largest workers compensation settlement ever, the insurer for Cannonball Productions Co. will pay \$1.1 million to a stuntwoman crippled in a car accident while she was doubling for actress Farrah Fawcett during filming of the movie, "Cannonball Run."

Pacific Indemnity Co., part of The Chubb Group of Insurance Cos., will pay the money in cash to Heidi Von Beltz, 25. Ms. Von Beltz originally sought \$1.5 million from the insurer, while Chubb reportedly offered \$300,000.

Ms. Von Beltz was injured on June 25, 1980, when a car she was riding in collided with a van during filming in Nevada. In June 1981, she sued actor Burt Reynolds and the film's other principals for \$35 million. No trial date has been set.

Dual-capacity case hearing

SPRINGFIELD, Ill.—The Illinois Supreme Court is expected to hear oral arguments Jan. 18 on a review of an appellate court decision that allowed an injured employee to sue his employer for more than workers compensation benefits.

Unless the Illinois Supreme Court reverses the lower-court decision in Sharp vs. Gallagher, all employers who own their land or lease their property could be subject to double liability from injured employees. The decision allows workers who are injured on an employer's property to collect workers compensation benefits and then sue the employer in its "dual-capacity" as landowner.

Social Security draft report

WASHINGTON—All future federal employees as well as current federal workers with fewer than five years of government service should be brought into the Social Security program, according to a draft report of President Reagan's Social Security commission.

The draft report also recommends that non-profit employers, like hospitals, be barred from dropping out of the program.

The 15-member bipartisan commission is supposed to publish its entire list of recommendations by Jan. 15.

Ex-Illinois regulator moves up

CHICAGO—Praising him for bringing competitive rating to the Illinois workers compensation market, Gov. James Thompson appointed former Insurance Director Philip R. O'Connor chairman of the Illinois Commerce Commission.

Mr. O'Connor, who resigned as insurance director in July 1982 to serve as the governor's 1982 campaign manager, is to take office Jan. 18. The governor's office said a new insurance director has not been named. The acting insurance director is James W. Schacht.

Mr. O'Connor, 34, was appointed Illinois' insurance director in July 1979. On June 18, 1982, Illinois became the sixth state to pass legislation that prohibits workers compensation insurers from agreeing on rates. The new law became effective Jan. 1.

The Illinois Senate must confirm Mr. O'Connor's appointment to the \$47,500 a year job.

Multiemployer act upheld

ALEXANDRIA, Va.—Another federal judge has upheld the constitutionality of the Multiemployer Amendments Act.

U.S. District Court Judge Albert Bryan said a retroactive provision in the 1980 law that allows plans to collect withdrawal liability payments from employers that left the plans before the law was signed but after its effective date passes the "constitutional muster."

As a result, Judge Bryan ordered Johnson Motor Lines Inc. to go to arbitration to settle a \$189,107 withdrawal liability claim it was hit with when it withdrew in 1980 from the Teamsters Joint Council No. 83 of Virginia Pension Fund.

Johnson Motor Lines and its parent, Republic Industries of Kansas City, Mo., also are challenging other large withdrawal liability claims (BI, July, 20, 1981).

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Shortfalls may prompt employee benefit taxes

By JERRY GEISEL

WASHINGTON—The new Congress, faced with enormous federal budget deficits, may generate new revenues by stripping away the tax-free status of employee benefits.

In addition, Social Security's financial ills could lead to new taxes on benefits as Congress looks for ways to shore up the nearly bankrupt federal retirement program.

"With the tremendous revenue shortfalls we have, we are going to see a major evaluation of the tax status of benefit plans," said Lloyd Kaye, a principal at William M. Mercer Inc. in New York.

"Congress is looking for revenues from every source," said Deborah Cholett, a research associate at the Employee Benefit Research Institute, a Washington-based benefits think tank.

The fate of any benefit tax "will depend on how hungry Congress is for revenues," she added.

With a \$200 billion budget deficit possible this year, Congress is likely to be very hungry. And, experts believe that the 1982 tax law that is supposed to raise about \$99 billion in new revenues over the next several years only whetted Congress' appetite for new sources of revenues.

"The Tax Equity and Fiscal Responsibility Act of 1982 is just the beginning. Legislators will consider whether benefit plans should continue to have a high priority as far as their special tax status," said Mercer's Mr. Kaye.

Benefit tax changes that could be enacted during the 98th Congress, which opened Jan. 3, include:

- Imposing on employees a tax on employer-provided health insurance. Currently, employer-paid

health insurance premiums, which companies can deduct from their income taxes as a business expense, are not considered taxable income to employees (BI, Dec. 13, 1982).

- Cutting back on some of the tax advantages available to employees through 401(k) salary reduction plans.

- Making benefits subject to Social Security payroll

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BI promotes James Burcke

CHICAGO—James M. Burcke has been promoted to assistant managing editor of *Business Insurance*, announces Editor Kathryn J. McIntyre.

Mr. Burcke, 26, joined BI in April 1981 as copy editor. He holds undergraduate and graduate degrees from Northwestern University's Medill School of Journalism.

Before joining *Business Insurance*, Mr. Burcke was wire editor of the Lexington Herald in Lexington, Ky. He also worked as a copy editor at The Oakland Press, a daily newspaper in Pontiac, Mich.

In his new position, Mr. Burcke will continue to report to Managing Editor Lorrie Gawla.



Mr. Burcke

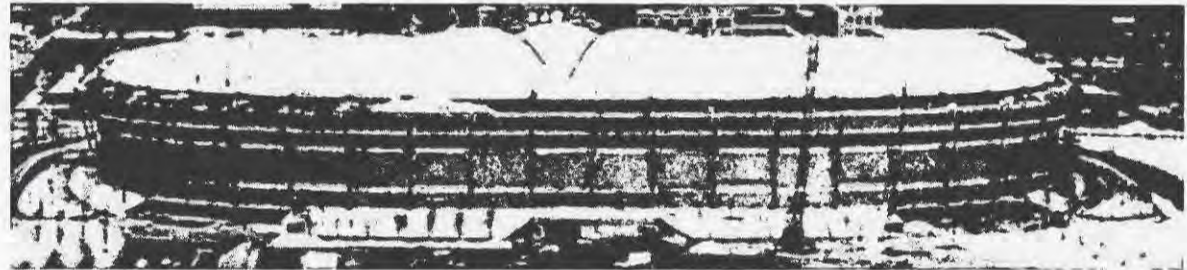


Photo: Wide World

The 100-foot-long gash in the fabric roof of the Hubert H. Humphrey Metrodome caused it to deflate.

Stadium owner covered for roof collapse

By STEPHEN TARNOFF

MINNEAPOLIS—A standard property insurance policy will pick up the estimated \$300,000 to \$400,000 bill to repair a 100-foot gash in the roof of the Hubert H. Humphrey Metrodome, a spokesman for the stadium's owner says.

The Metropolitan Sports Facilities Commission, which owns the stadium, placed the all-risk policy with Century Indemnity Co. of Hartford, Conn. The policy contains a \$5,000 deductible.

Alexander & Alexander Inc. is the commission's broker. The policy was placed through Cravens Dargan & Co. of San Francisco, a managing general agent.

"It was basically an all-risk contract including the peril of collapse, which this was defined as," an insurance industry source said.

Labor costs contributed heavily to the repair bill as

workers were on the scene around the clock to re-inflate the stadium's fabric roof in time for the Jan. 3 football game between the Minnesota Vikings and the Dallas Cowboys. The game was played as scheduled.

A plane was also chartered from Buffalo, N.Y., at an estimated cost of \$30,000 to \$40,000, to deliver a 150-foot-by-40-foot replacement roof panel so the commission could avoid a business interruption loss, an industry source said.

The panel was installed Jan. 1 and the roof was re-inflated the next day.

"If it had occurred at a different time of the year, it would not have been as expensive," an industry source said, explaining the roof could have been repaired more slowly if a game had not been scheduled.

A spokesman for Crawford & Co., which is adjusting the loss, said the added costs incurred to repair the sta-

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New York regulator wants to prohibit captive fronting

By LEN STRAZEWski

NEW YORK—The New York Insurance Department is again trying to prohibit fronting, a favorite reinsurance technique used by corporate captive insurers.

Announced just before year end and scheduled for a public hearing Jan. 19, proposed Regulation 82 is an even stronger version of a similar regulation proposed by the Insurance Department in early 1978 (BI, March 20, 1978).

It seeks to eliminate virtually all use of unlicensed reinsurers by a licensed insurer at the request of a policyholder, broker or any other party with control of a risk. Such regulation would eliminate fronting for a risk. Such regulation would eliminate fronting for a corporation's captive insurance companies, which are the cornerstones of many large corporate risk management programs.

The proposed regulation would specifically prohibit:

- Any agreement by which a licensed insurer, as a condition of placement, cedes or retrocedes policies or

portions of policies covering risks in New York to any unlicensed insurer designated by the policyholder, broker or consultant.

This rule essentially eliminates any risk manager from supervising or recommending reinsurers on corporate risks.

- Any agreement by which a licensed insurer transfers all or part of its liability under a policy covering risks in New York to an unlicensed insurer affiliated with the policyholder, broker or any other interested party.

This rule eliminates a captive insurer from reinsuring its parent's policies in New York.

- Any agreement by which a licensed insurer transfers all or part of its liability under a policy covering New York risks to an unlicensed insurer when the cession or retrocession is more than what the licensed insurer would normally allow for similar business.

Pending a specific interpretation, one insurance at-

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What to expect in '83

Rates for property coverage expected to hold steady

By LEN STRAZEWSKI

Corporate buyers can expect continued low property insurance rates and premiums for 1983, but only the most dedicated shoppers will find rate reductions, most property underwriters say.

Premium credits for good loss history or loss-control programs will also be more difficult to find as insurers attempt to raise prices without raising rates.

But don't worry about capacity, underwriters add. Any property can be insured to value for the right price, thanks to continued expansion into commercial property coverage by direct writers and the continued availability of reinsurance.

"Rates haven't changed in the last three to four months and probably won't until the end of 1983 when they may start going up," explains Gordon Paine, vp-commercial property at St. Paul Fire & Marine Insurance Co. in St. Paul, Minn.

"However, it could take somewhat longer to change and we may not actually see the higher rates until 1984," he continued. "There were a lot of catastrophe losses in the first half of 1982, but that didn't change the attitudes of the market at all."

St. Paul was the largest underwriter of fire and allied lines of coverage in 1981 (the most recent full-year statistics), according to Best's Review, with \$138.5 million in direct premium for single-line fire insurance and \$81 million in related coverages.

Once rates start to climb, Mr. Paine also predicts a new interest in underwriting data. Buyers will once again try to convince underwriters that their property is safer than most and underwriters will again be looking for ways to distinguish between precarious risks that demand rate hikes and superior risks worthy of discounts.

Michael I.D. Morrison, president of American Home Insurance Co. and senior vp of American International Group Inc., also expects some rate increases by the end of the year as insurance industry underwriting results deteriorate and insurers' investment income shrinks.

But, buyers will be willing to pay slightly higher rates for more secure policies, he adds.

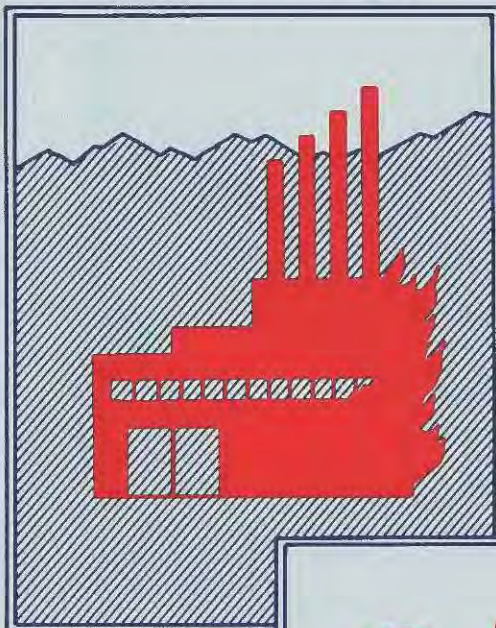
"All the insurance and reinsurance scandals we have been reading about are bound to have an effect on buying attitudes," he says. "Buyers must be getting concerned about the strength of their insurers and they are looking for financial security and responsible underwriting."

AIG received \$128.9 million in direct premiums for fire insurance in 1981, placing it second in the nation, according to Best's. It also wrote more than \$37 million in allied lines in 1981, the 14th-largest in the nation.

AIG will "do its best to stop irresponsible rate cutting," Mr. Morrison says, though he did not predict wholesale rate increases at AIG.

AIG's underwriting standards will tighten, as will those

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Liability insurers will seek hikes, but admit no big jump is likely

By BILL DENSMORE

Many commercial liability insurers are making their projections for 1983 with wistful thoughts of a gradual upturn in renewal rates sometime after the first quarter.

But, at the same time, risk management consultants say they do not see fierce rate competition easing and predict further rate-cutting furor in most liability lines for much of this year (see story, page 21).

Despite the contradiction, liability insurance buyers can expect two things in the new year:

- Your insurer will be looking for more money in 1983.
- But, you can probably shop around for another stable insurer that will take your business without a rate hike.

"About the only thing that is fairly obvious is that we have been competing so effectively against one another that the industrywide premium volume has

dropped," says Thomas A. Jackson, a secretary in the field division of product management at The Travelers Corp. in Hartford, Conn. "People are being forced to seek rate hikes; the only question is whether they're going to get them."

Mr. Jackson says that, for the time being, it looks as if things are going to go along the way they are, with only limited rate increases for liability coverages.

"I think we're going to see a turn in 1983, but it's not going to be across the board. It's going to be in certain classes," says Earl R. Lanning, a vp at E.H. Crump Cos. Inc., a general and excess/surplus lines brokerage based in the Memphis, Tenn.

"General liability, as a class, is disastrous right now," he says, suggesting that comprehensive general liability coverage rates

will indeed rise.

Mr. Lanning and others also forecast some degree of price firming in commercial auto and physicians malpractice coverages.

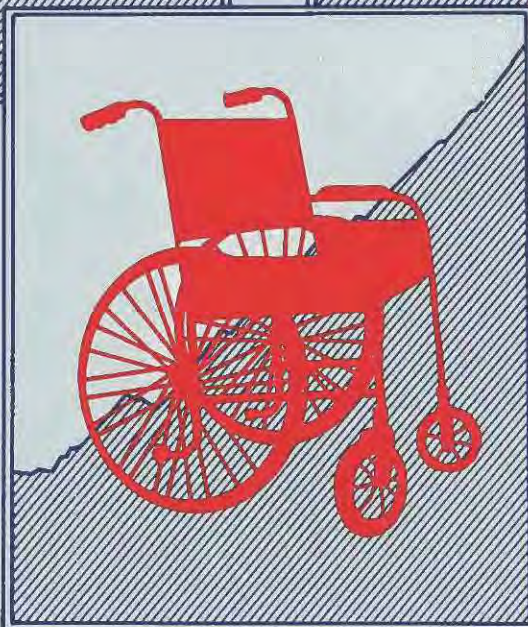
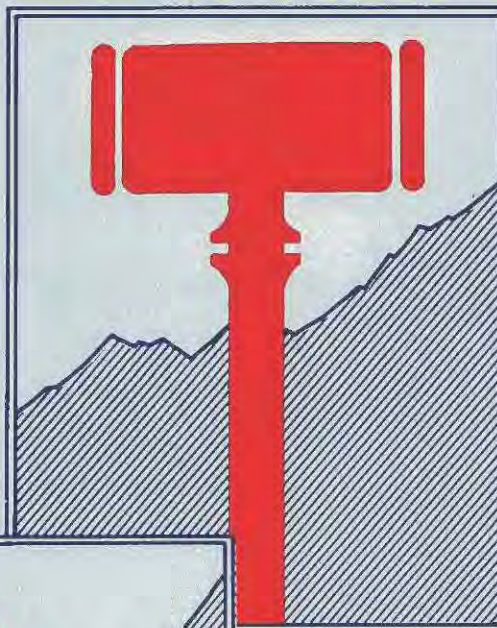
Risk managers should spend the early part of 1983—before any market tightening begins—obtaining the broadest comprehensive general liability coverage they can, Mr. Lanning suggests.

"Most companies I know are flexible enough that they will give on their coverage if they can get a few extra dollars for it," he points out.

Of about a dozen major commercial property/casualty insurers contacted by *Business Insurance*, all predicted some degree of price firming in liability lines this year, but few could give any specific percentages on specific lines. They said they were reticent to detail rate hikes for competitive reasons or because they just aren't really sure.

One solid estimate came from Fred G. Marziano, a vp and

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Little relief in sight for soaring health premiums

By RHONDA L. RUNDLE

LOS ANGELES—The prognosis for 1983 group health insurance costs is grim: For the third consecutive year, insurers are predicting average rate hikes of 25% to 35%.

But there are small, tentative glimmers of optimism among insurance company actuaries who are looking six, nine or 12 months down the road. For the first time in three years, the rate setters are saying, oh so cautiously, that maybe, just maybe, relief is ahead.

Don't count on it.

The hard fact is that the vast majority of employers continue to see soaring rate increases. A few groups with good claims experience may be offered increases as low as 10%. Others, with high costs, may face mind-boggling bills that are 50%, 60%, even 100% more than last year's.

To combat continuing cost escalation, more insurers are offering—and more employers are accepting—plans that ask employees to pay a larger share of their

health care costs. The most common approach is to raise minimum deductibles and place caps on maximum calendar-year costs to boost employees' out-of-pocket expenses.

"I thought we would be starting to see a slowdown in medical costs inflation by now, but the situation is not much different from last May," reports Thomas Ferguson, vp and actuary at The Equitable Life Assurance Society.

Claims costs in 1982 were higher than expected, so Equitable is still playing catch-up with rate increases averaging 25% to 30%.

Besides inflation, the rate increase culprits are stepped-up health care utilization and cost-shifting. As the federal government reduces its reimbursements under the Medicare and Medicaid programs, the real costs of providing treatment to public patients is shifted to private patients and their insurers.

The good news is that there is some evidence that the medical care component in the Consumer Price Index is going down, observes Merwin Soper, group market-

ing vp for Allstate Life Insurance Co. But cost-shifting by the federal government may be eating up the difference.

"Cost-shifting now accounts for 20% of the total cost of health care inflation," he estimates. The Health Insurance Assn. of America has termed it the "hidden tax."

If you are one of those unfortunate employers to be hit with a crippling premium increase this year, it will be tougher to shop for a new health plan. Several major insurers are tightening underwriting criteria to discourage so-called "jumping-bean business."

"If a company is a proven shopper, we would be leery of them," says Mr. Ferguson. Equitable probably would decline to quote a plan of 100 to 500 lives that has shifted insurers more than twice in the past five years to get a lower price.

"If a group has a track record of moving every year and leaving insurers with a deficit, we don't want it," agrees John W. Weekly, senior executive vp with Mu-

Continued on next page

Health coverage costs to continue spiral

Continued from page 3

tual of Omaha Insurance Co. Employers and insurers need to ride out the good and bad years together, he says.

Mutual of Omaha has imposed stricter requirements when reviewing a prospective group's loss experience. If the insurer does not have access to loss data, then it probably will charge the group a higher premium the first year.

Aetna Life Insurance Co. is also sticking to underwriting standards.

"If there has been a switch in the past three years, we insist on taking the loss history," says Jay Ripps, assistant vp of employee benefits. "If we can't get it, the buyer is out of luck—unless an exception to field underwriting rules is obtained."

Health cost trends will be about the same as they were for the past two years, predicts David Levene, an actuary in the group underwriting department of Metropolitan Life Insurance Co. At least 60% of medical costs is made up of hospital bills, and "we don't see anything encouraging there," he says.

The lion's share of Metropolitan's groups are larger than 1,000 lives. Average rate hikes are about 20%, with a range of 10% to 40%.

"When we do put through a rate increase, we tell the employer what the impact would be of raising the deductible and caps on an employee's out-of-pocket expense," says Mr. Levene.

"Some (employers) have acted, but the vast majority of them have not changed their deductibles,"

notes Ed Schults, a Metropolitan assistant vp. "Many are bound contractually by union constraints."

Several companies, including Equitable, John Hancock Mutual Life Insurance Co. and Pacific Mutual Life Insurance Co., to name a few, hint they will unveil new group health plans during the course of 1983 that are designed to put more teeth into cost containment.

Others are pinning their hopes on new plans debuting now.

Small groups of 2 to 99 lives can renew their health insurance with Transamerica Occidental Life Insurance Co. for roughly 40% above rates offered a year ago. Or, they can opt for Economized, a new plan available after Jan. 1 that is priced at about 70% of the older plan.

That means employers who go

with the new plan can keep their health insurance costs at about the same level as in 1982, calculates Simon Baitler, senior vp.

Economized, he explains, is a comprehensive medical plan designed to "make employees think a bit about what they spend." The package plan, available to small groups without modification, features:

- A \$200 deductible per employee, which is raised to \$300 for non-emergency surgery performed without a second opinion.

- A \$5,660 maximum per-employee annual cost. The plan pays 80% of the first \$5,000 of costs, 90% up to \$50,000 and 100% coverage of qualified expenses exceeding \$50,000.

- No first-dollar coverage for hospitalization, except for outpa-

tient surgery, which is covered 90% from first dollar up.

These same features are available to larger groups on an unbundled basis, Mr. Baitler explains. Starting this month, agents will automatically present cost information on each component to risks that are renewing.

Transamerica Occidental is clearly hoping that the cost-containment features in these plans will help put the business back on a profitable basis. The company dramatized the poor performance of group health insurers when it announced a \$56 million pretax loss for the third quarter of 1982.

Prudential Insurance Co. of America also has introduced new small group plans with higher deductibles and coinsurance limits—lingo used by insurers to describe the maximum annual amount that a single employee or family can pay during a calendar year.

The new plans, which are mandatory for new groups and optional for renewing groups, feature a minimum deductible of \$300. Coinsurance levels have been raised to \$1,000 per employee and \$2,500 per family, up from limits of \$500 and \$1,000, respectively. A cap of \$10,000 on nursing care benefits also has been imposed.

Groups renewing under the old plan could expect to pay, very roughly, \$7,000 a year for five lives and \$33,000 a year for 25 lives. Those costs would be 30% to 35% lower with the revised plan.

"I think we're going to see a lot of redesign in benefit plans to encourage more frugality and discretion in their use," says Frank Rubino, a vp and assistant actuary.

Groups with 10 to 49 lives that renew in January can expect average rate increases of 30%, compared with 50% to 60% a year ago, says Mr. Rubino. Those big increases are still hitting baby groups of two to nine lives, however.

Groups with 50 or more lives are seeing rates increases that average 25% with some wild fluctuations, notes John A. Wickens, Prudential's vp-group underwriting.

But, 1983 could be a turnaround year, Mr. Wickens says.

"There is some hope of lower medical costs, but they're not actually reflected in the rates yet. We are concerned about legislation that could fuel cost-shifting, so we won't realize any (cost) change."

If hospitals are uncertain about future Medicare reimbursements, fear that the federal government will tax health benefits or anticipate cost controls, then their rates may continue to accelerate despite slower inflation, he says.

John Hancock looks for at least another year of severe pressures on group health rates. "But I think we may be turning the corner," says Alexander Neiley, a sales consultant in marketing operations.

Average John Hancock rate increases for groups with 2 to 49 lives have been cruising at a 30% to 35% clip and probably will continue to do so until at least mid-1983.

Like other insurers, John Hancock is encouraging employers to raise deductibles and coinsurance levels. And the company is designing a new plan "without bells and whistles" that incorporates many cost-containment features.

"I look for it to be ready about July 1 or sometime during the second quarter of 1983," predicts Mr. Neiley.

Pacific Mutual also is in the process of drafting a new group health insurance plan. "How much it will have in the way of teeth in it for cost containment, I don't know," says Gerold Griswold, vp-group actuarial. The plan will be available next year.

When the going is tough do you have "the tough" to keep going?

IIAA members do.

Example: the recently combined Insurance Institute for Research and the Agency-Company Operations Research and Development Corporations—IIR/ACORD. Both corporations were original creations of the Big "I" with the identical ultimate goal in mind: standardization, consolidation and industry-wide interface between Independent Agents and the companies they represent. Why? To give us all the means by which we can meet the tough, competitive challenges of an evolving industry.

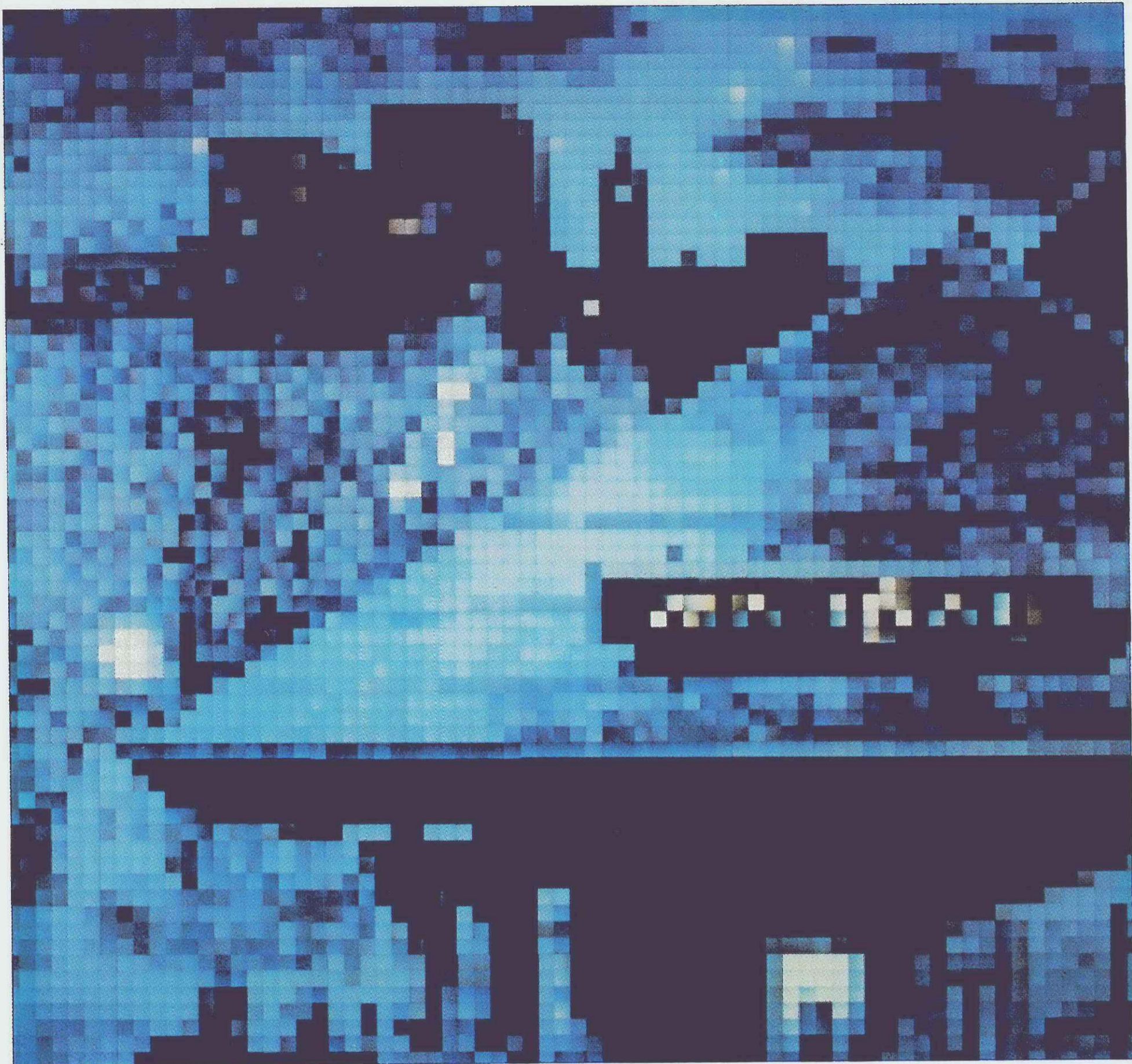
Now together, the new IIR/ACORD Corporation can pursue the quest for industry standardization with even more vigor and give Independent Agents an increasingly efficient and cost effective system of delivery.

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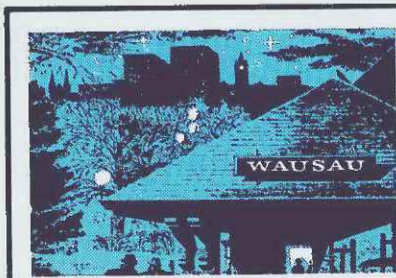
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Property rates expected to hold steady

Continued from page 3

of the property insurance market in general, he adds. "People will be asking more than the name of the risk now. Though any coverage can be included for the right price, we won't see coverage exclusions deleted freely any longer."

CIGNA Corp. underwriters, however, are more skeptical, predicting level rates and some price cuts for most of the year, according to Joseph P. Reynolds Jr., head of commercial multiperil insurance.

"We are all victims of our own greed and CIGNA is as greedy as the next guy," he remarks. "There's nothing really wrong with rates, it's just that no one is willing to follow them. No one is willing to lose market share."

The traditional large property insurers also face competition from the State Farm and Allstate groups as well as life insurers that are opening property/casualty divisions, he says.

The Factory Mutual System is

also expanding its interest beyond highly protected risk coverage and increasing standard property underwriting (see story, page 10).

The competition tempts insurers to ignore bureau rates designed for proper underwriting levels.

"The Insurance Services Office has raised property rates 25% and package rates 18% since 1980," Mr. Reynolds says, "but none of the major insurers use bureau rates. We expect ISO to file for another 3% or 4% in increases, but I don't

know who will use them.

"Insurance Co. of North America was writing at 20 to 30 points less than manual package rates and Aetna Insurance Co. was more than 40 points off, including premium credits," he says, adding the trend shows no signs of abatement.

Deductibles, he adds, are generally low now and not likely to increase. "It's still a buyer's market and the buyer is only likely to take a higher deductible or retention if the insurer is offering a big rate

cut. But why bother, when rates are already low?"

"High-rise property risks in major cities like New York and Chicago are going for less than 5 cents per \$100 of value and some fire-resistant, sprinklered structures are being charged as little as 1.5 cents per \$100 of value."

When and if rate increases begin, most industry sources say the conservative Hartford-based insurers will be the first to make changes. Aetna Casualty & Surety Insurance Co. and Hartford Insurance Group underwriters agree.

Robert S. Ebersold, assistant vp for commercial lines at Aetna C&S, predicts slight rate hikes for property coverages, possibly reaching 10% by year-end. The increases, however, will vary by coverage line.

Property coverage rates range from 1 to 2 cents per \$100 of coverage for large corporate property accounts, fire-resistant buildings and highly protected risk classifications to more than 75 cents per \$100 of value for substandard fire risks, underwriters agree.

Though insurers would like to raise rates from the low end up, competition could make it impossible.

"There won't be much movement in the medium to large risks that generate substantial premium volume," Mr. Ebersold says. "It's tougher for insurers to lose them."

Underwriting standards couldn't be looser throughout the insurance industry, Mr. Ebersold adds, and some tightening is inevitable.

"We've tried to hold to our standards, though obviously not in all cases. At a time when many insurers aren't even seeking the most basic underwriting information, it's hard to keep to any firm standards. However, we've lost a lot of business because we wouldn't go as low as some."

"Significant rate increases are probably too much to ask," agrees John F. Donahue, vp for property/casualty underwriting for Hartford Insurance Group.

"But base rates generally will be going up. Package policies, for example, will be going up 8% to 12% in 1983, depending upon the state jurisdiction (see story, page 18).

"In the past four years, underwriters have been setting a rate and then taking it away in spades through credits. Hartford will show a positive upward movement in pricing in 1983—and probably pay for it in market share," he says.

The companies that received the biggest price cuts in 1982 will probably be the first to pay increases, he added. "We are really building on the results of 1982. If the premium didn't modify in 1982 to balance losses, it will have to in 1983."

The economic climate will also be pushing rates upward as insured values stabilize and arson rates climb, Mr. Donahue says.

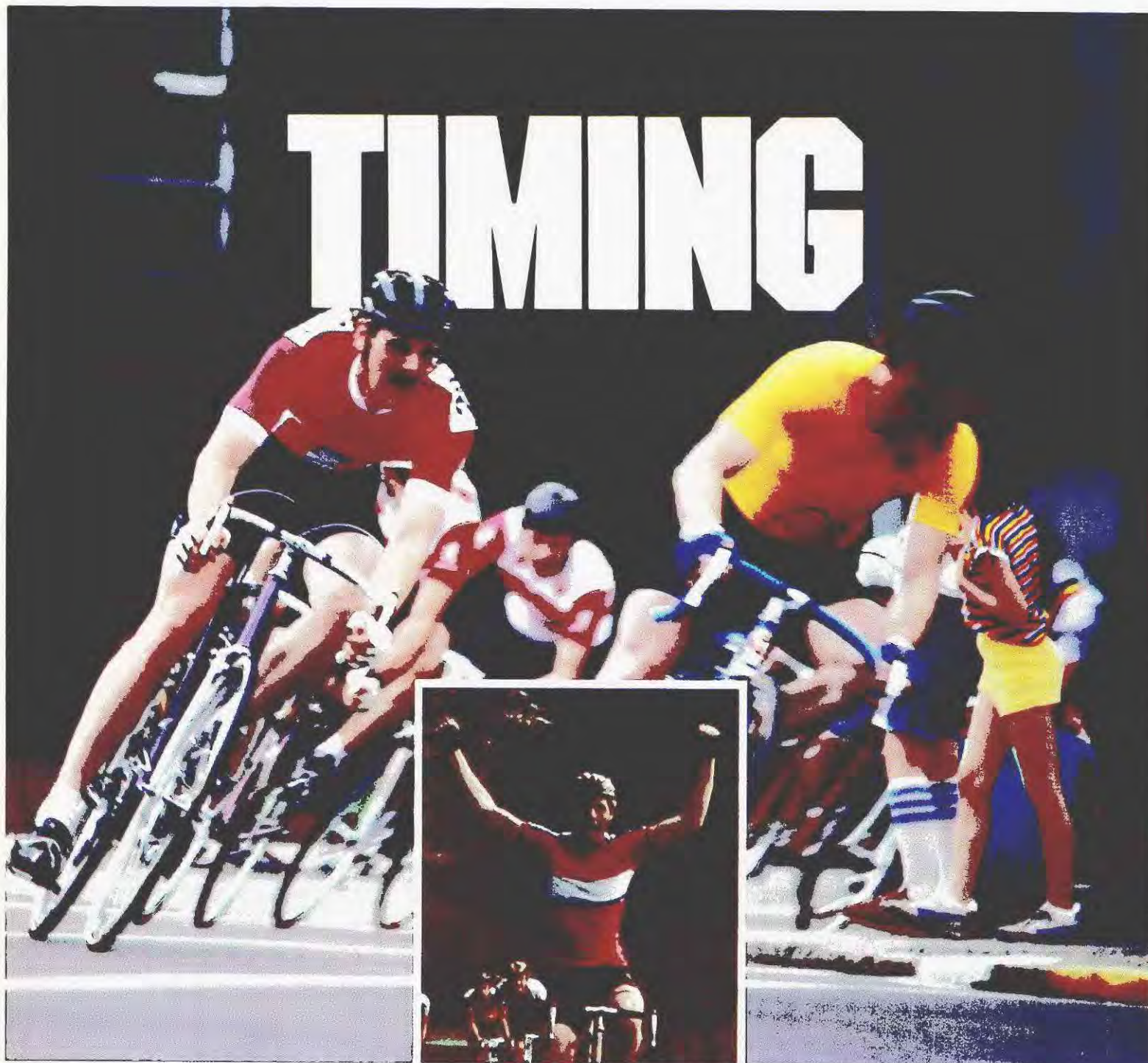
In past years, insurers could look forward to premium increases despite some rate cuts because inflation increased property values. Thus, policyholders bought higher limits of coverage, balancing the impact of rate decreases.

In 1983, however, inflation is expected to be minimal.

"Property values may increase some 6% to 8%," he explained, "rather than 11% as in the past. If rates continue to fall, the bottom line is less income for insurers to use to pay losses."

"Vacancies caused by shutdown plants are always a problem for property insurers and we are seeing plenty of vacancies. An empty workplace is always a greater vandalism and arson risk and the arson rate always climbs during depressed economic conditions." ■

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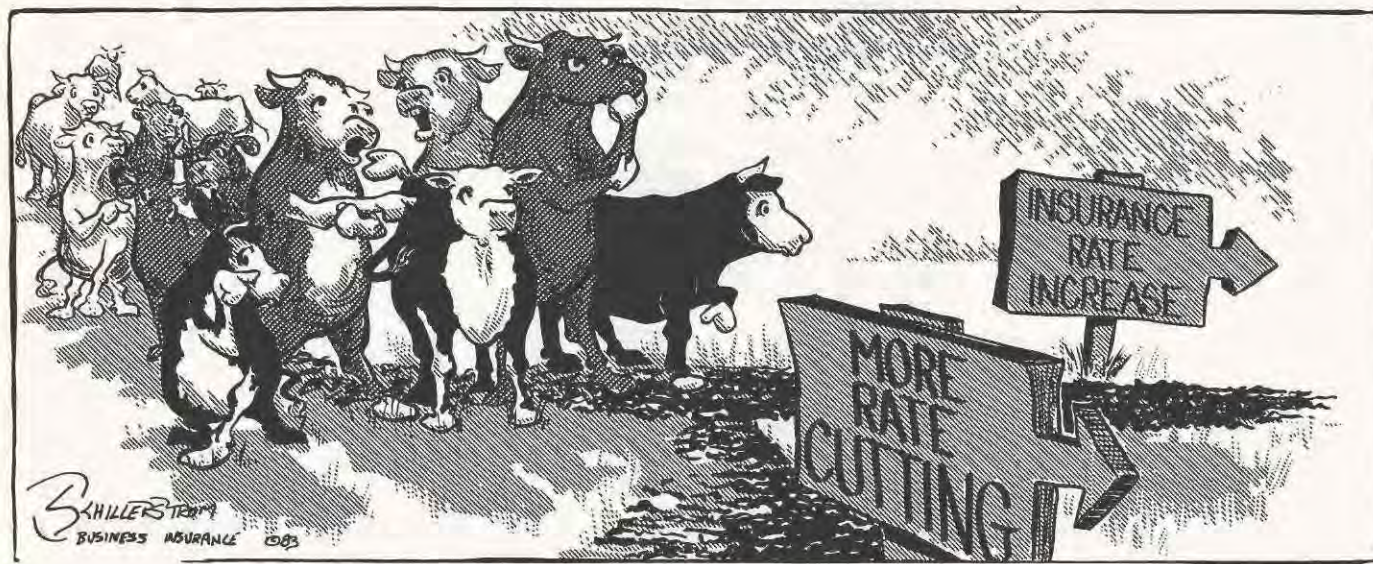
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OPINIONS



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GET IN SHAPE NOW for the arduous exercise of renewing property and casualty insurance in a tighter, more expensive marketplace.

Insurers say they are ready this year to switch from cutting property/casualty insurance rates to toughening underwriting standards and hiking some rates (see the special report beginning on page 3).

Although it remains to be seen if insurers will follow a new course this year—we heard these same resolutions from insurers last year and saw no real action—it pays to be prepared.

Many risk managers already are preparing for a change in the marketplace, as our Risk Management Board survey revealed last week. They are negotiating extensions of existing rates, keeping detailed loss and safety data to prove they are a superior risk and studying the feasibility of more self-retention.

Spencer J. Traver, assistant treasurer of The BFGoodrich Co., offers good risk management strategies for 1983 in his article in this week's issue (page 39), including improved communication with management.

We'd like to add that this increased communication effort should include warning your management that no one can count on further reductions in insurance premiums. Take the comments of the insurers quoted in this week's issue and apply them to your own risks and loss history. Make some predictions about what this means to your own insurance costs.

LETTERS

Understanding correctly

To the editor: The National Council on Compensation Insurance would like to correct some misunderstandings that may have arisen among your readers regarding the revised Workers Compensation and Employers Liability Policy based on your news article and editorial (BI, Dec. 20, 1982).

Despite the suggestion in your editorial that the policy was introduced to an unsuspecting public, drafts of the policy were sent to outside organizations for comment, including the Risk & Insurance Management Society, the Insurance Services Office, the California Workers Compensation Institute, the Independent Insurance Agents of America, the American Insurance Assn., the Alliance of American Insurers, the National Assn. of Independent Insurers and many others. There was no attempt to keep the revision process secret.

Although you reported that a National Assn. of Insurance Brokers spokesman said the group did not see the final version, a copy was submitted to the NAIB. It is true that only one of the three NAIB recommendations was accepted, but the NCCI wishes to emphasize that all three were carefully considered and were not

given short shrift or dismissed out of hand.

The NCCI would like to remind you that workers compensation coverages are mandated by law. Because of this, most of the policy revision work centered around language simplification as opposed to substantive changes. The public and legislatures around the country have indicated, in unmistakable terms, that they favor "plain language" insurance policies. The NCCI, in cooperation with the major industry groups, has prepared a revised standard workers compensation policy in response to this demand.

Michael Camilleri
Assistant Vp
and Director of National Affairs
National Council
on Compensation Insurance
New York

■ *The new policy will be printed in the Jan. 17 issue of Business Insurance and the retrospective rating endorsements will be printed Jan. 24. NCCI has granted BI permission to reprint these copyright forms.*

Not that expensive

To the editor: The consultants at our firm agree that "flexibility is the key to writing bid specifications," as stated by Jeffrey A. Segall in his Perspective article (BI, Dec. 20, 1982). We disagree with the

Finally, mentally prepare yourself for a tougher renewal season this year. After so many years of being handed bargains, your skills at winning price cuts could be a little rusty. Get organized and set aside more time for insurance negotiations. You just may need it.

An unduly move

IF A TOUGHER insurance market doesn't make you busier this year, one insurance regulator might.

New York Insurance Superintendent Albert B. Lewis' second effort to outlaw fronting certainly will drive many corporate insurance buyers in New York to write letters and testify at hearings.

The proposed Regulation 82 not only would prevent licensed insurers from issuing policies that are reinsured with the policyholder's offshore captive insurer, but also would preclude risk managers from directing their insurers to use certain unlicensed reinsurers that they want on their risks, whether affiliated with the parent or not.

Mr. Lewis apparently thinks he can push this regulation through in the wake of reports of reinsurance fraud that hinged on fronting arrangements. We hope not. This proposed regulation unduly restricts the options of too many honest people in an effort to stop the crooks.

writer's opinion, however, that "consultants are expensive and not in touch with the marketplace."

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Representing others

To the editor: I would like to refer to your issue of Nov. 22 regarding insurance in Mexico, particularly where your correspondent states that we are representatives of Alexander & Alexander.

We would like to point out that we are also representatives of other large brokers. Your article has caused us some inconveniences with the other firms we represent.

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HPR insurers not expecting new business

By LEN STRAZEWSKI

Corporations willing to invest in fire-protection engineering and safety planning can earn low property insurance rates that likely will hold despite any standard property rate increases, underwriters say.

But insurers that offer "highly protected risks" insurance coverage aren't expecting a rush of new business in 1983.

If anything, HPR insurers expect to continue to lose risks to standard fire coverage as competition and tighter underwriting drive customers away.

"1983 will be the year of the underwriter," predicts William L. Munson, president of Commerce & Industry Insurance Co., part of American International Group Inc.

"All of the HPR insurers will start differentiating risks again, and structures below HPR standards will find it hard to get HPR rates without making the proper engineering standards."

AIG aggressively campaigned for HPR risks more than two years ago with an advertising campaign aimed at the traditional industry leaders, the Factory Mutual System.

Since that campaign, the overall availability of coverage increased as other insurers seemed to discover this select class of risk.

HPR rates followed standard markets and dropped to a low point of about 2 cents per \$100 of value for some very fire-resistant structures. Underwriting standards flew wide open.

Many buyers received HPR-like rates from novice HPR insurers without upgrading safety, Mr. Munson says, and these policyholders may have a hard time coming back to "first-tier" insurers like AIG, FM and Industrial Risk Insurers.

"We are going to put it back to the buyer," he says. "We have got to tighten standards. If the buyer wants to make the engineering changes, the risk will get HPR rates. If not, we will be glad to sell standard property insurance—at the appropriate rates."

Most other HPR insurers agree that highly protected risk rates have hit rock bottom and while they may not yet be rebounding, they are certainly not going

through the floor.

"There's no question that HPR insurance rates are low and likely to stay that way," explains Michael McIntyre, vp-marketing for Allendale Insurance Co., part of the Factory Mutual System. But Allendale and its sister insurers are also going to be more selective in 1983 to compensate, he adds.

"We've tried to look to the good business, the risks that deserve a lower premium. On the poorer risks, however, we are going to charge a commensurate rate and if we can't get it, we will have to separate ourselves," he says.

Allendale policyholders also will have to maintain the fire-protection standards inherent in HPR status, Mr. McIntyre adds, if they expect to keep their low rates, which

average 5 cents per \$100 of value or less.

If policyholders can't maintain standards that include fire-resistant construction, sprinklers and emergency plans, they will be charged standard fire insurance rates. However, companies will still be able to purchase coverage from Allendale, which is expanding standard property and special property insurance underwriting.

"Actually, the standard property insurance market holds more possibilities for Allendale to grow in market share," Mr. McIntyre says. The insurer is introducing additional property insurance products to attract new premium, including a commercial multiperil policy, an all-risk builders risk form and data processing loss insurance.

It is also targeting smaller commercial risks, including one-location factories and other commercial buildings whose risks are generally marketed by regional agents and brokers. This a significant departure for Factory Mutual, which usually sells coverage through its own direct sales force or large national brokers.

Small non-HPR policyholders, however, will not receive free HPR engineering, Mr. McIntyre says.

"Where we can, we will apply our engineering service, but we cannot afford to give standard property insurance policyholders the full FM fire-protection engineering package without the requisite premium," he says.

If HPR policyholders do keep their structures up to the highly protected risks criteria, they will receive a reward—stable rates—that could grow in value by the end of next year.

"HPR rating doesn't generally show large up or down movements," explains G. Wayne Crawford, senior vp of Industrial Risk Insurers, another large HPR insurer. "The rate structure is designed around the policyholder's 'built-in' insurance, the investment in fire-protection engineering. We expect that a properly protected structure will be very unlikely to have a major loss."

When standard property insurance rates begin to increase by the end of 1983, as most underwriters predict (see story, page 3), HPR rates should remain relatively low for most industrial classes, Mr. Crawford says.

Mr. Crawford does predict an imminent change to tighter underwriting standards designed to cut the loss potential for insurers.

"We will finally see some limitations in the high-limit all-risk and difference-in-conditions policies," he predicts, "especially in the area of earthquake and flood coverage."

"Though it is still limited, the availability of earthquake and flood coverage has grown rapidly in the last few years. But, I think we will see some contractions in the policy limits here as insurers realize that one major earthquake could produce losses that are virtually unpayable."

Some high-risk classes, including metalworking and chemical manufacturing plants, may even be subject to early rate increases in both standard and HPR markets.

Although IRI also will attempt to tighten its own underwriting standards, it does not plan to change its account underwriting practice, which allows large policyholders to include some non-HPR risks in coverage designed and rated for highly protected property.

IRI would like to see policyholders bring those non-HPR risks up to HPR standards and see other corporations develop HPR property, but Mr. Crawford says he is

Continued on page 14



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HPR rates expected to remain stable in '83

Continued from page 10
not encouraged

"The incentive to bring risks up to HPR class has been reduced by market competition and the economy," he explained.

Very low rates and premium discounts from standard property insurers have driven premiums below what is generated by some HPR rates, he notes, and the rate cutting continues—at least temporarily.

"All of the insurance carriers have had a difficult time in 1982, but I still don't see much of a hardening," he says. "The market is very

competitive and the range of premium credits is very wide. But it can't go on forever.

"I don't see any potential for volume increases in 1983. Most of our HPR policyholders are Fortune 1,000 companies that can afford the required engineering. The companies that want to do the engineering already have and at other companies, cutbacks have put most improvements on the back burner. New fire-resistant plants, sprinklers and other features are just not in the budget."

Bob Smialek, HPR officer for Kemper Group and vp of American Protection Insur-

ance Co., agrees. He foresees no major move of policyholders to HPR insurers.

"In the past year, we've not seen anyone willing to upgrade its risk—simply because there hasn't been a premium benefit available. I don't see this changing for a while, though it may when some increases surface."

Rate increases will first come to high-limit, layered property insurance plans and some small HPR risks, but for the present, increases are not likely, he says. "All I can predict is tougher underwriting leading to a better mix of price and risk for insurers."

B&M insurers to beef up inspections

By LEN STRAZEWSKI

Expect boiler and machinery inspectors to spend a little more time tinkering in your company's boiler rooms this year, insurers say.

But don't worry about the cost of your insurance.

Conducting tougher inspections is the way boiler and machinery insurers expect to reduce their losses in 1983 without raising coverage rates.

"Price competition will still be acute among boiler and machinery insurers," remarks David V. Carlson, assistant vp for underwriting at Hartford Steam Boiler Inspection & Insurance Co. in Hartford, Conn.

"But just like the rest of the property/casualty insurance business, our loss ratios are mounting and investment income is slowing as interest rates go down."

Despite these losses, the nation's largest underwriter of boiler and machinery insurance, with an estimated 37% of the market, does not anticipate rate or price increases early in 1983.

"The bleeding will have to stop, but our way of doing it is to introduce some sanity in the underwriting," Mr. Carlson explains.

"At Hartford Steam Boiler, we have definite internal underwriting standards that occasionally have been abrogated according to the value of an account with us," Mr. Carlson says.

"The standards have been revised and tightened and will be applied. Though we may see some price firming next year, a return to tougher underwriting will be foremost. Most of the boiler and machinery companies are just hanging on now," he says.

Other large boiler and machinery insurers agree.

The Factory Mutual System, whose combination of companies is the second-largest B&M insurer, also plans to tighten underwriting standards, though the coverage will still be written and rated in combination with property insurance, a technique which usually results in lower rates.

Kemper Group—another member of a tight community of boiler and machinery insurers that also includes The Travelers Corp., Zurich American Insurance Co., Royal Insurance Co. and Continental Insurance Cos.—also plans to lean heavily on underwriting goals, though it claims it never abandoned its standards.

"We frankly haven't indulged in the price competition much during the last two years and it cost us in market share," says Robert Nielsen, Kemper's boiler and machinery officer.

"Though our statistics aren't compiled yet, we probably lost a solid percentage point to other insurers who were cutting their prices," he says.

As other insurers scrutinize risks and permit the occasional price increase, Kemper expects to regain its lost business, Mr. Nielsen explains.

Although 1983 may not bring many premium increases, insurers warn that 1984 may well be another story.

Most policyholders are experience-rated, underwriters point out, and companies whose facilities complied with the looser standards of 1982 are likely to post poor loss records in 1983.

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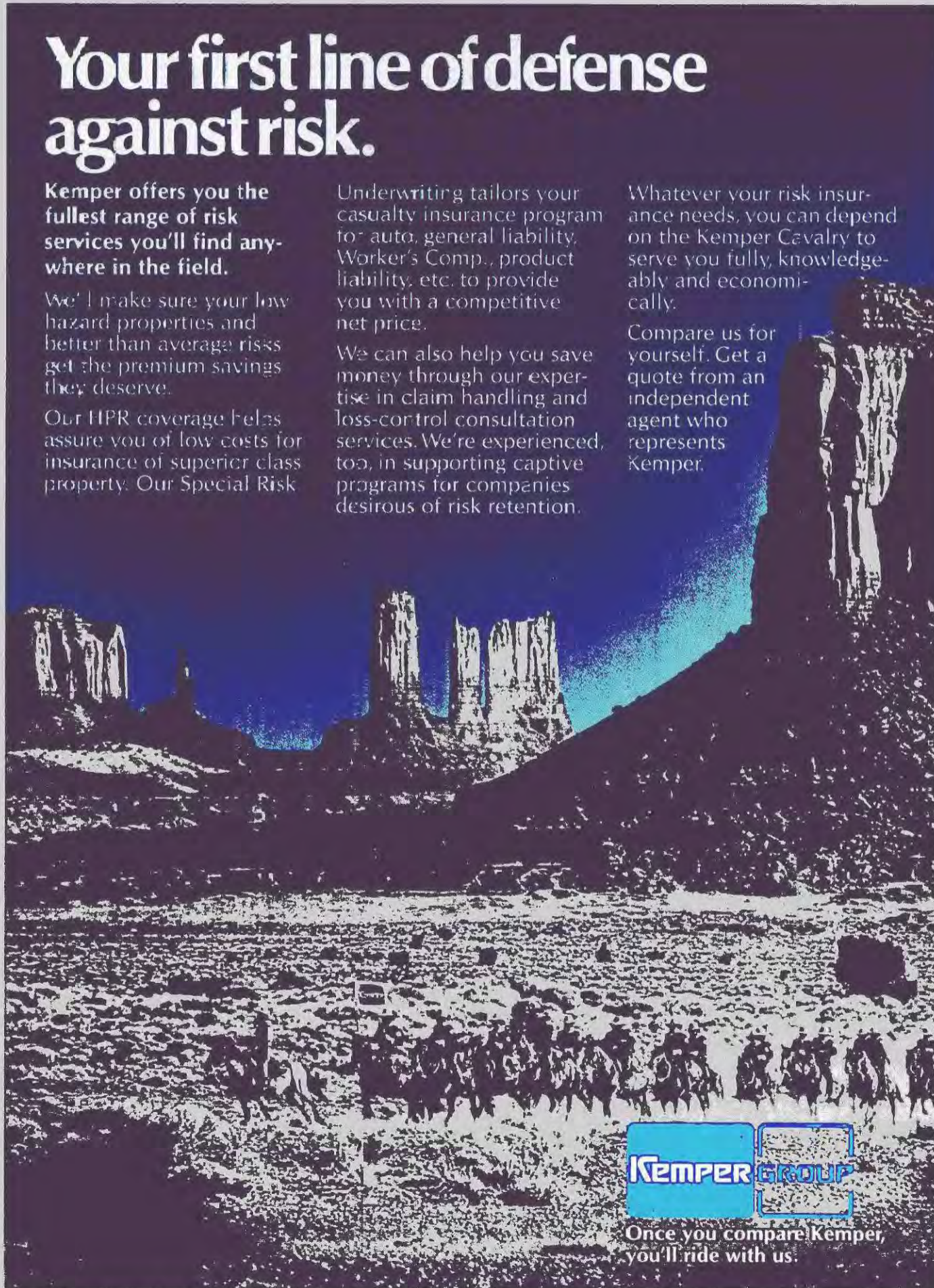
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Package policyholders can expect hikes

By LEN STRAZEWSKI

Large and small commercial insurance buyers looking for lower rates and a single policy to cover a variety of property and liability risks better prepare for a tough search.

While some insurers predict continued rate-cutting and underwriting generosity, many of the traditional multiperil policy leaders say the end of coverage bargains is less than one renewal year away.

Package policies, once the profitable darling of the industry, are headed for rate increases of more than 10% by the end of this year, the most conservative insurers say.

And from the smallest business owner's package policy to the largest global risk manuscript form,

many buyers can expect tighter underwriting, some exclusions and a generally wary attitude from once friendly underwriters.

However, it may take some months before the insurance industry as a whole begins to change its rate-cutting posture, insurers admit, and relatively new competitors may continue to reduce rates through the end of the year.

"The industrywide combined loss and expense ratio for commercial multiperil policies hit about 119% during 1982, up from about 107% in 1981," says John Bowdish, commercial lines underwriting officer for Kemper Group.

"Most insurers are now solidly in the red. There have to be some price increases, if not to return insurers to an underwriting profit,

then at least to provide a better return on their investment."

Although Mr. Bowdish predicts modest rate increases of 5% to 10% by the end of the year, beginning with the traditionally most conservative Hartford-based insurers and trickling quickly down to others, he also predicts some speedy changes in policy breadth.

"We've yet to see the full impact of too low premium rates," he explained. "And it may take a catastrophe to show us just how underpriced the products are."

Before raising rates, insurers may simply start bucking the broad package trend that has been booming since market competition began in 1979. Exclusions and deductibles may again be demanded by underwriters, he says.

"Insurers may ask policyholders to increase their deductibles without receiving rate cuts or they may eliminate certain coverages such as vandalism. We may even want to eliminate all-risk or burglary coverage on an account-by-account basis," he notes.

CIGNA Corp. underwriters also expect rate increases late next year, according to Joseph P. Reynolds, head of commercial multiperil coverage at CIGNA Corp.'s property/casualty insurance companies.

Though CIGNA has recently introduced a new multiperil package series dubbed "Advantage" marketed by the INA/Aetna retail division, package plans are not particularly profitable.

"Packages didn't begin to lose money until 1983. That's why they

have been so popular and why so many other insurers, such as Allstate and State Farm, have gotten into the business. But at a combined ratio of 118% or 119%, they are at least 12% to 15% off a profit," he says.

"When the Insurance Services Office moves to a class rating structure later this year, I'm sure we will see some filing for rate increases around the country. I just hope somebody uses them."

Robert S. Ebersold, assistant vp for commercial lines at Aetna Casualty & Surety Insurance Co. in Hartford, agrees. Small commercial packages designed for apartment buildings, offices and mercantile risks are headed for at least 10% increase by the end of the year, though coverage from Aetna should remain broad.

"The Aetna businessowner's policy covers a lot (of standard property and liability risks) and is a lot broader than many we've seen. I don't think form is an issue. Pricing and underwriting are what counts now," he says.

Larger package risks could be more volatile. Broad-form special multiperil policies and broker-written manuscript forms are very competitive but generally untested against long loss histories, he says.

"Loss problems will emerge and that could lead to rate increases. Though most people don't think of it, SMP policies have a pretty long tail on their liability provisions and you just don't get to that right away. We really don't know yet what will be the proper rate."

Other insurers, however, predict stable rates and continued broadening of coverage.

Milton Nachbar, director of commercial packages for Allstate's commercial insurance division, doesn't expect rate increases in his division or Northbrook Property & Casualty Insurance Co., Allstate's major entry into commercial lines.

Though insurers may be tougher on accepting some risks for packages, coverage is likely to expand for preferred policyholders to include protection from water damage and temperature spoilage as well as consequential damages incurred away from an insured site as a result of an insured loss.

"I don't see anything in a package that will be excluded," he says, "and there shouldn't be much change in risk sizes. Packages now can cover almost any size risk."

Rating, however, will continue to be variable, depending upon individual risks, he says. A machine shop with \$1 million in annual sales, for example, could pay as low as 10 cents per \$100 of value for property insurance and 12 cents per \$100 of value for liability coverage under a package policy, while a smaller retail risk with \$250,000 in sales may pay a combined property/liability rate as much as 20 cents per \$100 of value because of an increased fire hazard.

Fireman's Fund Insurance Cos. also expects to avoid rate increases, but says choosy underwriters and automation already have prevented their rates from getting too low.

"We think we've been fortunate and rather successful with keeping our loss ratio low," remarks Robert P. Fajardo, assistant vp in commercial lines. "We refused to get into the competitive swing and kept rates relatively stable last year, though we did increase premium credits for good loss experience."

Although Fireman's Fund may have lost some business because its rates were a bit higher, its profitability was higher than average. It had a combined ratio of 105% to 108% for commercial packages, at least 10 points better than the industry as a whole, he says. ■

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An interview with Tony Lubimir, Senior Vice President, Office of Underwriting, The Hartford.

Q. The Hartford is known for the quality of its underwriters. Why is that?

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Q. How do insurance buyers benefit from the specialized training of Hartford underwriters?



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they need to help their clients—especially in the current business environment, where *quality* of protection is as important as price.

Q. How does that underwriting expertise help insurance buyers get high-quality, cost-effective protection?

A. The more underwriters know about available programs, the better they can put together a plan that is truly responsive to a particular situation. This is especially true in complex areas such as Workers' Compensation, where a superficial approach may not produce a program that works in a buyer's best long-term interest.

Q. What happens when insurance buyers need specialized underwriting help on both the Property and Casualty sides?

A. They get it. The Hartford has a well-coordinated team approach that gives brokers and agents unlimited access to specialized underwriting and loss control assistance—in effect, our best corporate underwriting resources—when called for.

Q. Do Hartford underwriters in the field have adequate authority to accept or reject risks without consulting the home office?

A. Because of the superior training and experience of our underwriters, we're able to give them significant authority within which to operate. In fact, over 95% of underwriting decisions are made in our regional offices. Of course, our field underwriters are encouraged to utilize all corporate resources to develop the best approach to a given situation.



Q. Is The Hartford consistent in its underwriting program?

A. It is our policy to be. We don't cover a particular type of risk one year and drop it the next. This will become an even more important factor as the market starts to respond to adverse underwriting results.

Q. How can insurance buyers take advantage of Hartford underwriting capability?

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Some insurers expect liability rates to rise

Continued from page 3

senior underwriting executive for commercial lines at Fireman's Fund Insurance Cos.

"We're not planning for a great recovery," he says. "But we're hoping the bottom has been hit."

Mr. Marziano and his associates are budgeting for a 3% to 4% increase in all liability rates across all lines during 1983. He says receipts-based premiums will be stable.

"General liability is probably one of the two most difficult lines that we anticipate handling next year," says James E. Marran, a vp of commercial lines at the New York-based Continental Insurance Cos. "The other is commercial auto."

Mr. Marran says Continental's combined ratio on CGL business is well above 100% and most of the problem is in the product liability sector. However, he doesn't think Continental will be able to raise CGL rates significantly and will continue to operate above a 100% combined ratio for the line.

A general trend in CGL coverage may be an increased desire by insurers to compete on coverage rather than rates.

"We are trying to add some bells and whistles to our CGL coverage to make it more attractive," says Roger A. Quigley, vp-casualty underwriting at C&F Underwriters Group, a unit of Crum & Forster. "If you're at rock bottom on price, what are you going to do?"

For example, he says Crum & Forster will now cover liability for explosions, collapse and underground hazards, exposures that are now excluded from most CGL forms. He says Crum also plans to routinely offer broad-form contractual liability, something that was hard to get in a package policy a few years ago.

Perhaps sensing some slackening of competition, Maurice R. Greenberg, president and chief executive of American International Group Inc., sent a letter in late October to managers of AIG's U.S. insurance operations asking that they come up with plans to seek increases in liability rates wherever competitively possible.

AIG officials confirm the substance of the letter, but are not saying what the results have been.

Two other insurer representatives say some prices will start to rise, but the rates for huge commercial liability policies will remain competitive.

"I believe prices are beginning to gradually increase" in some lines for smaller businesses, says Robert R. Treweek, an executive vp of United States Fidelity & Guaranty Co., a unit of USF&G Corp.

Mr. Treweek, who runs field operations and product development, says USF&G posted a surprising 6% increase in written premiums during November, compared with a year earlier, after operating at about 3% below the previous year during the first 10 months of 1981.

If figures for December show that trend continued, Mr. Treweek says it is an indication that the marketplace in lines where USF&G is active—small- and medium-sized commercial general liability, fidelity bonds and product coverages—may be turning.

"I think we're going to see some increases to the mom-and-pop businesses," he says.

However, he sees "no lessening of competition" in what he termed "jumbo" risks. "Unless we see some insurer failures, unless we see the use of some guaranty funds or unless some acts of God intervene this winter, then I see the commercial risks remaining competitive."

Arthur Phillips, senior vp-casualty at The Home Insurance Co. in New York, agrees with Mr.

Treweek's assessment.

"We reckon that there is going to be something in the way of hardening of rates in 1983, but nothing very great," he says. "The competition will continue to be fiery on the big accounts, with mostly cost-plus deals rated by losses."

The Home will focus on large accounts during 1983, Mr. Phillips explains, and also plans new marketing thrusts in the areas of products, environmental impairment, lawyers and accountants liability.

Other than the well-publicized long-latent disease exposures like asbestos and DES, underwriters cite few coverage areas where they expect any shortage of capacity.

Underwriters say they will seek significant rate hikes—perhaps as much as 30%—in commercial auto

and owners, landlords and tenants liability coverages. These increases are patterned after Insurance Services Office-recommended rates that are now being filed with state insurance departments.

The rate hikes are necessary, insurers say, because commercial auto has one of the highest industrywide combined ratios of any liability line and because the rating of owners, landlords and tenants coverage on a square-foot basis hasn't kept up with inflation.

The owners, landlords and tenants segment of the liability market is getting smaller and smaller, says a senior executive at one property/casualty insurer, as this coverage is increasingly packaged within other policies.

The coverage, which is pur-

chased by companies that are not contractors or manufacturers, is designed to protect property owners for liability for personal injury or property damage that occurs on its premises.

OL&T rates have been flat for the last few years, says Frank W. Barry, a director in Aetna's commercial insurance department.

"There are severe rate inadequacies in OL&T," adds James A. Fowler, a senior vp and manager of large accounts for AIG's domestic operations. "In that line of business, you will probably see attempts to increase rates significantly."

National multiline insurers are adopting the ISO-filed rate hikes, but the suggested increases are often being ignored by smaller, regional underwriters, says Fred P.

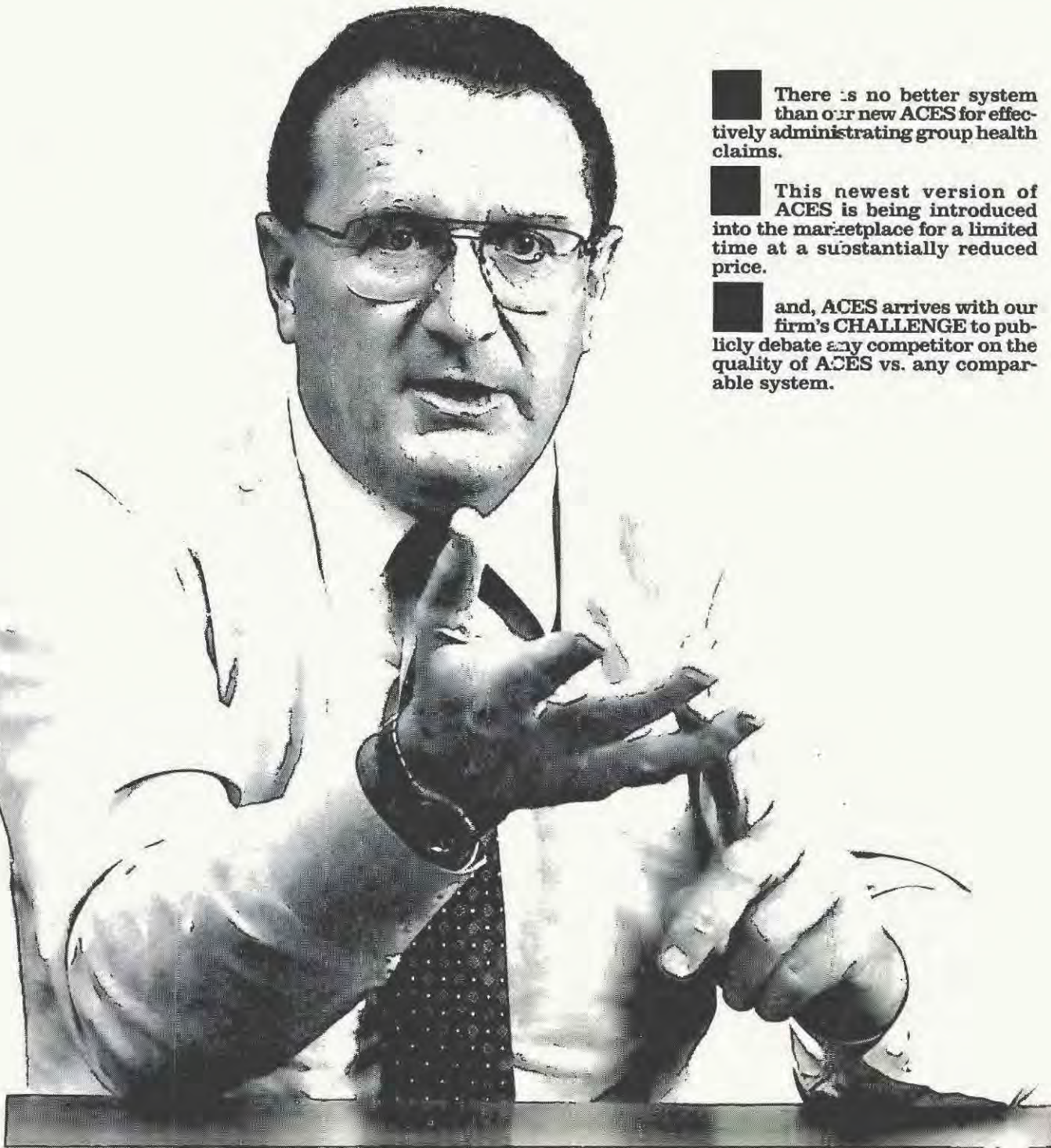
Themmes, a senior underwriting officer for general liability insurance at The St. Paul Cos.

"We think there will be a hardening in the owners, landlords & tenants area," says Crum & Forster's Mr. Quigley, adding that the insurer has now adopted the ISO-filed rate increases, although many of the filed hikes are less than 30%.

Insurers say the outlook for the OL&T depends partly upon the economy. Because the coverage is priced primarily by the square footage of the building insured, a slow commercial real estate market and a nationwide recession depresses premiums. Both tend to reduce or stabilize the amount of insured rental space. An economic recovery might lessen the need for rate increases. ■

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Consultants say market to remain competitive

Independent risk management consultants say they see no evidence of decreased competition for liability risks, either now or later this year.

The consultants maintain that liability insurance rates may no longer be dropping, but they are certainly not increasing.

"It's still very soft," Bernard A. Salwen, a senior partner at S.B. Ackerman Associates of New York, observed a few days before Christmas. "We're getting lower quotes on renewals as recently as five minutes ago."

The consultants' view differs sharply from the view of the underwriting officials at major liability insurers, who say competition is abating and that rates in many liability lines will rise later this year

(see story, page 3).

"I would say uniformly that rates are very, very soft," says Bernard M. Brown, a vp of Risk Planning Group Inc. of Darien, Conn. "People are talking about firm, but when you get right down to the bottom line, there is no evidence of that."

Mr. Brown says a dominant trend in the market is buyers' increasing awareness of the financial condition of their insurers. This theme was also sounded by underwriters, who recommend that buyers check the "security" of their underwriters and shun weak or unknown companies.

Mr. Brown's advice to risk managers and insurance buyers in the new year is to rebid programs if

they haven't done so in the last two years, since prices have dropped substantially.

If a buyer rebid his coverages during 1982, Mr. Brown says, there is probably no need to do so again unless he or she wants marginal premium savings.

"There is no effort (by insurers) to harden anything up in the short run," says another consultant, T. Stephen Helms, a senior vp of McNary Insurance Consulting Services Inc. of Charlotte, N.C.

"We are not counting on any tightening in the market for the first three quarters of the year, which is as far as we look ahead," he explains.

Mr. Helms does cite one area—physicians malpractice coverage—where "the prices are starting to go

back up." But, he says the same is not true of hospital liability coverage.

Mr. Helms advises risk and insurance managers to take another look at any program they purchased in 1982 on price alone to make sure that it is placed with secure insurers.

"I think the buyers are going to get a ride for another year," says Bruce H. Suter, president of Ebasco Risk Management Consultants Inc. of New York.

"Something's going to break soon, but I think it'll be in the latter part of the year. It may possibly go the whole year," Mr. Suter predicts.

Mr. Suter says that commercial insurance buyers are continuing to

pay less—not more—upon renewal, despite comments from insurers that rates are starting to rise. Increased use of packaged policies is contributing to premium erosion, he says, because insurers will sometimes renew a policy and throw in an additional coverage for nothing.

"You're seeing more and more packaging," he says.

Mr. Suter says that the rate cutting in the industry "is just feeding on itself" because insurers, finding it more difficult to maintain cash flow as losses mount and premiums drop, would rather renew a large account for a reduced premium rather than lose it altogether.

"Even the people that want to start (firming rates) keep looking at what happened to Aetna," Mr. Suter notes.

Aetna Life & Casualty Co., which made a widely reported effort during 1981 to firm prices, posted a 7.4% decline in net written premiums for the nine months ended Sept. 30, close to double the premium decline of its nearest multiple-line competitor (BI, Nov. 29).

"We see a little bit of market-hardening, but there is still lots of competition," says James A. Robertson, a principal consultant with Warren, McVeigh & Griffin Inc., an independent consulting firm based in Newport Beach, Calif.

"But risk managers are not giving the market a break. They are saying, 'Hold the line, or we'll take our business somewhere else,'" he explains.

Liability coverage for architects and design engineers may be the toughest policy for insurance buyers to purchase, Mr. Robertson says. However, he adds, these professionals rarely purchase limits beyond \$10 million to \$20 million, so there is no problem finding coverage—the only question is the price.

Mr. Robertson, who specializes in umbrella and excess liability coverages, says some brokers are now saying the rate for excess and umbrella layers above \$100 million has bottomed at about \$325 to \$350 per \$1 million of coverage. Some of the insurers of these high excess layers are seeking to impose minimum premiums of \$400 to \$425 per \$1 million of coverage, he says.

High-layer coverage is so cheap because it is rarely used, Mr. Robertson explains.

For example, industry experts had expected losses from the Kansas City Hyatt Regency Hotel skywalk collapse in 1981 to substantially exceed \$100 million, reaching the upper layers of the coverage purchased by hotel owner Hallmark Cards Inc. or hotel operator Hyatt Corp.

Now, he continues, the already-negotiated settlements of about \$34 million suggest the ultimate payout by the two companies' insurers may be less than \$100 million.

The view of the market from Ackerman's Mr. Salwen finds continued competition in both professional liability and general liability lines. He says, however, product liability rates will not fall any lower nor are any new insurers interested in jumping into that market.

Mr. Salwen says he tells risk managers "to set up specs and get competitive proposals. If they haven't shopped in the last year, they certainly should. And, I tell them not to make the mistake of staying too close to one broker. A broker obviously won't compete against himself and a risk manager should be able to manage his program and have four brokers if necessary."

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No change seen in product liability rates

Product liability risks won't create any rate hikes during 1983, insurers say.

Whether covered under the comprehensive general liability form or individually underwritten, product liability loss experience has been good.

"I don't think there's going to be any change in the product liability rates on a book basis in 1983," says Thomas A. Jackson, a secretary in the field division-product management at The Travelers Corp. in Hartford, Conn.

Fireman's Fund Insurance Co., which says it had superior results in the product liability line during 1982, plans a major product liability marketing push to the electronics industry during 1983.

Crum & Forster even predicts some slight declines in product liability rates during 1983 because the industry overreacted in 1977. Roger A. Quigley, vp-casualty underwriting for C&F Underwriters Group, says the insurer's combined ratio for product liability insurance during 1982 was about 90%, while the industry averaged about 100%. He predicts no

firming in this area "except for specific risks."

The Home Insurance Co. will launch a new marketing push in the product liability field during 1983 with a package it believes will "revolutionize" such coverage, says Arthur Phillips, senior vp-casualty. Mr. Phillips says no other insurer has really targeting the product liability market but refused to provide any details about The Home's new package.

"I see very little change in the market," says James A. Fowler, a senior vp and manager of large domestic accounts for American International Group Inc., "although the smaller risks would probably begin to see some firming in rates and quite possibly some increases."

There will be no contraction during 1983 for product liability coverage, according to Paul R. Jurgens, a vp and chief casualty underwriter for standard commercial accounts at Hartford Insurance Group in Hartford, Conn.

Coverage will continue to be available at reasonable rates and prices, he says.

Economic downturn expected to push D&O rates upward

At worst, risk and insurance managers can figure on a 10% increase in directors and officers liability insurance renewal rates by the end of this year. At best, they can figure on paying a bit less.

"I think next year, you're definitely going to see a tightening by midyear," says Christopher J. Cavallaro, senior vp in the financial services department of American International Group Inc. in New York. "Things will be stable for about six months, and then up a little, perhaps 10% by the end of the

year."

The faltering economy is breeding bankruptcies and D&O claims, says Mr. Cavallaro, ticking off a list of at least a dozen such cases including the Penn Square Bank failure and resulting claims against Continental Illinois Corp., plus a suit naming Chase Manhattan Bank in the Drysdale Securities Corp. default.

July and August saw the largest number of bankruptcy filings over two months since a two-month period in 1933, notes Mr. Cavallaro.

"No D&O carrier is going to make money on 1982 when the books are closed out in eight to 10 years," says Mr. Cavallaro. "The profit margins years ago were substantial (but) now the sexiness of D&O as a coverage for insurance carriers to make a lot of money is gone."

Other insurers predict continuing competition and little change in rates, even though they expect their profits on the line to fall.

"I do not see a tightening next year," said Stephen E. Gerstman, a senior vp at INAPRO in New York, a division of CIGNA Corp. "There are just too many new markets coming into the field."

The D&O market was for many years the exclusive domain of about a half-dozen insurers, dominated by AIG, Harbor Insurance Co. through the Swett & Crawford subsidiary of the Continental Corp., and Lloyd's of London through several U.S. marketers. The entrances of Chubb & Son Inc. and MGIC Indemnity Corp., among others, have changed the scene.

Chubb, which entered the D&O market only a couple of years ago, credits itself with having broken up the AIG/Harbor/Lloyd's triad, says George T. Van Gilder, assistant vp-national crime insurance department at Chubb & Son Inc. in Short Hills, N.J.

Mr. Van Gilder sees 1983 as "a year in which you can continue as a buyer to get favorable conditions." Among other things, he says, Chubb is competing with other D&O insurers by offering what it believes is better continuity with a previous insurer's coverage and terms that continue to afford coverage to other directors and officers if one is found guilty of dishonesty or fraud.

"We are going to go into the year assuming it is just as competitive as 1982," says Edward D. Norris, president of MGIC Indemnity Corp., which is the market leader in D&O insurance for banks. The company decided during 1982 to also pursue other corporate clients.

"This has probably been one of the more difficult years in bank D&O, no question about it," says Mr. Norris. There were at least 40 commercial bank failures during 1982, all creating D&O exposures.

Despite these potential losses, and some evidence that reinsurers are becoming more selective about D&O risks, Mr. Norris predicts the market for D&O won't tighten as quickly as other liability lines.

"To me, it looks like more of the same," he says.

Mr. Norris adds, "The buyer ought to be aware of whom he's purchasing the coverage from." There were 10 or 12 insurers writing D&O insurance during the mid-1970s, but that number dropped to five or six near the end of the decade.

"Now, it's back—kind of wide-open again," he says.

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Professional liability cover to cost more this year

Don't look for big bargains in 1983 on professional liability insurance from the seasoned insurers.

Late last year, Evanston, Ill.,-based Shand, Morahan & Co. announced that, because of increasing losses, it would raise rates 10% to 30% for most professional liability insurance lines including lawyers, architects and engineers, insurance agents and brokers and real estate agents (BI, Oct. 18, 1982).

Other underwriters of professional liability insurance responded that Shand, Morahan was only playing catch-up with the rate hikes they had instituted (BI, Nov. 1, 1982).

At INAPRO, a CIGNA Corp. professional lines underwriting subsidiary in New York, Senior Vp Stephen E. Gerstman says, "We're finding that we can charge more, offer extra services and get the business." He attributes the willingness to pay more to a new sensitivity about the quality of the insurer. "And customers are looking for long-term commitment," he adds.

He says the average premium per policy written by INAPRO will be up in 1983 over 1982 but he has no estimate of how much.

His only concern is that "There are still an awful lot of untapped markets out there."

When tapping the traditional markets, however, buyers can expect about the same or higher rates for most professional liability lines, including lawyers professional liability, accountants and medical malpractice.

The market for lawyers professional liability insurance "has bottomed out and is turning upward because all of the companies have started raising rates or are talking about raising rates," says Ronald E. Mallen, a partner with the San Francisco law firm of Long & Levit who also is the chairman of the American Bar Assn.'s committee on lawyers professional liability.

Mr. Mallen says he believes lawyers malpractice insurance—handled chiefly by Shand, Morahan & Co. Inc. and American International Group Inc.—has been written at a substantial loss.

The lawyers malpractice line was unprofitable during 1982, confirms another major underwriter, The St. Paul Cos. The insurer can gauge its results because it has written the insurance on a claims-made form since 1977, notes Fred P. Themmes, senior underwriting officer-general liability insurance.

He says two other professional liability lines "behaved" during 1982: real estate and insurance agents professional liability.

Insurance for small accountants should become more expensive during 1983, says James E. Kassel, a senior vp at Hartford Specialty Co., part of The Hartford Insurance Group, although Mr. Kassel doesn't specify by how much.

"It's just a reaction to the market," he says. "I imagine prices are going to go way up on the Big Eight accountants (because of corporate bankruptcies that result in suits against auditors)."

Claims costs are increasing in the medical malpractice line, but insurers are not firm on their rate hikes.

Richard O. Barrett, a director of the commercial insurance department at Aetna Life & Casualty Co., says competition will continue in the medical malpractice lines at the same time claims costs escalate.

"We're going to remain a market, but we're really going to write a minimum amount of new business because of the severe price competition," says Mr. Barrett, who monitors professional liability lines.

"Our medical malpractice has not done well," says James E. Kassel, senior vp of Hartford Specialty Co., a unit of Hartford Insurance Group. "We're getting some price increases on hospital business—probably less than 10%—but at least it's not going down."

T. Stephen Helms, a senior vp of McNeary Insurance Consulting Services Inc. of Charlotte, N.C., says prices are starting to go up for physicians malpractice insurance but not for hospitals.

"There is no effort (by insurers) to harden anything up, probably in the short run," he says. "We are not counting on any tightening in the market for the first three quarters of the year."

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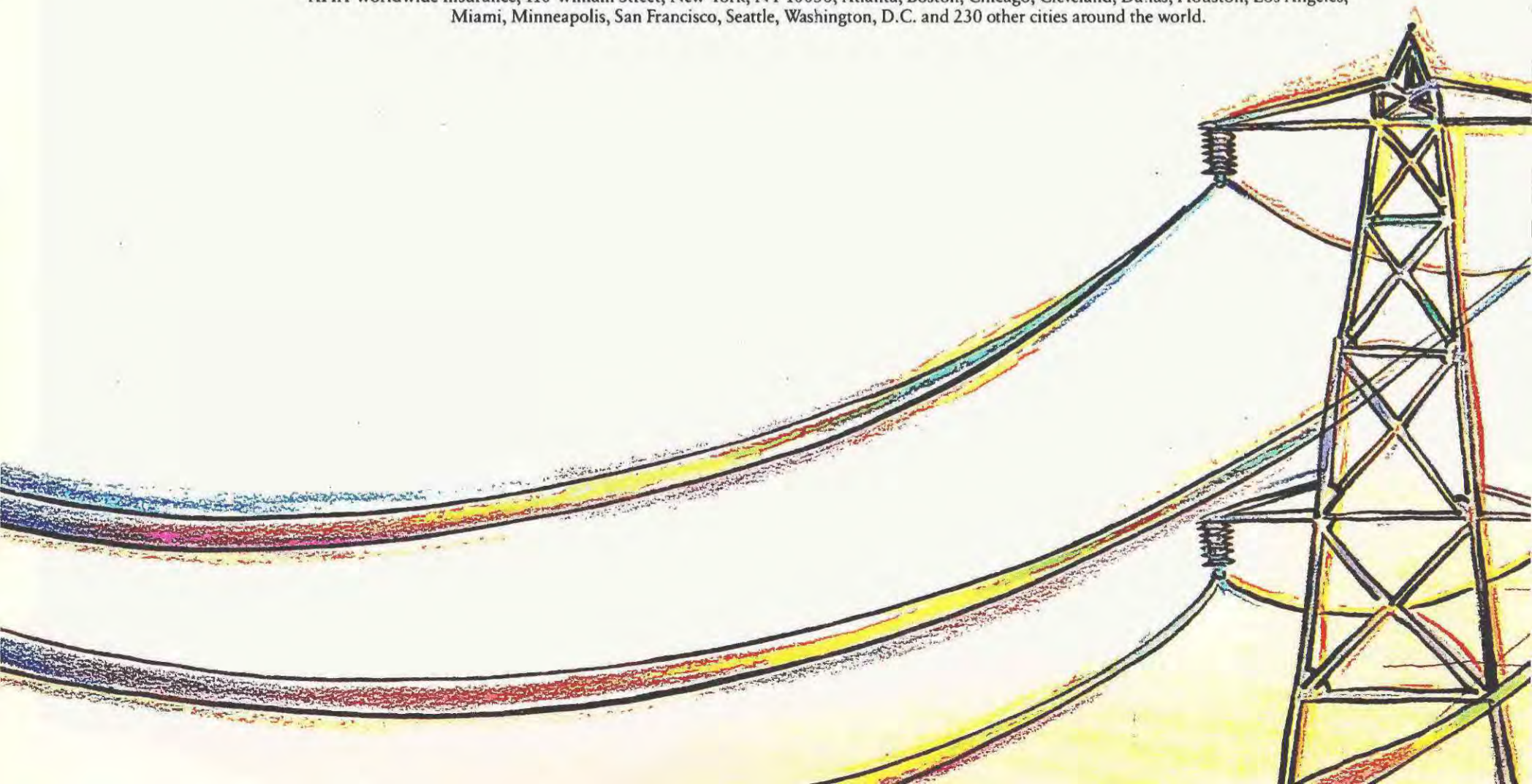
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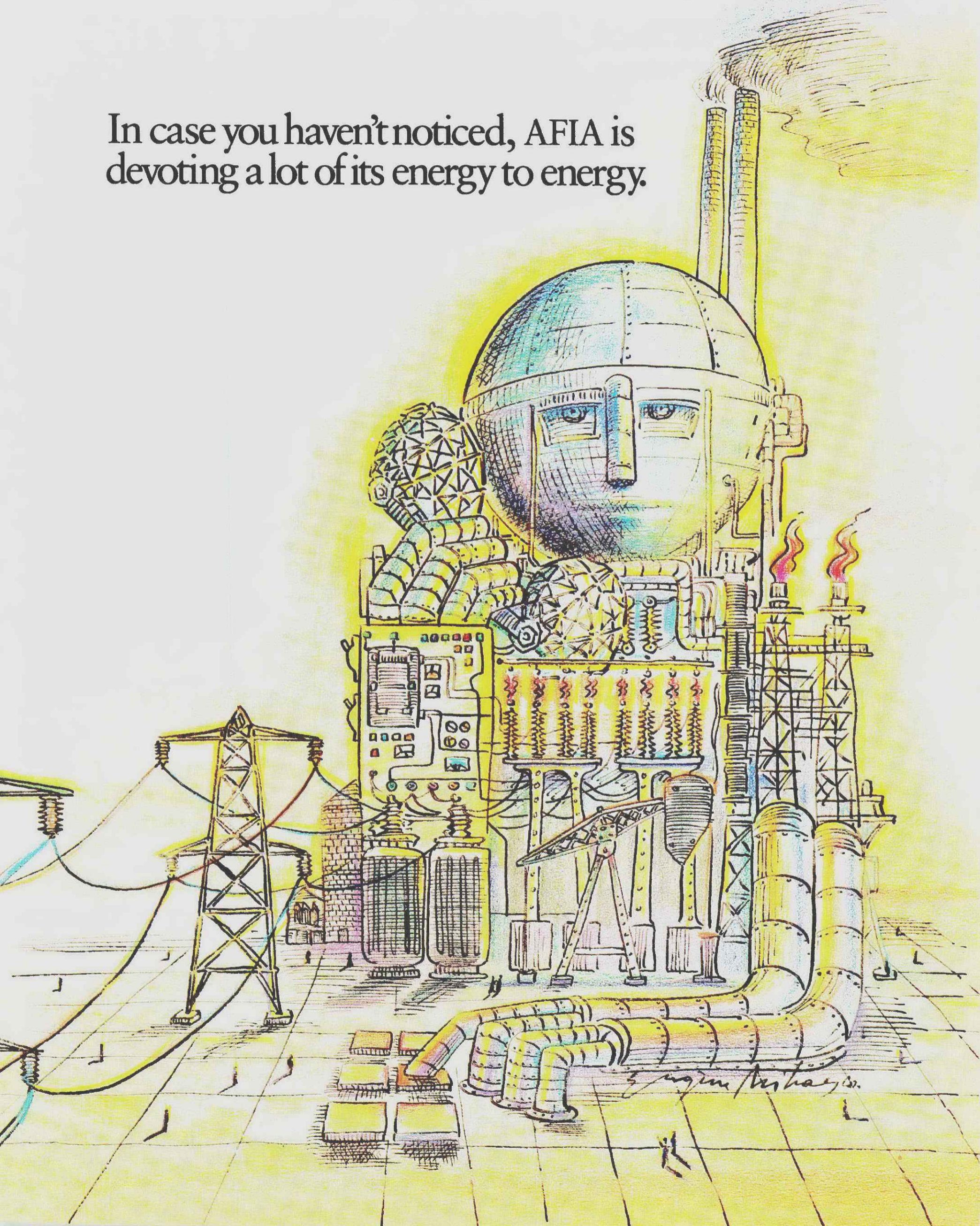
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Pollution insurers dropping their rates

By **LAURENCE H. GROSS**

Corporate risk managers shopping for pollution liability insurance may find the dozen primary insurers offering the coverage fighting a premium rate war.

"Some (underwriters) say a rate war won't happen until next year sometime, but I think that the rate war is under way right now," says David C. Sterling, commercial casualty underwriting secretary for The Hartford Group. "In some in-

stances, we are seeing prices 50% below what we are asking. Some companies already are pricing very thinly."

The current competition among insurers for the business is creating a wide variation in pricing for non-sudden and gradual pollution liability coverage, underwriters agree.

Consider a gas station with three relatively new gasoline storage tanks.

Depending on the site location,

Liberty Mutual's rate would be from \$500 to \$1,000 per service station for a \$4 million annual aggregate on non-sudden coverage.

Other underwriters cited rates from \$100 per year (for a chain of service stations) to \$700 per year, all for the same risk.

All commercial insurance markets are plagued with overcapacity and soft pricing, but the market for gradual and non-sudden pollution liability insurance is subject to two additional factors which could lead

to dangerously low pricing during 1983, say top underwriters.

First, prices are being set with little, if any, loss experience as a guide because the coverage is so new. Liability coverage for gradual pollution liability, or environmental impairment liability (EIL), has existed in London only since 1974, and was first offered by U.S. insurers in 1980.

The Pollution Liability Insurance Assn. in Chicago, a reinsurance pool with 48 underwriting

companies, reduced rates an average of about 50% in 1982 because it lacked sufficient loss experience to support the rates, said Assistant Director George Surprenant.

A second factor is that nearly every U.S. underwriter of EIL coverage vastly overestimated the market for the insurance in 1982. Underwriters who anticipated collecting \$5 million in premiums were fortunate to collect \$2 million. Those expecting \$2 million in premium volume ended up with \$200,000 to \$800,000.

"There are just not enough losses," says John W. Purkis, vp at Liberty Mutual Insurance Co. "If you had asked me nine months ago how much business we would have written in 1982, I would have said \$2 million or \$3 million in premiums. We have written about \$200,000 to \$300,000 in premiums in 1982, and we must have outstanding quotes 8 to 10 times that.

"I just get the impression the market hasn't decided to buy it," he added.

Chuck North, senior underwriter and EIL coordinator for Shand, Morahan & Co., says the Evanston, Ill., underwriting manager has written about \$5 million in premiums in 1982 for EIL coverage.

"We put more than 1½ years into developing this coverage. It required a lot of our resources, but hasn't generated the premium volume we hoped for," says Mr. Sterling of Hartford. "We haven't seen any influx of submissions to meet government deadlines, either."

Underwriters such as Mr. Sterling had anticipated that federal Environmental Protection Agency regulations would force owners or operators of hazardous waste treatment, storage and disposal facilities to purchase gradual pollution liability coverage.

"The lack of activity can be explained by the lack of enforcement at the EPA," says Mike Rogers, vp for The London Agency, a Crum & Forster brokerage subsidiary in Atlanta. "The legal requirements for insurance are there and have the force of law, but it could take months before the EPA decides to check on hazardous waste insurance certificates."

The EPA regulations, which were in danger of being suspended last year, became effective last October for sudden and accidental releases of hazardous waste. Unless the owner or operator of a hazardous waste treatment, storage or disposal site is able to meet a financial test, the company must purchase liability insurance covering sudden pollution with limits of \$1 million per occurrence and a \$2 million annual aggregate.

Coverage for sudden and accidental pollution liability is covered under the comprehensive general liability policy, although underwriters would prefer to exclude it and offer the coverage in the EIL policy. Some underwriters that provide a company with both CGL and EIL coverage do this, but provide no rebate on the CGL premium.

The largest owners and operators of surface impoundments, landfills or land treatment facilities for hazardous waste treatment must also purchase pollution liability coverage by Jan. 15, 1983, for non-sudden or gradual pollution risks, which is the EIL form. The limits of liability required are \$3 million per occurrence and a \$6 million annual aggregate.

The Jan. 15 date applies to companies with more than \$10 million in annual sales. Companies with \$5 million to \$10 million must have the insurance, or meet a financial

Continued on page 28

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This year, insurers expect to write more EIL coverage

Continued from page 26
test, by 1984, and those companies with less than \$5 million in sales must meet the requirements by 1985.

"Even when the sudden and accidental insurance requirements went into effect, we didn't see the activity we expected," says Mr. Rogers of The London Agency. "We expect considerably more business next year (1983)."

Tougher state regulations and federal court decisions could increase demand for EIL coverage.

The states are enforcing tougher insurance and inspection requirements for owners and operators of hazardous waste storage, treatment and disposal facilities, says Michael Murphy, chief operating officer for

Risk Science International in Washington, D.C., a subsidiary of broker Frank B. Hall & Co.

"Most states adopt the federal guidelines as a minimum," says Mr. Murphy. "Some are going well beyond those requirements."

Mr. Murphy said states that go beyond the federal requirements either broaden the classification of companies that are considered handlers of hazardous waste, or they impose tougher financial requirements to meet the self-insurance financial test.

For example, the Bay Area Water Quality Board in northern California has not only adopted EPA requirements, but also is requiring a broad category of hazardous waste handlers to perform groundwater studies to determine whether there has been undetected pollution.

"The states are taking big initiatives," says Mr. Murphy.

"The other area of concern is the courts," Mr. Murphy notes. Three recent federal court decisions have held liable the owners of land that was leased to an unrelated party for use as a disposal site, and the generators of hazardous waste have been held liable for pollution despite the generator's belief the material had been properly treated.

"Regardless of any contractual arrangements, generators and land owners are being held liable for the final disposition of hazardous materials," says Mr. Murphy.

Risk managers shopping for EIL coverage have to consider more than price; they have to consider the coverage provided by the policy form.

"No price quote should be considered valid until the risk manager sees the policy form," says Mr. Rogers of The London Agency. "There is no standardized form and the variances are substantial."

Although all EIL forms are being written on a claims-made instead of an occurrence basis, the definition of an environmental impairment, coverage of legal defense costs and the granting of coverage for on-site or off-site cleanup vary, depending on the form chosen, says William A. Mahoney, vp of Marsh & McLennan Inc.

"In fairness to each of the companies, the different forms will do a particular job," says Mr. Mahoney. "For example, if a firm is dealing in a state with punitive damages that can be paid by insurance, it should seek a form that provides for punitive damages."

Insurance coverage of on-site cleanup, particularly when the environmental impairment could lead to contamination away from the landfill or storage facility, will eventually become standard coverage in EIL policies, says Alexander J. Wayne, senior vp for Wrightson & Co., an underwriting subsidiary for Stewart Smith Mid-American Inc.

"We gave on-premises cleanup as part of the coverage last year," says Mr. Wayne. "We felt the corporations needed the coverage for their own backyard."

Mr. Wayne, who says the Wrightson form limits cleanup costs to 10% of the policy limits, expects policy forms to

Continued on facing page

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Continued from facing page
become broader over the next year, reducing the number of limitations and exclusions that are part of current forms.

One limitation is the retroactive date on some policy forms. Mr. Mahoney explains that the retroactive date limits coverage to pollution that occurs after the retroactive date. However, because it often is difficult to establish when a pollution incident occurred, insurers have been amenable to establishing retroactive dates more than a century old.

Those forms without a date will provide coverage for pollution claims made from the commencement date of the policy regardless of when the pollution began.

The discovery period for claims filed after the policy expiration that are covered by the policy can vary from six to 12 months.

Exclusions in EIL policies in some ways are typical of most insurance policies, says Mr. Mahoney. Coverage that might be included in another policy, such as pollution caused by nuclear incidents or employee injury claims, are typically excluded in the EIL form.

Two other areas, however, should be considered. One relating to punitive damages and the other relating to genetic damages caused by the pollution. In some cases, underwriters will allow insureds to buy back the genetic damage exclusion for an additional premium charge.

Although the EPA also has established financial requirements for the closure of treatment, storage and disposal facilities, only one insurance company, St. Paul Surplus Lines Co., is offering a program to pay for the closing and post-closure monitoring of a hazardous waste facility.

"We tried to make the insurance competitive with the other mechanisms the EPA allows," says Dave Montgomery, underwriting manager for St. Paul. "The basis for premium rating is very site specific, depending on the type of site, the expected life of the site and an accurate plan for closing the facility."

Mr. Montgomery said that for a typical site, with a life expectancy of 20 years, premiums could range from \$100,000 to \$300,000 per year, or about 7% to 15% of the estimated closure costs.

"The basis for the closure, post-closure is that we eventually expect to have to pay on each policy," says Mr. Montgomery. The closure, post-closure coverage is non-cancellable for at least 20 years.

St. Paul has collected about \$1.5 million in premiums in less than six months on closure/post closure coverage, says Mr. Montgomery.

The policy excludes coverage for off-site cleanup, which is part of the regular EIL coverage.

The only alternatives a waste treatment or storage facility has to buying St. Paul's coverage is to show financial responsibility through creation of a trust fund, irrevocable letter of credit a surety bond or by passing a financial test.

St. Paul also is underwriting other environmental exposures.

Other insurers underwriting EIL coverage and frequently mentioned by brokers include National Union Fire Insurance Co. of Pittsburgh, an American International Group sub-

siary; The Home Insurance Co.; International Surplus Lines Insurance Co. in Chicago and U.S. Fire, both subsidiaries of Crum & Forster; Evanston Insurance Co., affiliated with Shand, Morahan; Travelers Insurance Co. in Hartford; Aetna Insurance Co. in Hartford; Hartford Steam Boiler Inspection & Insurance Co.; Great American Surplus Lines Insurance Co., whose coverage is being brokered exclusively by Stewart Smith Inc.; Kemper Group; and Lloyd's of London, where the lead underwriter, Clarkson Puckle Ltd., first developed EIL coverage about eight years ago.

Many other brokers, managing general agents and underwriting managers specialize in EIL coverage besides those interviewed, including Swett & Crawford in Los Angeles, Great Lakes Agency in Chicago, L.W. Biegler in Chicago, ERAS Ltd. in London and Alexander Howden in Atlanta.

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Mississippi

Nebraska
New Hampshire
North Carolina
North Dakota
Oklahoma
Oregon

Rhode Island
South Carolina
Texas
Utah
Vermont
Virginia
Wisconsin

Must also demonstrate non-sudden coverage to federal EPA

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Colorado
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SPOTLIGHT REPORT

Employers to benefit from competitive work comp market

By EILEEN NORRIS

The new year promises an extraordinarily competitive setting for the economy-minded risk manager shopping for workers compensation insurance.

Competition in general and competitive rating in particular will bring rates down in almost every state, or at least stave off any large increases. And, as more states pass competitive rating laws, the competition will grow fiercer.

If rates for workers compensation in 1982 can be thought of as competitive, the market in 1983 promises to be "hog-wild," says one large underwriter.

Some insurers say rates will drop for sure in 1983—anywhere from a few tenths of a percent to as much as 15%, with the average about 5%. Others say they will remain flat or increase just slightly.

On the extreme ends of the scale, competitive rating is bringing employers' rates down as much as 40% in Kentucky, while new legislation improving benefits is hiking rates 15% in California.

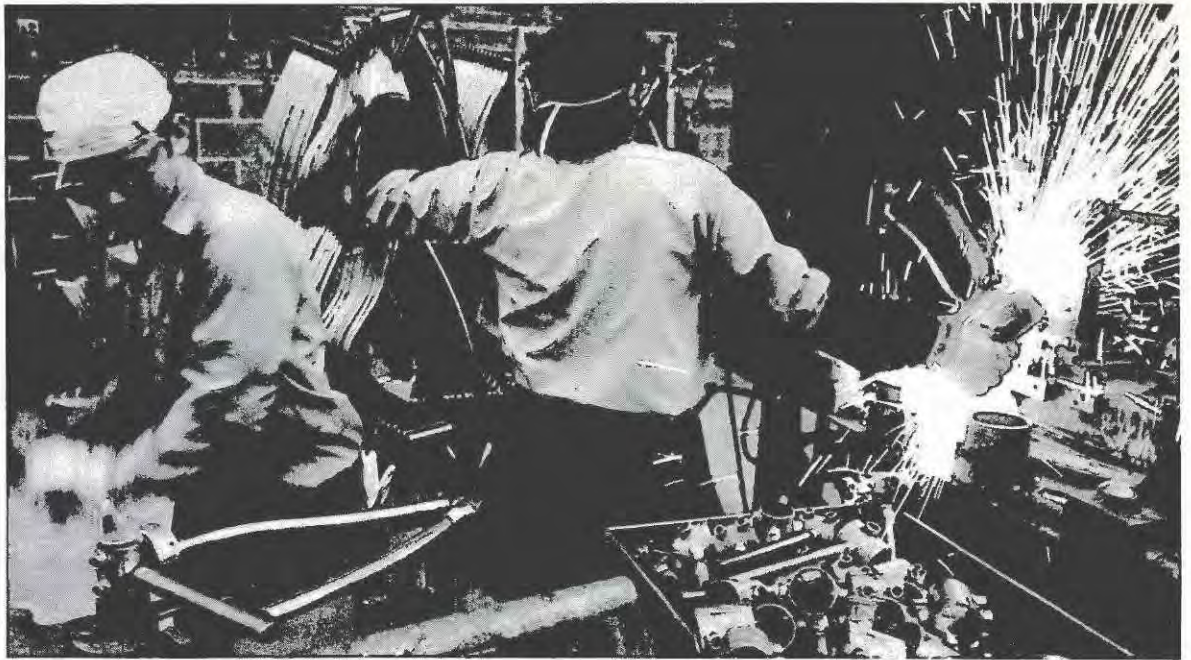
"With open competition and scheduled rating plans, the larger risks don't have to do much to get a good price," says Richard Franklin, director of workers compensation for INA Corp., a subsidiary of CIGNA and the fourth-largest workers compensation underwriter.

He predicts rates and final costs after dividends and other factors will reflect a total 10% to 15% reduction in employers' workers compensation insurance costs in 1983.

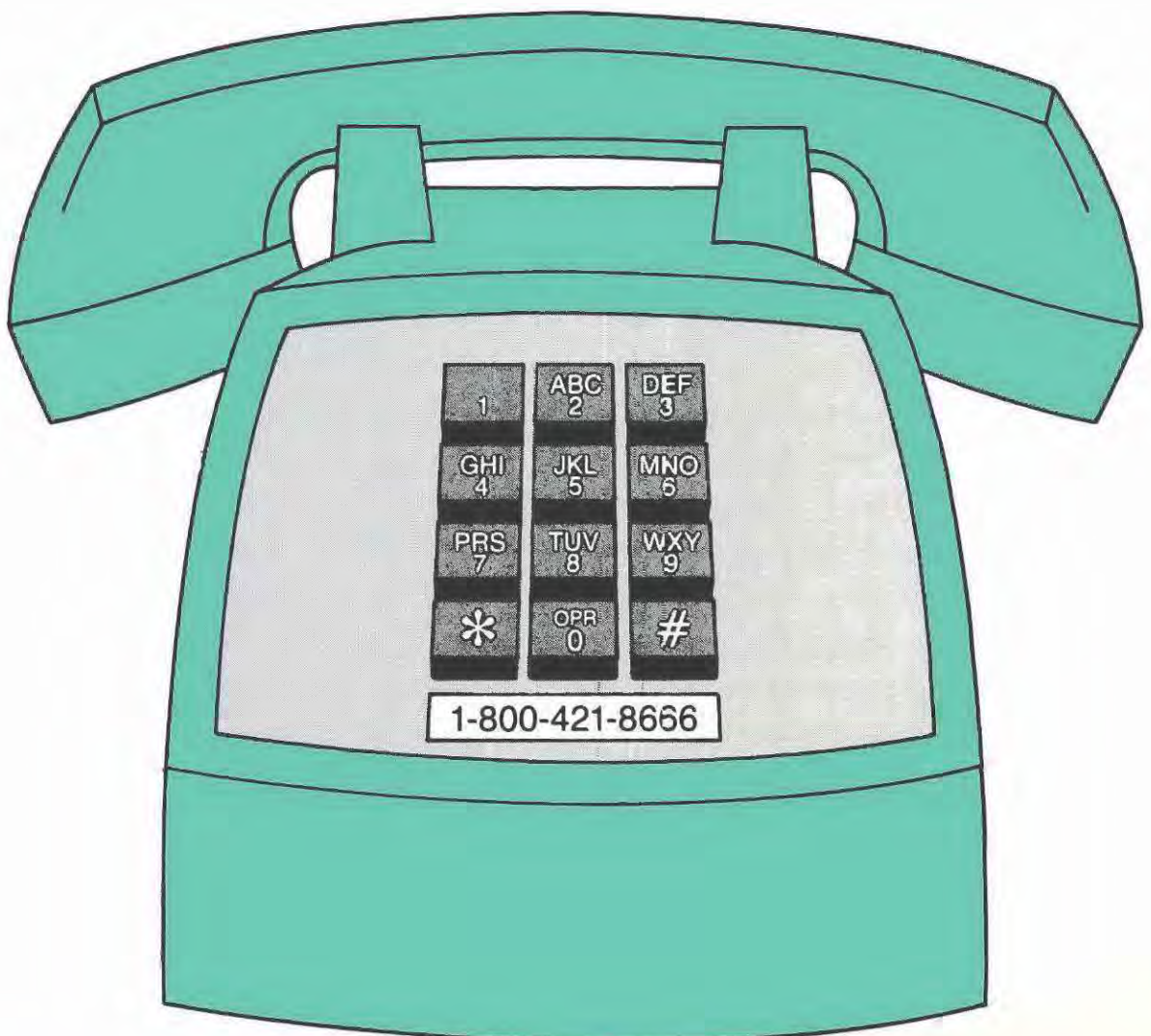
Liberty Mutual Insurance Co., the largest workers compensation insurance underwriter, agrees rates will drop in 1983 but says the decline won't equal the average 5% drop in 1982.

Aetna Life & Casualty Co., on the other hand, expects rates to stay the same or move only slightly downward, and the Hartford Insurance Group says rates will probably remain flat or even increase by a few tenths of a percent.

Wausau Underwriters Insurance
Continued on facing page



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Co. says rates will fluctuate a couple of percentage points up or down depending on the insurer.

The aggregate rate decrease will probably be less than 5%, said INA's Mr. Franklin.

"And that's mainly because with California rates going up an average 15%, that will help offset rate reductions in other states," he said.

California Insurance Commissioner Robert Quinn approved a 15.1% workers compensation rate increase effective Jan. 1 after the state Legislature last year approved \$1 billion in new workers compensation benefits and the workers compensation medical fee schedule was increased.

Regardless of the specific decreases or increases in rates, insurers are going into 1983 knowing the competition will be tough and it won't be a money-making year. Many are pointing the finger at competitive rating.

Five states—Oregon, Kentucky, Rhode Island, Illinois and Michigan—now have competitive rating laws in effect that force insurers to compete on price rather than file rates en masse. And three others—Minnesota, Arkansas and Georgia—have passed laws that will take effect over the next year.

In Kentucky, the first six months of competitive rating have brought workers compensation rates down by as much as 40%. One fourth of the state's 214 commercial work comp insurers are filing rates that discount the previous standard rates 15% to 40% (BI, Jan. 3).

In Oregon, where open rating also began last July 1, employers are saving an average of 8% on workers comp insurance despite an increase in the assessment on employers necessary to fund the insurance department (BI, Sept. 20, 1982).

And, there is a competitive atmosphere in most states, even if they have not passed open rating laws.

"The aura of competitive rating has spread to a lot of states," adds John W. Purkis, vp of underwriting for Liberty Mutual. "And it is resulting in lower rates," he said.

Insurers are filing for downward rate deviations in the majority of states that allow insurers to file for rate reductions despite their rating organization's mass filing.

"In 1983, we'll see most jurisdictions going to open rating or at least filing rate deviations," predicted Mr. Franklin of INA.

In Texas, California and New Jersey—the three states that don't allow insurers to file for deviations from bureau rates—there are plenty of attractive end-of-the-year dividend plans to lure employers.

These lower rates, combined with rising claims costs and lower interest rates that curtail investment income, are sending insurers into 1983 prepared for a lean year.

"There will be no money made in workers compensation in 1983,"

says Liberty Mutual's Mr. Purkis.

Average claims costs are up 12% to 14%, with another 12% to 14% increase expected in 1983.

"We're seeing a reduction in the number of smaller claims," says Mr. Purkis, "but not a reduction in the frequency of larger claims."

"The cost of repairing people is going up, but I think policyholders are taking care of the small claims themselves rather than putting them through the system," he said.

Insurers also have more than used up their investment income earned over the last two years when interest rates were high, he adds. Today's lower interest rates don't hold promise for insurers to continue to earn good returns.

Robert Imse, vp of commercial casualty underwriting for The Hartford Insurance Co., agrees that prospects for 1983 are dim.

The cutting of rates and the low interest rates that are cutting into investment income "could spell

trouble for insurers," he says.

Meanwhile, insurers are hustling to keep present policyholders from joining self-insurance pools.

Insurers say the movement among companies to self-insure has probably ebbed, but they say more and more employers are looking to group workers compensation self-insurance pools in order to make use of their premium money until losses roll in rather than letting an insurer invest it.

Insurers and buyers also are closely watching the courts as they wrangle with the question of employee lawsuits against their employers, despite the exclusive remedy provision in workers compensation statutes.

However, these suits are not affecting rates yet.

"Dual capacity is a hot issue," said Mr. Purkis of Liberty Mutual. "But it's not a meaningful dollar-and-cents problem for us yet."

Under the dual-capacity theory, employees sue employers for work-related injuries charging the employer was acting in another capacity, such as manufacturer of a product, and as such is not protected from lawsuits by state workers compensation laws.

However, in California where dual capacity suits have grown, legislation and courts have clamped down on such claims.

Now, the National Council on Compensation Insurance, the rate-making organization that represents many workers compensation insurers, plans to add coverage for damages awarded in dual capacity suits to the employer liability section of a new standard form. NCCI hopes regulators will approve the new policy by Feb. 1, so it can be in use by Sept. 1 (BI, Dec. 20).

As insurers cut rates this year they also are keeping an eye on workplace safety.

Will the ease with which low rates are applied in this competitive market, coupled with employers' own belt tightening, adversely affect safety programs?

Some insurers seem concerned that employers trying to cut operating costs may place less emphasis on workplace safety.

"Risks are looking to reduce operating costs and an employer's safety director could be in the position of paring safety costs to reduce overall costs," said Mr. Imse.

But, he stressed that safety adherence and a well managed loss control program are the prime methods to controlling exposures.

"If a safety program is cut down, the effect wouldn't show up for a year" because of the lag time in paying workers compensation losses, he added.

Safety is one of those grey areas that is much more difficult for the insurer to handle for the employer, adds Mr. Purkis of Liberty Mutual.

"There are very few unguarded machines left," he said referring to the '50s when insurers first started underwriting with safety in mind. ■

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Surety bond underwriters examining risks very closely

By STEPHEN TARNOFF

When construction companies and contractors go hungry, surety bond underwriters tighten their belts, too. And the tighter the belt, the tighter the underwriting standards.

More than any other product sold by insurers, surety bonds are subject to the capriciousness of the national economy and the construction industry in particular.

Until the national construction industry rebounds or contractors show they can withstand the current economic downturn, surety insurers predict little or no increase in rates or demand in 1983.

But the leading bond underwriters do predict tighter standards to insulate themselves from losses due to contractor failures.

"Right now, the economy is having a devastating effect on the profitability of many contractors," notes Jerome H. Noldin, senior underwriting officer for contract bonds at St. Paul Fire & Marine Insurance Co. in St. Paul, Minn., one of the 10 largest surety bond underwriters.

"We can see a greater increase in the bankruptcies of equipment-intensive contractors."

More than two-thirds of the surety bond market involves insurers underwriting contract bonds that guarantee that contractors will complete their jobs and comply with all requirements on a particular project.

Surety bonds are generally re-

quired by law for local, state and federal government work, which provides much of the construction industry's business.

The remaining one-third of surety underwritings are miscellaneous bonds providing guarantees of non-contract construction obligations, including fiduciary and other legal responsibilities.

Since contract bonds are purchased only when there is construction work available, surety companies, which see themselves as more like bank lenders than insurers, become as knowledgeable as possible about the financial affairs of a contractor's business.

We follow

construction economy, particularly in the non-residential field," explains Jack Murphy, officer in charge of contract surety underwriting at Insurance Co. of North America, another large bond underwriter. "Construction activity is down, and surety companies tend to be more conservative and write more carefully" in adverse economic times, he says.

"We're hoping for a turnaround in the economy, and that many times is led by construction."

Before guaranteeing performance, underwriters review a company's total operations, including financial statements, prior work record, staffing and organization.

They are looking for a contractor's ability to do the job and want to make sure also that the contractor has the financing to complete a

project, says Lloyd Provost, president of the Surety Assn. of America, based in Iselin, N.J. Underwriters are happier when the contractor has a "cushion to carry him over when the unexpected happens," Mr. Provost says.

Surety companies want to protect themselves against losses resulting from strikes, product shortages, plans that go awry and numerous other unanticipated expenses that can cause a contractor to not complete a project, he adds.

In tougher economic times, when surety premium levels are flat or shrinking, insurers make it even more difficult for contractors to obtain bonding unless they can show they are insulated from economic uncertainties.

Insurers are making sure they are underwriting only for well-managed firms, confirms Robert Sener, assistant vp at Hartford Insurance Group. In better financial times, more poorly managed businesses can get by.

Insurers emphasize that the problem is not a lack of capacity. "There's plenty of industry capacity to write contract bonds," says Mr. Sener.

Rates also do not appear to be a problem. While rates do vary among bond underwriters, several of the largest insurers said they had not filed new rates with state insurance departments in the past several years and do not expect to do so in 1983.

Continued on page 34

"Think of it as a four-dimensional object."

Greg Holcomb talks about The Structured Settlements™ Company

Discussing the value of the Structured Settlements™ concept in the resolution of wrongful death and injury claims, Greg Holcomb points out one of the Japanese Netsuke carvings in his collection. "This is an object of great beauty, in terms of its physical dimensions," he notes. "But, much of its value is based on its fourth dimension—the time that went into its creation."

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SPOTLIGHT REPORT**Surety rates stay stable***Continued from page 32*

"We don't file new rates very often," says St. Paul's Mr. Noldin. "The last time was in 1978."

Rates for most contract bonds are about 1% of the contract price, varying somewhat according to the limits needed, according to Mr. Provost.

For example, The Surety Assn. of America, which provides advisory rates to member companies, recommends a base rate of \$12 per \$1,000 of contract value up to the first \$500,000. At that level, the rate drops to \$7.50 per \$1,000 of contract value for the next \$2 million.

"For the most part companies are making downward deviations" of the recommended rate, Mr. Provost says, although some companies may charge more.

Underwriters point out, however, that construction project costs are rising because of inflation, and while the same rate will be applicable, higher values may result in a contractor paying more dollars in premium to the insurer than in past years.

Insurers tend to see the premium generated by the rate as a service fee rather than as a vehicle to cover expected losses. And unlike underwriting for other insurance lines, insurers do not underwrite with the expectation of losses.

"Surety companies only write business they feel that a contractor can do," Mr. Provost adds. "An underwriter does not knowingly bond any company he knows will have difficulty. It is his job to weed them out."

The availability of credit is more important than rates to contractors, Mr. Provost believes. "Basically, not too many contractors move their policies because of rates."

Insurers are also selling service and professionalism, surety bond companies claim, and contractors tending to stay with the same company for many years.

Since United States Fidelity & Guaranty Co., for example, doesn't charge the lowest price, it has to make it up in service, capacity and "consistent application of conservative underwriting standards," says John Huss, USF&G's vp for fidelity and surety.

As can be expected, the tough economic times have been reflected in the premium volume of the various underwriters in the market.

"Pretty flat," says Mr. Provost, describing expected premium volume for 1982. "But, surprisingly, companies are not crying like they did during the mid-1970s."

He attributes that to underwriting being in "pretty good shape" with insurers making more conservative judgments and some changes in premium flow.

Private property owners are requiring more bonds than they did before and more contractors are requiring subcontractors to be bonded, he notes.

"That's probably taken up some of the slack," Mr. Provost says.

Individual insurers aren't enthusiastic about 1982 premium results either, and they don't expect business to change much in the coming year.

Much will hinge on the state of the construction industry—whether there is more work and whether losses can be held down.

"I'm guarded in my view of 1983," says Mr. Noldin of St. Paul. "If you're careful, you can still make money."

Mr. Sener at Hartford agrees: "1983 is a tough year to call." But, he adds, that since the surety bond market generally trails the economy, 1983 and 1984 could be poor-loss years for the industry. ■

Fidelity bond rates to remain cheapBy **STEPHEN TARNOFF**

A competitive fidelity bond market characterized by discount prices probably won't change very much in 1983, insurers almost unanimously agree.

Competition will remain intense and prices low, especially for financial institution bonds including bankers blanket bonds and similar employee-dishonesty coverages for stockbrokers and thrift institutions.

Commercial or mercantile bonds, which provide the same coverage to other businesses, are subject to less competition but are will also remain cheap, insurers say, though at least one insurer plans hikes.

"It's a buyers market now and probably will be so for a while," explains Frank LeMunyon, vp for fidelity of the Surety Assn. of America, the industry trade organization. "Competition has driven prices down to ridiculous levels. I

don't know how long it will be until they (insurers) get religion."

The Surety Assn., which publishes advisory rate tables for bond underwriters, last changed them in December 1978.

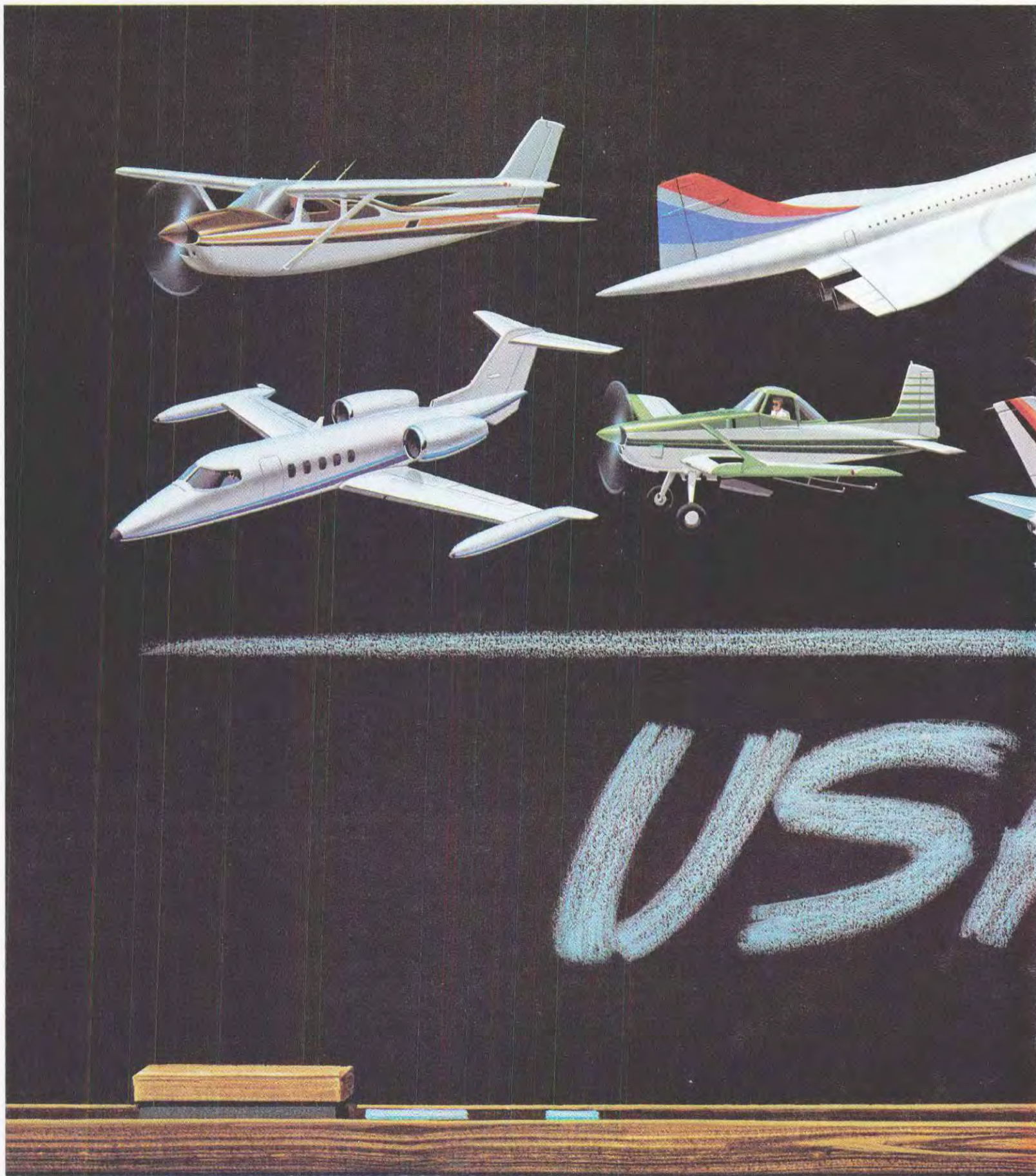
According to those rates, a commercial bank with 25 employees buying a \$20,000 bond should pay a premium of about \$2,000, plus \$2C9 for every branch office.

A smaller institution, with five or fewer employees, would be

charged about \$722.

But insurers point out that subjective underwriting factors also determine how much a bank will pay and discounts are common.

While rates are generally based on type of risk, number of employees and amount of coverage sought, an insurer will also look at a bank's internal controls, its management personnel, audit results and prior loss experience.

Continued on facing page**The not-so-common**

Continued from facing page

Good loss experience could cut costs greatly, underwriters say.

"Financial institution bonds are where the real competition is," notes Allen Stendahl, regional underwriting manager for St. Paul Fire & Marine Insurance Co. in St. Paul, Minn.

Six months ago, he would have predicted that, by now, the market would be tighter and coverage more restrictive, Mr. Stendahl says. But the market has not tightened despite poor underwriting results.

"I see a continued very soft market, with extreme competition," he

adds. "The market will continue to be readily available, especially for banks."

One reason for increased price competition is the growth in markets writing the coverage, several insurers said.

Traditionally, only six to 10 insurers were willing to write bankers blanket bonds, Mr. Stendahl says, but since the last rate changes, "a number of new players entered."

The newer underwriters, including underwriting manager Shand, Morahan & Co. Inc. in Evanston, Ill., and MGIC Group in Milwau-

kee, have stimulated competition. The veteran insurers admit that they have used aggressive pricing tactics to try to hold market share.

"It's war out there," agrees Joseph Kiernan, assistant vp in the bond department of Aetna Casualty & Surety Co. in Hartford. "There are no signs right now to suggest that an increase is imminent or likely in the next 12 months," he says.

The fidelity bond business is generally following insurance industry-wide competition, he adds.

"If the industry in general becomes disenchanted with pricing in

the marketplace, a change will also influence financial institutions and commercial fidelity.

"But if the insurance industry continues to participate in cash-flow underwriting in 1983, I see no reason that the fidelity industry will respond any differently."

Another large bond underwriter believes financial institution bond prices may stiffen by mid-year.

"I think there will be change," says James Wyllie, officer in charge of crime underwriting at Insurance Co. of North America. "But it won't be in the early part of the year."

Underwriters may also want to increase rates for thrift institutions whose operations and risks are beginning to parallel commercial banks, Mr. Wyllie adds.

Most insurers fear that sustained competition could have a long-term effect on coverage availability. If prices remain low and poor underwriting results continue, there is the fear that the coverage crisis of the mid-1970s could reoccur, says Mr. Stendahl of St. Paul.

At that time, some insurers discontinued writing some lines of insurance, the market shrank, coverage became more restrictive and rates went up.

In such a situation, banks would find it difficult to get coverage, he says.

Mr. LeMunyon of the Surety Assn. says that several developments are needed before prices will rise. Financial institutions would have to sustain major catastrophic losses, interest rates would have to shrink still further and reinsurers must become more restrictive.

As long as capacity in the reinsurance market is readily available there will be a low price in the direct bond market, agrees Mr. Stendahl of St. Paul. If reinsurers are burned and substantially increase rates or become more restrictive, the fidelity bond business would have to change, too.

Mr. Wyllie says losses are growing and prices will change when enough insurers are hurt by losses to make the necessary changes.

While there have been a "pretty fair number" of six- and low-seven figure losses, a lot will depend on how insurers react to those loss records, he says.

"I think 1982 will be a bloodbath," for the industry, remarks Mr. Kiernan of Aetna. Some major losses may not have been reserved in 1981 and will show up in 1982 results, he suspects.

Financial institution insurers don't foresee expansion of coverage in the coming year, though they anticipate a continuing demand for coverage of losses resulting from computer theft, fraud, errors and omissions and other perils.

Lloyd's of London, Shand Morahan, St. Paul and Aetna are among the insurers that offer riders or separate policies that cover a variety of potential losses from computer operations.

Mr. LeMunyon sees a "broadening of that type of coverage" and Mr. Stendahl of St. Paul says those not offering the coverage will play catch-up in 1983. But "we won't see any significant coverages developed," he adds.

"I don't see any substantial change for commercial banks," adds Mr. Kiernan of Aetna.

"There will be no major changes of basic coverages," agrees Mr. Wyllie of INA, although there "will be some tinkering with the bond, particularly as thrifts get involved with commercial banking."

Insurers also generally agree that commercial fidelity or non-financial institution bonds also will stay cheap.

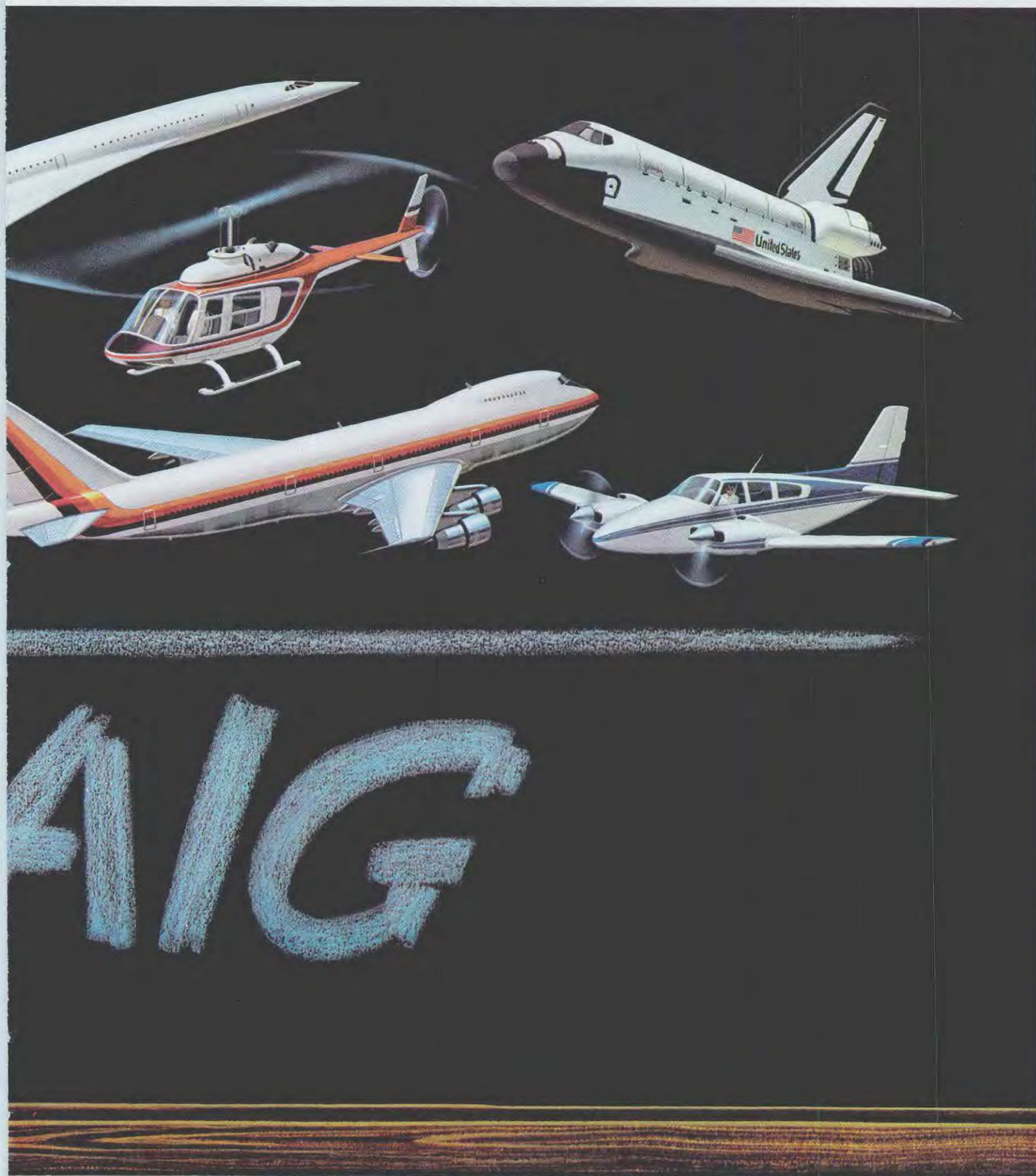
"It's a very, very soft market," said Robert Sener, assistant vp in the bond department at Hartford Insurance Group. "We see no hardening of business in 1983."

Commercial bonds produce a greater spread of risk than in financial institutions coverage and therefore less risk to insurers, he adds.

One insurer disagrees.

"It's pretty soft," says Robert Lynyak, vp for Federal Insurance Co., part of the Chubb Group. "I think a lot of risk managers understand that and will be prepared to pay more in 1983."

In 1983, Chubb intends to increase rates, Mr. Lynyak said, though he wouldn't say how much. However, the company is prepared for a possible reduction in its market share, he says. ■




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PREDICTING THE FUTURE

Some prognosticating
by a risk manager
on what may



or may not happen
during the new year
in the insurance industry

SPEAKING OUT

By Spencer J. Traver

AT THIS TIME of the year, it is customary to predict the prospects for the year ahead. It's a dangerous pastime because it is seldom accurate. The few successful forecasters point proudly and loudly to a few great successes of the past. They survive with their readers because most readers throw the predictions away, thus forgetting the mistakes. Or, the readers get caught up in increasingly complex individual "microeco" systems and never bother to measure the forecasters' success ratios.

Please do these things for me also, because I am going to predict how the 1983 insurance market will respond to the risk manager. In addition, with the help of my crystal ball, we will share a look at 1984 and beyond.

Lastly, I will attempt to array the risk management strategies that might be effective if the predictions come close to the mark.

The 1983 market

- During the first three quarters of the year, rate reductions will slow to a crawl, but not stop.

The fall of interest rates, toward the 7% to 7.5% range, is the reason. Underwriters will watch this phenomenon carefully, but are not likely to adjust rates at the risk of losing premium volume to someone else.

Millions of dollars of capital have poured into the underwriting business since 1975, chasing the remarkable rates of return on net worth that reached almost 20% in 1977 and 1978. This capital is expected to remain invested in insurance until better opportunities appear elsewhere to draw some of this capital away. The venture money will leave for other investment opportunities when losses in the aggregate cancel out the investment income.

Unfortunately, up to 15% of insurance capital may also leave via out-and-out bankruptcies. These investment changes will take longer than one year because aggregate losses are falling slowly. We can look forward to this in 1984 or 1985.

For the survivors, the insurance industry is likely to remain severely depressed for two or three years. There is

little likelihood that this scenario will change because reinsurers are also rich with excess capital. They won't raise reinsurance rates, with the exception of the one-year blip described in our next prediction.

- During the last quarter of the year, reinsurance rates will increase dramatically by 20% to 40%.

This development will put the primary underwriters in a Catch-22 situation. Primary underwriter A will not pass along this increase to any great extent because of competition from underwriters B and C. This additional pressure on income will push a lot of primary insurers to the wall.

Only the smart, the strong and the lucky will be able to weather this 1983 storm. It could get a lot worse if Mother Nature lays on a few hurricanes or earthquakes, and the possibilities are likely.

A major scandal that will unfold in the reinsurance community will be the center of the storm. The scandal will rock the industry to its foundations. Reinsurance contracts will flee to the United States, Switzerland, Germany, Singapore and Hong Kong. This rush of demand will raise rates everywhere.

The minor scandals you read about in 1982 will pale into insignificance as investigations reveal the scope of the problem. Disillusioned capitalists associated with the marketplace involved will attempt to withdraw by the hundreds.

Here are a few miscellaneous predictions for 1983:

- Private passenger auto rates will increase about 5%.
- Homeowners rates will decline another 5%.
- Light-occupancy property rates for institutions will decline another 10%.
- Highly protected risks rates will decline about 5% for lower hazard properties.
- Commercial multiperil rates will not change (they are already too thin).
- Difference-in-conditions rates, professional liability and crime rates will increase 12%.
- A major brokerage firm will make the headlines involving inappropriate

accounting practices.

- Aircraft and aircraft product rates will increase 15%.

- Competition will heat up for unbundled services.

- Underwriters will be forced by regulation to disclose generally accepted accounting practice results in addition to statutory results.

- Reinsurance stock prices will climb as primary property/casualty stock prices fall.

- A visitor will spill coffee on your desk.

- Umbrella and general liability rates will decline about 10%.

1983 risk management strategies

- Avoid placing business with underwriters with Best's ratings below A (X).

- Pay careful attention to which underwriters are reinsuring excess layers of liability and property.

- Negotiate for broader terms and conditions instead of price on each and every policy. Take the time to review every sentence. Price shopping toward year end may be hazardous to your health or security.

- Avoid placing business with underwriters that reinsure heavily.

- Replace underwriters with combined ratios exceeding 118% as quickly as possible.

- Unbundle claims, computer and engineering services. What are the bundled services costing now? Can you get superior service at lower cost?

- Talk to fellow risk managers as often as possible to share ideas, experiences and warnings. Go to Risk & Insurance Management Society meetings. That's a priority for the next three years.

- Write down every risk management objective and insist that your agent or broker help you accomplish them all. Brokers are great, but they are not mind readers.

- Explore the feasibility of forming a captive or joining a captive pool. You'll need it in 1984.

- Redouble all your efforts to communicate with your management at all levels to earn their respect and support. This is no time for risk managers to join the unemployment lines.

- Prepare a running log of every liability policy, term insurer, limits, etc., going back at least 20 years. You'll probably need it in the days ahead as we cope with environmental impairment claims, occupational and non-occupational diseases.

- Write to Tom Hallett, Frank B. Hall & Co., 549 Pleasantville Road, Briarcliff Manor, N.Y. 10510, for a copy of "50 Rules of Risk Management." A lot of risk managers contributed to this document. Don't forget to send a self-addressed envelope and \$1. Brokers are having a rough year too.

Conclusion

I can't say it better than did George Doty, senior vp of Armco Insurance Group, in the December 1982 issue of Best's Review.

"... Cash flow underwriting is not primarily the result of higher interest rates. Rather, it reflects the most severe economic contraction the world has seen since the Great Depression of the 1930s. Our industry is being particularly hard hit because, in addition to the general economic forces that affect all industries, we are experiencing rapidly growing capacity at a time when a virtual revolution is sweeping the financial services industry.

"As a result, a mere decline in interest rates will not relieve the pressures we see around us. These pressures will not be reversed until a great deal of capacity in our industry, both actual and potential, has been eliminated. To be a survivor, bold managerial innovation, rather than traditional reaction, is required. Innovation must be applied to products and services, to methods of production and distribution and to methods of organization."

Let's heed his words and work smarter in 1983. Risk managers will survive. I wish you all a happy and prosperous New Year.

Spencer J. Traver is assistant treasurer at The BFGoodrich Co. in Akron, Ohio.



Reinsurance's publicity problems

By James D. Koehnen

How a whole industry suffers from a few bad examples

SPEAKING OUT

IN THE PAST year or so, many insurance articles have been devoted to the subject of reinsurance and the purported lack of regulation that controls this segment of the insurance industry.

The implication is that this supposed lack of regulation has led to scams and resulting financial injury to a number of entities, including primary insurance company insolvencies here in the United States.

There are loud cries for reform that will undoubtedly lead to additional rules and regulations for the reinsurance industry. The unfortunate beneficiary of these actions will be the licensed reinsurance industry. This is akin to the minister berating the congregation for not attending church services—only those in attendance get blasted.

Most of the authors, or orators, on the subject refer to reinsurance as an unregulated industry, which gives a false impression. The licensed reinsurers must file financial statements with state insurance departments on the same form used by insurance companies. Licensed reinsurance companies are subject to state insurance department examinations, again on the same format that applies to insurance companies. All of this suggests that licensed reinsurers keep their records

of premiums and losses in very recognizable forms for any follow-up required by the regulators.

My comments up to this point deal with the licensed reinsurance markets which, from all that I have read or heard on this subject, are in no way the transgressors or the villains. By definition, the problem lies with the non-licensed reinsurance markets because there is, indeed, a problem.

The licensed reinsurance markets are as eager as the regulators in seeking a solution to the rip-offs being committed in the name of reinsurance. My worry is that the regulators, in their zeal to find a solution, will heap additional burdens on the licensed reinsurers in the form of rules, regulations and reporting requirements which in no way will touch the unlicensed markets.

The unlicensed reinsurer's share of the United States market is significant and they should not be precluded from doing business in this country. Yet, since it is

difficult for the regulators to develop meaningful financial information on most of these companies, substantial problems develop. In view of the lack of information and the inability of U.S. authorities to get their hands on assets when a problem arises, something must be done.

Fortunately, the mechanisms are already in place. Practically all states limit credit for reinsurance to those reinsurers who are licensed in at least one state or to those unlicensed reinsurers who provide letters of credit or funds to be withheld in amounts equal to the credit being taken by the ceding insurance companies.

In my view, the greatest deficiency in controlling reinsurance lies in the area of surveillance and enforcement. The rules, regulations and reporting requirements are in place for licensed reinsurers, and letters of credit and withholding of funds would provide protection in the case of non-licensed reinsurers.

The insurance departments of the states must utilize all of the information currently available and must follow through with enforcement. Until existing rules are enforced, the addition of new regulations and reporting requirements will do no good.

Those individuals who are dedicated to taking advantage of a business built on trust will not be deterred by more rules or laws because they do not comply with the existing laws. For example, we have laws against theft or mail fraud, but we still have crooks.

There is no doubt that better-equipped personnel in terms of reinsurance knowledge are needed to control as much as possible the misuse of the product.

We fervently hope the National Assn. of Insurance Commissioners or the individual state commissioners will not heap additional administrative burdens on those reinsurers who are complying with the law. Remember, they are sitting in church listening to the sermon.

James D. Koehnen is president of American Re-Insurance Co. in New York.



Entrepreneurs will weather economic storms

By Warren T. Cunningham

IT IS IRONIC that to compete successfully in today's highly specialized, technically advanced insurance market, we must rely on the hero of a simpler time—the entrepreneur. Yet, only the brave and creative entrepreneur can survive in today's economic storms.

The United States is in transition from an industrial era to an age of information technology. We are seeing the demise of some of our great institutions and established industries. At the same time, there is emerging a fiesty new breed of freethinkers who refuse to be confined by tradition.

The winner today will be the one who recognizes, identifies and capitalizes on opportunities that have scared off most people for a long time.

Look how many companies have taken long-distance phone business away from Ma Bell. And who would have dreamed a couple of firms would come in and take away a third of the most profitable part of the postal service?

If monopolies are suffering competitive attacks, just imagine what's in store for our industry. Insurance is vulnerable to threats from financial entrepreneurs of all types; some are members of our own industry. Companies as different as Sears, Roebuck & Co., Merrill Lynch and Prudential Insurance Co. of America have realized insurance is one part of a total investment decision that includes real estate, savings, equities, securities and more.

Huge companies like these are supposed to be inert under the weight of the status quo. Yet these companies have struck out in new directions. Their corporate entrepreneurs have led the way.

Large corporate structures are an impediment to freethinking. When you become immersed in a large, highly structured organization, the walls start building. Individuality and entrepreneurship are stifled. This has been and will continue to be the most dangerous threat to our industry's health. A lack of encouragement for new ideas and new approaches will keep us from being able to exploit new market niches and profit pockets.

Insurance companies long ago lost their respect for the individual, the singular, the unique case. One of our biggest faults is the propensity to deal with everything in terms of averages. Dealing with large corporate risk accounts has led us to realize that an individual account is not an average, but an important account!

Individual attention is important to consumers as well as to corporate customers. We in the insurance industry have done a very poor job of packaging our product, of letting our insureds know we have thought about them individually. They don't know us and, as a result, we can't rely on their "brand loyalty."

Perhaps the answer lies in harnessing computer technology that has made us more efficient and using it in new ways to make us more human.

Insurance companies might create centers equipped with computer terminals where insureds could come in, access their own files and make some of their own comparisons. Clients would type their names into the computer and be greeted with information on themselves and their families, coverages already held and so forth. This would show them they really do have a significant place in our companies.

High technology can also be harnessed to make relationships with employees more human. With the aid of computers, managers will be able to much more efficiently keep track of individual employees, their vacation schedules, flexible time, compensation and personal productivity. Allowances can be made for idiosyncracies. A "menu" of rewards can be offered that will motivate even the most intractable employee. Such fine-tuned performance and compensation monitoring will enable managers to be responsible for larger groups of people.

This, in turn, will change the pyramid-shaped organizational chart to a shallower, more horizontal structure. This is a corporate structure the Japanese have exploited with great success.

Giving employees greater access to top management would help create an environment in which bright, creative thinkers are free to use their talents and energy in non-traditional ways. It would help keep your would-be entrepreneurs from being boxed in by known precepts.

A healthy pragmatism and

self-interest leads workers today to ask, "What's in it for me?" More than increased leisure time, workers want meaningful jobs. They need to participate in decisions that affect them.

Participation doesn't mean laissez-faire chaos or an abdication of your role as a leader. It means involving people from the grass roots up in decisions that affect their jobs and about which they know the most. After all, who knows best how to save time and money in your job? You or the chairman of the board?

While insurance companies have made some progress in the area of people productivity, manufacturing has led the way because of necessity born of recession. Now it's time for insurance to follow the lead.

This is not an easy thing to do. Insurance companies tend to luxuriate in the status quo, taking a parochial rather than a world view. State-regulated security lulls us into complacency. It undermines our productivity and profitability. The only cure for this is change.

The traditional thinker can come up with a hundred reasons why an idea won't work. But only the entrepreneur will come up with an original idea.

Warren T. Cunningham is president and chief executive officer of Armco Special Risks in Dallas.



London insurers attempting to hike rates, alter policies

By STACY SHAPIRO

LONDON—Underwriters, both at Lloyd's of London and at the large British insurers, are trying to increase rates and change the wording of some casualty insurance policies to battle the river of red ink staining their ledgers.

Raising rates and changing policy forms are about the only tools underwriters have left to reverse the huge underwriting loss of the past several years, sources in the market say.

"There is so much blood in the market, it had to happen," said John Clements, managing director-non-marine for Lloyd's broker Jardine Glanville Ltd. "I used to be despondent that the insurance market would never change...that it would always be soft. But, I am not sure now because there is so much red ink around."

Underwriters tried to increase casualty insurance rates during last month's renewal negotiations, but met with mixed success.

For example, underwriters tried to raise umbrella rates 10% during the renewals, but were often unsuccessful. However, most umbrella rates stayed on par with last year's rates, something that has not happened in the past several years.

Underwriters of reinsurance fared better. They generally received increases of up to 15% on casualty reinsurance treaties, said a leading non-marine Lloyd's underwriter, and that could push up liability insurance rates later in the year.

"It is the first time in several years that we have asked for these kinds of treaty increases and received them," he said. "With reinsurance rates going up, I think you will see casualty insurance rates go up by the middle of next year."

"We feel it is absolutely necessary for pricing to go up," said Peter Wilson, managing director of H.S. Weavers (Underwriting) Agencies Ltd. "The underwriting book of umbrella business is about 25% underpriced and so we are trying to achieve an increase."

"The casualty umbrella business is just beginning to harden," said Brian Hibbert, deputy managing director of C.T. Bowring & Co. (Insurance) Ltd.

A policyholder, however, can still bargain for reduced umbrella rates if loss history is good, market sources say.

"We cannot just say that we want a rate increase and get it," said Mr. Wilson. "We have to look at the experience."

Buyers can also bargain for reduced premiums if their risks have been cut by the closing of factories or employee layoffs.

"But to say that your revenues have gone down and you want a rate reduction...is not good enough," said Mr. Wilson. "Even with good business, we are trying to persuade them (buyers) to increase their rates slightly to cope with the effect of future losses because we know that costs of settling claims will be bigger in the future."

Insurance buyers can also work with London underwriters, with the help of American and British brokers, to design the type of umbrella package their company needs, sources here say.

"There are far more sophisticated buyers with far more specific demands than before and I welcome it," said Mr. Hibbert.

Since rates have not risen very dramatically, Mr. Wilson said the some buyers are still increasing the amount of coverage they buy. For example, risk managers for large

U.S. companies are asking London underwriters to increase umbrella limits by \$50 million to \$100 million above the \$300 million or so they may already carry, he said.

U.S. buyers also tap the London market to buy liability coverage that they can buy nowhere else but Lloyd's.

For example, some Lloyd's underwriters are still writing asbestos risks at a time when no other insurer will touch them. Other syndicates are now writing coverage for products extortion and products impairment in light of the recent Tylenol tragedies (BI, Oct. 11).

Bowring's Mr. Hibbert said that despite possible rate increases,

London underwriters are also putting together new and different coverages and packages.

He cites Kaiser Cement Corp.'s recent purchase of \$50 million of retroactive excess liability coverage following an estimated \$75 million in claims received after the company sold a faulty batch of limestone rock (BI, Dec. 13, 1982). Bowring, through Reed Stenhouse Inc. in San Francisco, placed the retroactive coverage, Mr. Hibbert confirmed.

"Our coverage does not include this (limestone) claim, however," said Mr. Hibbert, explaining that Oakland, Calif.,-based Kaiser pur-

Continued on page 44

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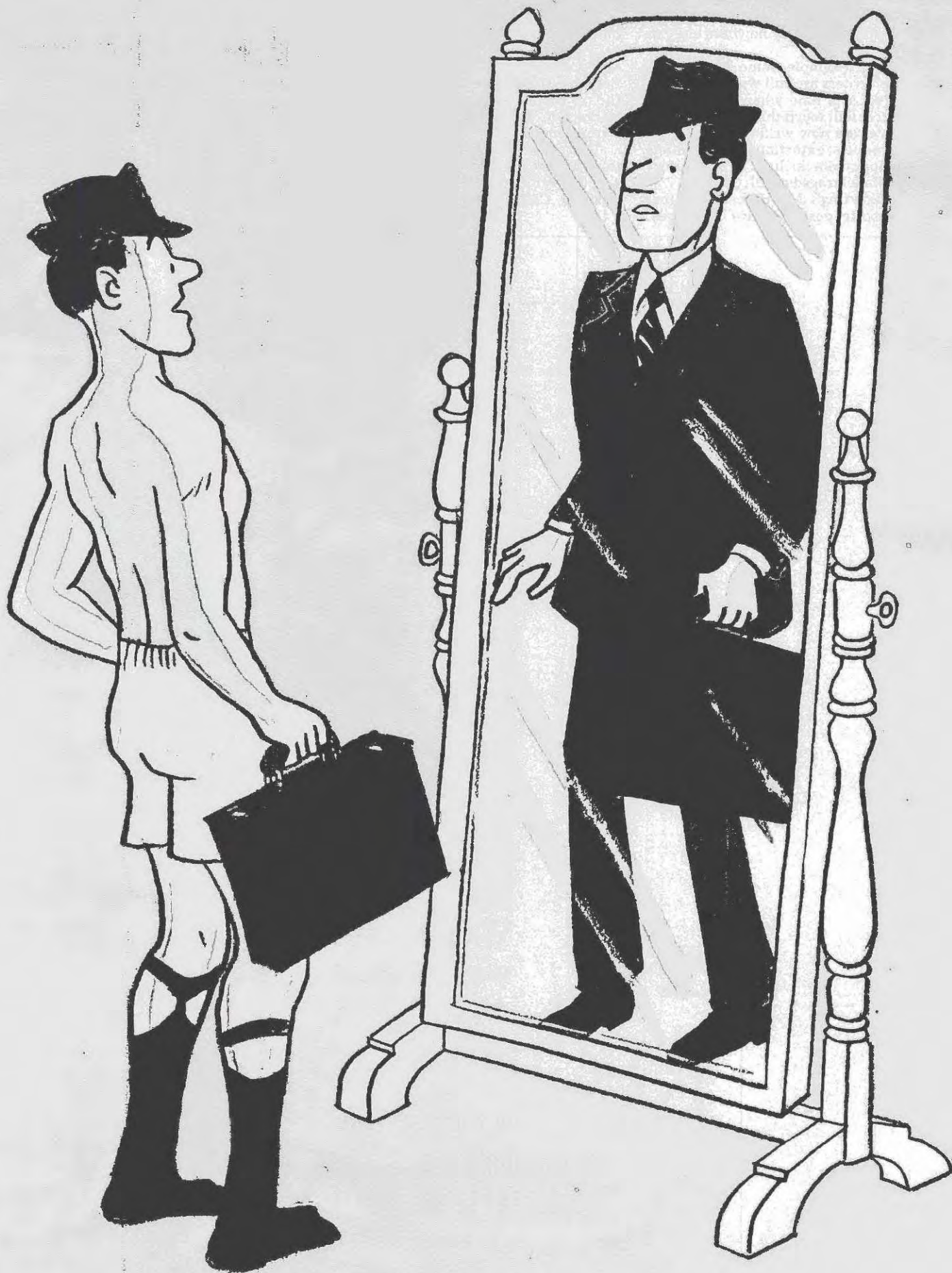
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The climate of economic stress has brought about aggressive competition within the insurance industry, resulting in the cost of premium becoming the prime consideration for many companies when buying coverage. As a consequence, more policies are being prepared and hastily written without attention to the basic essentials of underwriting. Ambiguous wordings are being used more frequently; intricate terminology is glossed over. Then, when a claim is presented to an insurance company, these obscurities raise the question of applicability—because the exact coverage intended is obscured to the purchaser, the broker and the insurance company.

When a policyholder feels his claim should be honored and the insurance company feels it has cause to deny it, the only recourse remaining may be litigation. As a result, there has been a substantial increase in coverage disputes and many insured corporations are now discovering the potential costs and hazards of such suits: the larger the claim, the more likely the chance of denial.

- Coverage disputes should be litigated by those few attorneys who specialize in this area of law, since effective litigation requires a keen understanding of the procedures and intricacies. In preparing a coverage dispute case, the bulk of the funds expended by the plaintiff will undoubtedly be during the discovery period or the first six months in which the insured is preparing his case. This is not a one-time corporate expense. These costs must be understood and looked at as the loss of the use of corporate cash flow monies.
- A coverage dispute trial could drag on for years since constant postponement is a key defense maneuver. The monies the insured is using for legal expenses now becomes tied up for years. This is far more expensive than it appears. The insured has lost his money for investment purposes. The insured may have to borrow money to meet the obligations of the unpaid claim. Now a large indebtedness has to be contended with. Compute these factors over four or five years and you begin to understand how unproductively spent money has a very high replacement cost that could approach the value of the claim.

- If, under these conditions, the insured compromises his position, the legal fees already spent are lost and the cash flow problems have compounded the cost, and the insured now must meet the cost of the claim itself—with depleted corporate funds or expensive borrowed dollars. The total cost of a coverage dispute could greatly exceed the claim in question.
- If the company is successful, in their claim and does recover, as part of its judgment, the legal fees expended in pursuing the claim, the company has, in the loss of the use of monies over the years, could have lost almost as much as it has been able to recover. This, then, is not effectively putting the insured in the position he should have been in. While the insured may have been successful in collecting his claim, plus his legal fees, he still may, in reality, be in a loss position.

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Example: CORPORATION SELECTS ATTORNEY

Legal fees total	\$1,000,000
*Deductible	100,000
20% corporate participation	180,000
(20% × \$900,000)	
Total cost assumed by insured	280,000
Total cost assumed by PIA	\$ 720,000

*Deductible based upon corporate insurance budget.

OPTION 2

The insured may request the underwriters to select legal counsel. If the underwriters agree, they will reduce the deductible by 50% and waive the corporate participation in its entirety, absorb all legal expenses up to the ceiling of \$5 million annually on an unlimited number of cases. The policy is *non-cancellable* by the underwriters except for non-payment of the premium.

Example: CORPORATION USES PIA'S ATTORNEY

Legal fees total	\$1,000,000
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London insurers hoping to alter policy forms

Continued from page 41

chased the extra coverage to pay any claims it might incur other than from the faulty material.

Mr. Hibbert said that other companies in similar situations are tapping the expertise of London brokers and underwriters to place policies like Kaiser's.

"They ask, 'What can you do for us? This claim will wipe out our aggregate limits, so will you help us pay for whatever other claims that are left over?' We have had half a dozen inquiries like that."

London brokers and underwriters are also trying to clarify the confusing language now contained in many umbrella policies. They specifically want to settle the question of liability for long-latent disease claims, like asbestosis:

Should the insurer on the risk when a worker is exposed to the substance pay the claims, or should they be paid by the insurer on the risk when the illness appears?

"There has been pressure for a number of years to clarify the forms and we have encouraged that," said Mr. Hibbert.

Brokers and underwriters are discussing writing all umbrellas on a standard claims-made form, but no decision has been made.

"There have been a lot of ideas floating around so far, but very little change has been made," said Mr. Hibbert. If someone suggests a proposed policy wording, someone else finds another loophole, he said.

Some Lloyd's underwriters last year tried to put a clause in umbrella policies that would exclude

coverage for long-latent diseases and long-term liability problems, but very few such policies have been written and most underwriters, including Mr. Wilson, are opposed to the idea.

Mr. Wilson favors introduction of a claims-notification form, which he says is different from a claims-made form. The notification form, which is slowly being implemented by his agency, H.S. Weavers, for pollution liability coverage, says that all claims from one occurrence will be paid by the insurer on the risk when the first claim is reported. All subsequent claims would be paid by this insurer, no matter when they are filed.

This is different from a claims-made form, he said, because a claims-made form only pays for

claims filed during a policy term.

Efforts to change the policy form could meet with buyer resistance, as they have in the United States. The Insurance Services Office recently dropped its proposal to offer "first discovery" as a coverage trigger in a new comprehensive general liability policy (BI, Jan. 3).

The London market is trying to solve the problems surrounding long-latent disease coverage even though it has not yet been hit by a large amount of asbestosis claims.

But underwriters say they are ready to pay the flood of asbestos claims when they finally hit the market. They have set up an informal party to examine the asbestos problem and to collate court material. Lloyd's underwriters have also put aside about \$20 million in

reserves from the already-closed 1979 policy year to pay asbestos losses (BI, Aug. 20, 1981).

But any changes in rates and policy wordings that Lloyd's and other London underwriters make may not have as great an influence on other casualty insurance markets as they once would, brokers add. U.S. insurers, offering reduced rates and broader terms, have managed to capture a large portion of the U.S. liability risks that once were underwritten in London.

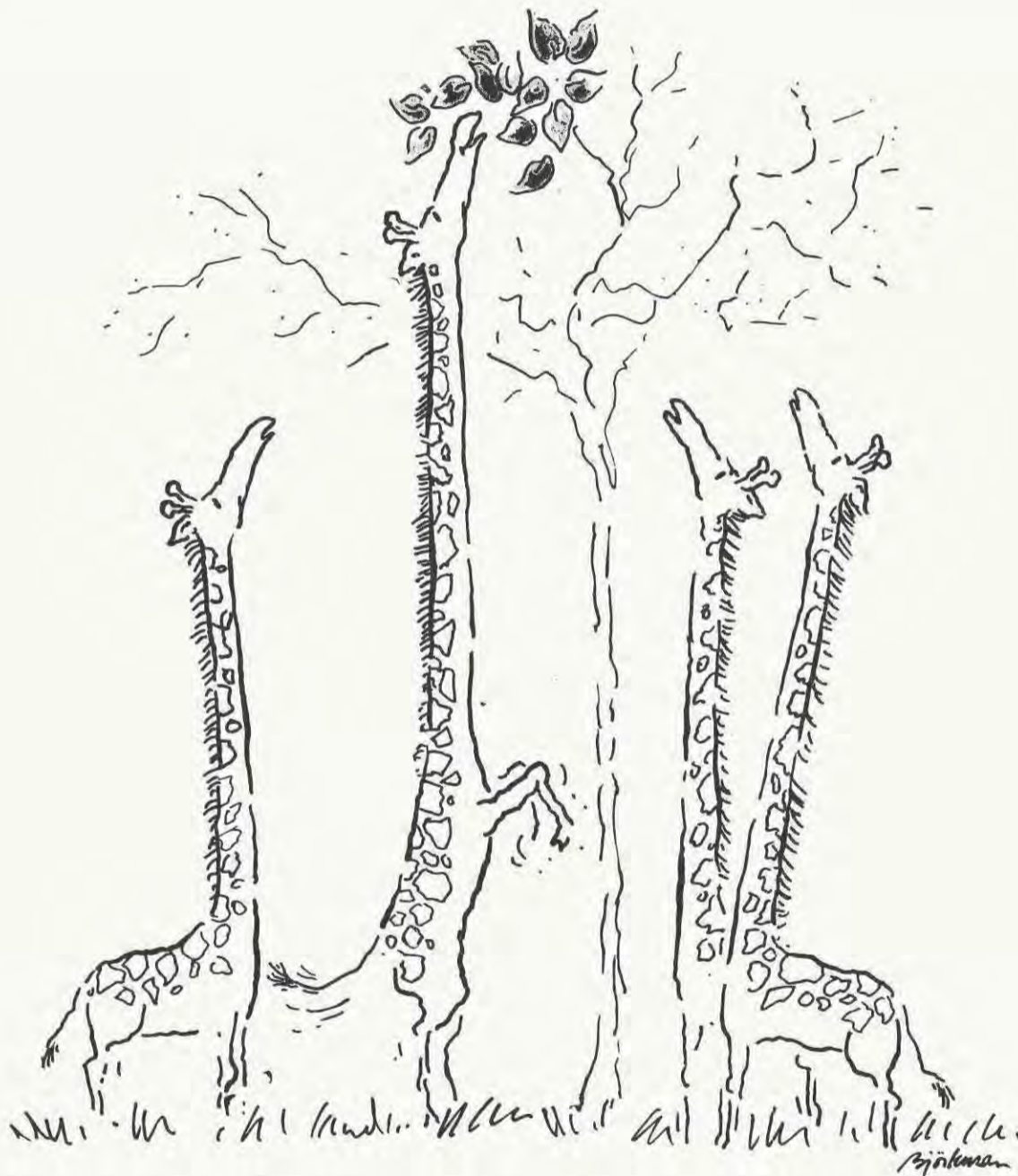
"Casualty umbrella-type business doesn't come here as much anymore," said Mr. Clements. "Three or four years ago, we had five or six major household names we insured here. Now, we do not have one because the local U.S. market writes at half the price."

Some say that buyers may also be wary of placing risks with the London market in light of the scandals of the past year, though others point out the no policyholder has been affected by the allegations and that Lloyd's and the British government are proposing new rules to end the problems (see story, page 45).

"Everywhere you go, people are talking about what happened here," said Alec Shaw, chairman of Reed Stenhouse (U.K.) Ltd. "Lloyd's is a bit quieter and some people perhaps are holding back from coming here."

"It's a shame that these scandals happened when they did," said one Lloyd's broker. "Just at the time when the market is hardening and business should be coming back to Lloyd's, Lloyd's gets bad press."

Mr. Wilson, though, says that all his Fortune 500 accounts will return to London upon renewal. And Bowring's Mr. Hibbert believes that some new accounts may be coming into the market, "but it is not a tidal wave."



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U.K. government, Lloyd's increase insurer regulation

By STACY SHAPIRO

LONDON—Regulators are clamping down on the way insurance and reinsurance business is conducted in Great Britain:

- The Department of Trade is now requiring that all insurance companies file more detailed information about their reinsurance arrangements. The department's regulations may spread to reinsurers soon.

- The new Council of Lloyd's, which took control of the marketplace last week, will seek more detailed information about the transactions of Lloyd's syndicates, its underwriters and employees.

- The government's top financial officer, Chancellor of the Exchequer Geoffrey Howe, wants to tax offshore companies with British parents, including captive insurance companies and offshore reinsurance subsidiaries.

All of these new regulations are being proposed at a time when the British insurance industry is trying to withstand its worst scandals in 100 years.

The troubles began when Alexander Howden Group P.L.C. and its U.S. parent, Alexander & Alexander Services Inc., sued five former Howden directors for allegedly misappropriating \$56 million of Howden assets for their personal benefit. Much of the money, Howden charges, was ceded to reinsurance companies that the ex-directors secretly controlled.

Several months later, Minet Holdings P.L.C. Chairman John Wallrock resigned and several other employees of underwriting subsidiary P.C.W. Underwriting Agencies Ltd. were dismissed for allegedly benefiting from the reinsurance contracts placed by P.C.W.'s Lloyd's syndicates.

Oddly enough, many of the new regulations that are now in the news were designed long before the market learned of the scandals at Howden and Minet. However, one government official conceded that some of the regulations were enacted more quickly in light of the scandals.

The most encompassing of the regulations requires all insurance companies registered in Britain to give the Department of Trade additional details about their reinsurance arrangements. "We will also be asking for some further information on earlier years," a department spokesman said.

"From now on, the annual returns of insurance companies which come to the Department of Trade must include additional information about major reinsurers to satisfy us that the companies' reinsurers are adequate," he said.

For example, insurers will have to provide information on any reinsurance company that reinsures 2% of a company's book of business for treaty reinsurers or 5% of a particular risk for facultative reinsurers.

The insurer must supply the name and address of the reinsurer and note if there is any connection between it and the reinsurer. They must also disclose to the department the amount of reinsurance premium payable to the reinsurer each year and, if it is a treaty reinsurer, how much the company is owed in claims from the reinsurer.

The Department of Trade is expected to propose another set of regulations later this year "requiring further details from reinsurance companies from their claims

experience and their sources of business," the department spokesman said. However, he added, the department has no plans to regulate reinsurance intermediaries.

The Department of Trade regulations do not affect Lloyd's underwriters, who must abide by the self-regulation principles in the Lloyd's Act of 1981, the spokesman said.

However, Lloyd's is busily trying to implement new regulations and safeguards to prevent further scandal. *Continued on next page*

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British insurers facing increased regulation

Continued from previous page

dals.
First and foremost, the new 27-member Council of Lloyd's is expected soon to name a chief executive officer who is not a Lloyd's member. The new chief executive will be responsible for making sure Lloyd's regulations are followed by brokers and underwriters.

Although last year's self-regulation act prohibited the new council from taking any actions until it took power last week, 22 different task forces were appointed last year to discuss and propose changes in rules and procedures. The possible reforms span areas such as Lloyd's auditing procedures, its agency system, how much information is disclosed by syndicates to members and additional computer-

ization of the underwriting room.

These changes "can only lead to a tightening of Lloyd's security," said a Lloyd's spokesman.

Already, the committee charged with changing Lloyd's audit system has said that underwriting managing agents, their directors, partners and employees will be required to disclose any direct or indirect interest they may have in the reinsurers, retrocessionaries or intermediaries involved in their syndicates' reinsurances. And, there's a possibility this rule could be further toughened.

Another 140-page consultative document was released last month by another task force concerning the amount of information that underwriting syndicates should give to names (BI, Dec. 27, 1982). The re-

port will be studied by the Bank of England, the Department of Trade, Lloyd's members and several committees before the council acts on it.

Lloyd's is trying to make it clear that it is trying to reform the trouble spots in the marketplace. "Baby syndicates, offshore funds, reinsurance packages for personal benefit—it is a strange way of making money," said a Lloyd's spokesman.

The Inland Revenue Service, Britain's IRS, also wants to further regulate the use of offshore companies. The Inland Revenue Service recently proposed a series of regulations on offshore companies that it wants to include in the 1983 national budget. Specifically, the government wants to close several loopholes that allow British com-

panies to filter money to offshore firms to escape taxes, said a treasury spokesman.

For example, it hopes to prohibit so-called "upstream loans" in excess of 400 million pounds (approximately \$644 million). In such a scheme, an onshore company transfers money to an offshore subsidiary for tax purposes, then returns the money to the parent as loans.

The IRS also wants to clarify the definition of a British resident company and it wants more involvement in regulating when British companies can set up offshore companies in nations with low tax rates, the spokesman added.

All of these regulations would greatly affect insurance and bro-

kerage companies with subsidiaries domiciled in Bermuda and the Caribbean.

This is the second time, however, that the British IRS has tried to crack down on the use of offshore firms to escape British taxes. In 1981, the government issued a similar set of proposals that were met with angry comments from British-based multinational companies.

"The noise from the multinational companies was pretty loud," said the treasury spokesman.

After some of the companies threatened to leave Britain altogether, the government backed down.

However, the government may stick to its guns this year. The Department of Trade, the Bank of England and the City of London Fraud Squad are all investigating the transfer of assets between multinationals and offshore companies and the results of these probes could strengthen the government's hand in attempting to include regulations on offshore companies this year.

Panel asks for increase in cargo rates

By JOHN MILLER

LONDON—British marine underwriters have issued a 14-point plan to combat recent underwriting difficulties caused by cargo risks.

The plan is the product of a task force jointly formed by two major British insurance groups, the Institute of London Underwriters and Lloyd's Underwriters' Assn., to look into the declining profits in cargo underwriting.

The report concludes that a glut of capacity for cargo risks is the prime cause of the cheap rates and high losses that have plagued the line. It also blames some of the problems on other factors over which underwriters have little control, like the current economic downturn.

The report says that the market ought to recognize the seriousness of the problem and take immediate action to return to sound underwriting standards.

The main thrust of the report, which is now being studied by insurers, is that underwriters should immediately raise cargo rates.

Other recommendations in the report include:

- Underwriters should seek substantial premium deposits on cargo policies to gain funds needed to cover catastrophic claims.

- Standard cargo forms should be more widely used by insurers. Also, brokers should not be allowed to limit insurer's use the standard 30-day cancellation clause in the policy to the anniversary date only.

- Insurers should not include war risks in standard cargo coverages. This negates efforts by the War Risk Rating Committee to have war risk rates stated separately from regular marine rates, the task force said.

- Brokers should be required to give additional details about the potential policyholder when asking for quotations.

- Binding authority should be taken away from non-British marketers that are not knowledgeable about the line.

- Market leaders should keep Britain's Joint Cargo Committee informed of any new types of risks with peculiar characteristics and should consult with other underwriters when problems arise.

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● The Backer magazine, featuring articles about insurance producers, coverages and the **specialty insurance industry** in general, is published three times yearly by Interstate National Corp. For a free copy, write 101 in the box on the reader service coupon.

● In the 12-page booklet, "Insurance Decisions: Insuring Against Invisible Crime," INA Corp. reviews the problem of **white-collar crime** and outlines various safeguards and precautions. For a free copy, write 102 in the box on the reader service coupon.

● Insurance producers, markets and the **wholesale property/casualty brokerage services** of George F. Brown & Sons Inc. are the subjects of a magazine issued three times a year. For a free copy, write 103 in the box on the reader service coupon.

● An explanation of **boiler and machinery insurance** coverage is featured in a pamphlet from Commercial Union Insurance. For a free copy, write 104 in the box on the reader service coupon.

● A brochure, application and specimen policy for **unfunded vested liability insurance** for an employer's involuntary withdrawal from a multiemployer pension plan is available from NAS Ltd. For a free copy, write 105 in the box on the reader service coupon.

● A *Business Insurance Perspectives* reprint on **analyzing claims-made policies** is available from The Wyatt Co. consultants. For a free copy, write 106 in the box on the reader service coupon.

● Commercial Union's **business interruption insurance** coverage is described in its brochure "A Solution to the Problem." For a free copy, write 107 in the box on the reader service coupon.

● Shand, Morahan & Co. Inc. describes its **unauthorized access computer crime insurance** policy in a four-page brochure. For a free copy, write 108 in the box on the reader service coupon.

● A reprint from Cashflow magazine, "Remarketing Property and Casualty Insurance," discusses the **how, when, where and why of shopping for insurance**. It's available free from The Wyatt Co. For a copy, write 109 in the box on the

reader service coupon.

● Information on **legal expense insurance for small businesses**, including a sample agreement, is available from NAS Ltd. For a free copy, write 110 in the box on the reader service coupon.

● A packet of brochures describing the various **services of MGIC Indemnity Corp.** has been assembled for brokers. For a free copy, write 111 in the box on the reader service coupon.

● A booklet describing **Fremont Indemnity's insurance services** is available free from the company. For a copy, write 112 in the box on the coupon.

Continued on next page

Guide to special Info section

This special Info section is presented as a compilation of the current informational material available on topics of interest to risk, employee benefit and financial executives.

The material, available free of charge, is organized under the following headings in this order: captives, commercial property/casualty insurance, employee benefits, fidelity and surety, financial services, international, loss control/people, loss control/property, marine, reinsurance, risk management, self-insurance services and workers compensation.

To receive any of the free brochures, booklets, pamphlets or fliers described in this special section, simply indicate the key numbers of the items you want in the boxes on the reader service coupons printed throughout the section.

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- NAS Ltd. has published a brochure featuring case histories, applications and a sample agreement for **tender offer, takeover attempt and proxy contest defense expense insurance**. For a free copy, write 113 in the box on the reader service coupon.

- Shand, Morahan & Co. Inc. offers a brochure describing its new **design professionals policy** for projects that don't live up to expressed warranties or guarantees. For a free copy, write 114 in the box on the reader service coupon.

- "The Advantage Series: A New Era of Commercial Package Policies" is a booklet describing **INA/Aetna's new policies for businessowners**. For a free copy, write 115 in the box on the reader service coupon.

- A brochure describing Shand,

Morahan & Co. Inc.'s **D&O, E&O and other policies for banks** is designed for both buyers and producers. For a free copy, write 116 in the box on the reader service coupon.

- A reprint of "Out of State Licensing" for agents, brokers and insurers, as it appeared in Independent Agent magazine, is available from RIMCO Risk Management. For a free copy, write 117 in the box on the reader service coupon.

- **Industrial Risk Insurers' property/casualty services** are described in the free folder, "IRI and You: Protecting commercial and industrial resources around the world." For a free copy, write 118 in the box on the reader service coupon.

- Need help in evaluating your risk of a **blowout in the oil and gas industry** and selecting your policy? Send for "Managing the Risk of a Blowout," a report from RIMCO Risk Management Inc. For a free copy, write 119 in the box on the reader service coupon.

- Shand, Morahan & Co. Inc. describes its **professional liability for architects & engineers** policy in a four-page brochure. For a free copy, write 120 in the box on the reader service coupon.

- An article on **risk management's approach to loss of market**, which appeared in L'Expansion magazine, is available from RIMCO Risk Management Inc. For a free copy, write 121 in the box on the reader service coupon.

- INA Corp. reviews the topic of **personal liability protection** for business people and professionals in the booklet, "80's Outlook: Taking Personal Liability Risks Apart to Find New Answers." For a free copy, write 122 in the box on the reader service coupon.

- A brochure describing Shand, Morahan & Co. Inc.'s **E&O policy for data processing professionals**, is intended for analysts, consultants and designers. For a free copy, write 123 in the box on the reader service coupon.

- INA Corp. explores a range of **risks in doing business overseas**, from expropriation to exchange rules, in "Insurance Decisions: Unsettling Risks in Stable Nations." For a free copy, write 124 in the box on the reader service coupon.

- Shand, Morahan & Co. Inc. describes its services for **association errors & omissions** insurance in a four-page brochure. For a free copy, write 125 in the box on the reader service coupon.

- "Safepak," an insurance policy package for the **property/casualty risks of financial institutions**, is described in "The Property and Casualty Lid That Fits" from Financial Insurance Service Inc. For a free copy, write 126 in the box on the reader service coupon.

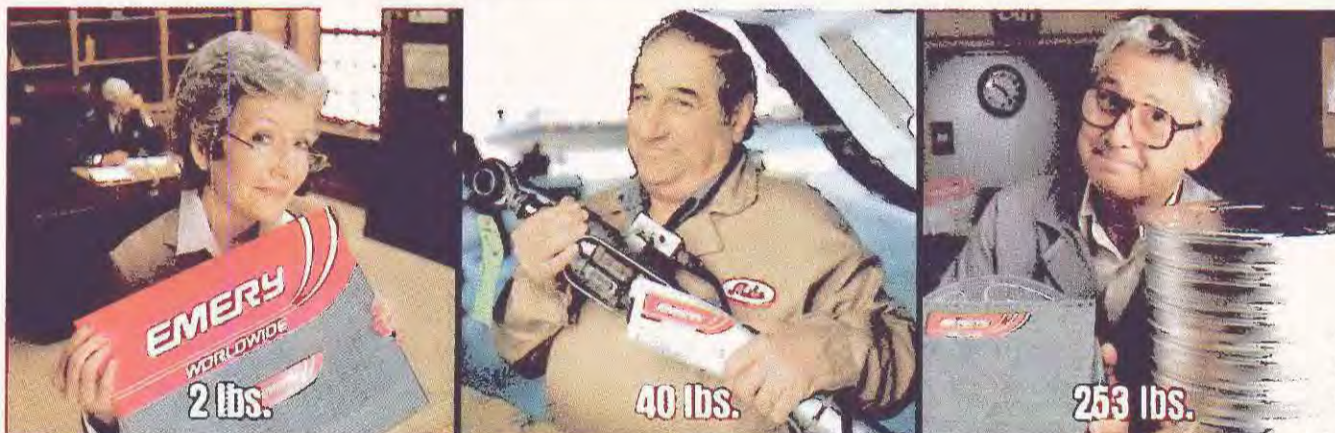
- A pamphlet describing **non-profit organizations liability insurance** is available from Victor O. Schinnerer & Co. Inc. For a free copy, write 127 in the box on the reader service coupon.

- A descriptive brochure outlines the **all-risk property coverages** available from Interstate Insurance Group Cos. For a free copy, write 128 in the box on the reader service coupon.

- A producer-oriented kit describes the **services of Industrial Risk Insurers**. For a free copy, write 129 in the box on the reader service coupon.

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- Reprints of "Legal Liability for Defective Components," which appeared in Risk Management magazine, are available from The Wyatt Co. For a free copy, write 130 in the box on the reader service coupon.

- A Shand, Morahan & Co. Inc. brochure describing the company's professional and constructors E&O liability insurance services is available free from the company. For a copy, write 131 in the box on the reader service coupon.

- A free quarterly newsletter from Victor O. Schinnerer & Co. Inc., VOSCOPE, contains updates on the company's newest products and services for agents and brokers. For a free copy, write 132 in the box on the reader service coupon.

- Hairdressers Agency Inc. offers a brochure on beauty salon malpractice liability. For a free copy, write 133 in the box on the reader service coupon.

- Real estate agent E&O coverage is described in a brochure from Victor O. Schinnerer & Co. Inc. For a free copy, write 134 in the box on the reader service coupon.

- Two brochures from Zurich-American Insurance Cos. describe the company's concept of underwriting authority. For a free copy, write 135 in the box on the reader service coupon.

- A description of the CNA/Victor O. Schinnerer & Co. Inc. architects/engineers professional liability program is described in a folder of brochures. For a free copy, write 136 in the box on the reader service coupon.

- "What To Do After a Loss" is a booklet from Marsh & McLennan Inc. suggesting ways to settle claims quickly. For a free copy, write 137 in the box on the reader service coupon.

- A pamphlet describing Victor O. Schinnerer & Co. Inc.'s construction project professional liability program for architects and engineers is available from the company. For a free copy, write 138 in the box on the reader service coupon.

- A comprehensive property policy from Philadelphia Manufacturers Mutual Insurance Co. is described in a company brochure. For a free copy, write 139 in the box on the reader service coupon.

- A pamphlet describing Victor O. Schinnerer & Co. Inc.'s professional liability coverage for designing/building firms is available from the company. For a free copy, write 140 in the box on the reader service coupon.

- North Star Casualty Services Inc. has assembled a folder describing the company's casualty, workers compensation and liability services. For a free copy, write 141 in the box on the reader service coupon.

- A pamphlet outlining excess liability coverage for hospitals is available from Victor O. Schinnerer & Co. Inc. For a free copy, write 142 in the box on the reader service coupon.

- INA Corp. examines lawsuits against professional and business people in the booklet "Insurance Decisions: The Liabilities of Success." For a free copy, write 143 in the box on the reader service coupon.

- A flier describing consumer credit compliance insurance for banks and savings and loans services is available from Victor O. Schinnerer & Co. Inc. For a free copy, write 144 in the box on the reader service coupon.

- "If Oil Fields Always Kept Their Promise, You Wouldn't Need Oil Production Insurance," is a pamphlet from American International Group on protection for investors and developers in oil fields exploration. For a free copy, write 145 in the box on the reader service coupon.

- A booklet describing the service capabilities of the merged companies, Armco Insurance and NN Corp., "The New Armco Insurance Group," is available from Armco Insurance Group. For a free copy, write 146 in the box on the reader service coupon.

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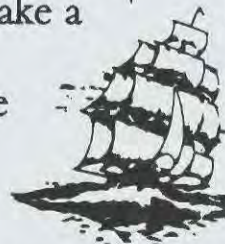
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● A brochure describing **D&O liability** insurance services is available from Victor O. Schinnerer & Co. Inc. For a free copy, write 147 in the box on the reader service coupon.

● A brochure, application and specimen policy for **named perils legal expense** insurance for small companies is available from NAS Ltd. For a free copy, write 148 in the box on the reader service coupon.

EMPLOYEE BENEFITS

● A brochure from Time Insurance Co. describes the company's **group life, health and disability insurance for two to 15 employees**. For a free copy, write 200 in the box on the reader service coupon.

● A catalog of **Certified Employee Benefit Specialist** courses is offered by the International Foundation of Employee Benefit Plans and the Wharton School of the University of Pennsylvania. For a free copy, write 201 in the box on the reader service coupon.

● Swiss International Services Inc. has published a 35-page booklet on European and U.S. **governmental and social policies regarding retirement**, "Social Policy and Retirement Age." For a free copy, write 202 in the box on the reader service coupon.

● Time Insurance Co. describes its **short-term basic hospital plan** for interim protection in a company booklet. For a free copy, write 203 in the box on the reader service coupon.

● Admar Corp. outlines its **health delivery system** for the state of California in the booklet, "Med Network." For a free copy, write 204 in the box on the reader service coupon.

● Time Insurance Co. describes its **HR-10 Keogh retirement plan** services for single owners or partnerships in a pamphlet. For a free copy, write 205 in the box on the reader service coupon.

● ISI Corp. describes its **personal excess liability** services in a company brochure. For a free copy, write 206 in the box on the reader service coupon.

● **Matched portfolios** as an investment vehicle for pension funds are discussed in a newsletter from consultants Kwasha Lipton. For a free copy, write 207 in the box on the reader service coupon.

● Two brochures from Time Insurance Co. explain **Individual Retirement Accounts** and how to arrange one through an insurer. For a free copy, write 208 in the box on the reader service coupon.

● The bimonthly **PCC/Drug Data Systems Inc. PCC Newsletter** covers employee benefits issues from health to workers compensation. For a free copy, write 209 in the box on the reader service coupon.

● A brochure from New England Mutual Life Insurance Co. describes the company's **prescription drug plan services**. For a free copy, write 210 in the box on the reader service coupon.

● A Time Insurance Co. brochure describes the company's various **employee health and disability coverages**. For a free copy, write 211 in the box on the reader service coupon.

● Kwasha Lipton offers a pamphlet for employee benefit specialists on **how to communicate bad news** to employees. For a free copy, write 212 in the box on the reader service coupon.

● **Evaluating claims to cut health care costs** and related services are described in a **PCC/Drug Data Systems Inc. brochure**. For a free copy, write 213 in the box on the reader service coupon.

● A brochure from New England Mutual Life Insurance Co. describes the company's **dental care services**. For a free copy, write 214 in the box on the reader service coupon.

● A home study course for the **CLU designation** is described in a pamphlet by Insurance Achievement Inc. For a free copy, write 215 in the box on the reader service coupon.

Continued on facing page



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- A paper from Hyatt Legal Services explains its **prepaid legal services** as an employee benefit. For a free copy, write 216 in the box on the reader service coupon.

- A brochure from New England Mutual Life Insurance Co. describes the company's services for **outpatient incentive benefits**. For a free copy, write 217 in the box on the reader service coupon.

- Information on **group dental benefit services** is available from Delta Dental Plans Assn. For a free copy, write 218 in the box on the reader service coupon.

- Kwasha Lipton is offering a newsletter on **flexible benefits**. For a free copy, write 219 in the box on the reader service coupon.

- A question-and-answer brochure from Legaline Inc. outlines the company's **prepaid legal services**. For a free copy, write 220 in the box on the reader service coupon.

- Information describing **specialized document retrieval services** at the U.S. Department of Labor for employee benefit or labor union reports is available from Insurance Research Inc. For a free copy, write 221 in the box on the reader service coupon.

- A Kwasha Lipton newsletter explains **final average-pay pension plans**. For a free copy, write 222 in the box on the reader service coupon.

- A brochure from New England Mutual Life Insurance Co. describes its **vision care services**. For a free copy, write 223 in the box on the reader service coupon.

- Key dates for **Chartered Life Underwriters** are noted on a three-year pocket calendar from Insurance Achievement Inc. For a free copy, write 224 in the box on the reader service coupon.

- A set of paycheck stuffers from General American Life Insurance Co. emphasizes **cost-containment features** of the company's medical plans. For a free copy, write 225 in the box on the reader service coupon.

- **Prescription drug coverage** is described in a brochure from New England Mutual Life Insurance Co. For a free copy, write 226 in the box on the reader service coupon.

- **Group insurance for two to nine employees** is described along with schedules and plan options, in a brochure from General American Life Insurance Co. For a free copy, write 227 in the box on the reader service coupon.

- A pamphlet on **IRAs** is available from Time Insurance Co. For a free copy, write 228 in the box on the reader service coupon.

- General American Life Insurance Co.'s **IRA option** for qualified plans is described in a company brochure. For a free copy, write 229 in the box on the reader service coupon.

- Benefacts Inc. describes a low-cost **personalized benefit statements** plan for companies with 25 to 200 employees. For a free copy, write 230 in the box on the reader service coupon.

- A brochure from New England Mutual Life Insurance Co. describes the company's **comprehensive major medical plan**. For a free copy, write 231 in the box on the reader service coupon.

- A newsletter from consultant Kwasha Lipton discusses **re-examining your retirement program**. For a free copy, write 232 in the box on the reader service coupon.

- The 1982 survey of **hospital daily service charges** is an annual report by Equitable Life Assurance Society. Room charges by hospitals and state and national averages are included. For a free copy, write 233 in the box on the reader service coupon.

- A brochure from New England Mutual Life Insurance Co. describes the company's **group life plans**. For a free copy, write 234 in the box on the reader service coupon.

- Consultant Kwasha Lipton offers a booklet **comparing today's benefit statements**
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● A brochure from New England Mutual Life Insurance Co. describes the company's **wrap-around major medical coverage**. For a free copy, write 236 in the box on the reader service coupon.

● A **health appraisal system for employee wellness** is outlined in "Pulse," a brochure on this Lincoln National Life Insurance Co. benefit program. For a free copy, write 237 in the box on the reader service coupon.

● The **rehabilitation services** of Northwestern National Life Insurance Co. are described in a company brochure. For a free copy, write 238 in the box on the reader service coupon.

● A brochure describing Lincoln National Life Insurance Co.'s **post-retirement benefits** funding program is available free. For a free copy, write 239 in the box on the reader service coupon.

● A Massachusetts Mutual Life Insurance Co. booklet describes its **cost-containment program for health care**. For a free copy, write 240 in the box on the reader service coupon.

● Lincoln National Life Insur-

ance Co.'s brochure describes the company's **payroll-deduction group insurance plan**. For a free copy, write 241 in the box on the reader service coupon.

● A booklet on the national **employee assistance program** standards for alcohol and drug rehabilitation and other programs is available from Crawford & Co. For a free copy, write 242 in the box on the reader service coupon.

● Your Health and Fitness, a magazine from Curriculum Innovations Inc., can be personalized with a company name and distributed to increase **employee health awareness**. For a free copy, write 243 in the box on the reader service coupon.

● A brochure from Lincoln National Life Insurance Co. describes its **stop-loss program** for health care cost containment. For a free copy, write 244 in the box on the reader service coupon.

● One solution to high benefits premiums is a **high-dollar deductible**, and Lincoln National Life Insurance Co. describes its plan in a brochure. For a free copy, write 245 in the box on the reader service coupon.

● A descriptive booklet on ERI-SCO Inc.'s **claims-processing system** is available free. For a free copy, write 246 in the box on the reader service coupon.

● A description of the **Vision Service Plan program** is available free. For a free copy, write 247 in the box on the reader service coupon.

● The **employee cost-sharing** method of reducing health care costs is discussed in a brochure from Lincoln National Life Insurance Co. For a free copy, write 248 in the box on the reader service coupon.

● A Meidinger Inc. brochure describes the company's **401(k) plan services**. For a free copy, write 249 in the box on the reader service coupon.

● A brochure from Lincoln National Life Insurance Co. describes how the company's **electronic claims handling services** can work for you. For a free copy, write 250 in the box on the reader service coupon.

● A folder of information on **retired lives reserve plans** and Internal Revenue Service rulings on this type of plan is available from Fireman's Fund American Life Insurance Co. For a free copy, write 251 in the box on the reader service coupon.

● **Compensation planning** in a recession is the topic of a brochure for human resource personnel from Meidinger Inc. For a free copy, write 252 in the box on the reader service coupon.

● A Lincoln National Life Insurance Co. brochure on **shared funding for group health plans** describes the company's cash-flow plan. For a free copy, write 253 in the box on the reader service coupon.

● A brochure outlines Meidinger's **pension funding services**. For a free copy, write 254 in the box on the reader service coupon.

● **Heart Risk Book**, a 116-page paperback from Boston University's Cardiovascular Institute, has guidelines on reducing heart disease risks and health care costs. It's offered free by John Hancock Mutual Life Insurance Co. For a copy, write 255 in the box on the reader service coupon.

● Information on PAID Prescriptions' **vision claims processing services** is available. For a free copy, write 256 in the box on the reader service coupon.

● A newsletter, WellTimes, deals with **health and fitness** issues. A free copy is available from the Life Extension Institute. For a copy, write 257 in the box on the reader service coupon.

● A brochure from PAID Prescriptions describes their **prescription drug processing services**. For a free copy, write 258 in the box on the reader service coupon.

● No-frills **cafeteria benefits** are described in a Risk Planning Group Inc. brochure. For a free copy, write 259 in the box on the reader service coupon.

● Lincoln National Life Insurance Co.'s **dental program**, DentalAid, is described in a company brochure. For a free copy, write 260 in the box on the reader service coupon.

● A **payroll-deduction savings plan** that supplements retirement programs is described in a brochure from Fireman's Fund American Life Insurance Co. For a free copy, write 261 in the box on the reader service coupon.

FIDELITY & SURETY

● A description of **financial institutions services**, including E&O, blanket bonds and other services, is available from Rollins Burdick Hunter in association with Rollins Wrightson Co. For a free

copy, write 300 in the box on the reader service coupon.

● A booklet describing how limited partnerships can **avoid lengthy procedures to obtain letters of credit** is available from National Union Fire Insurance Co., a subsidiary of American International Group Inc. For a free copy, write 301 in the box on the reader service coupon.

FINANCIAL SERVICES

● Two brochures from CUPAC Inc. discuss the company's **financial services**. For a free copy, write 400 in the box on the reader service coupon.

● A folder describing Citibank's **financial services for captives** is available. For a free copy, write 401 in the box on the reader service coupon.

● A booklet from Kidder, Peabody & Co. outlines the company's **structured settlement**, or periodic payment services, to avoid costly litigation. For a free copy, write 402 in the box on the reader service coupon.

● A booklet on **letters of credit**, defining terms and giving examples, is available from Citibank. For a free copy, write 403 in the box on the reader service coupon.

● IAA Trust Co. briefly summarizes the **1982 TEFRA provisions** affecting tax-qualified retirement plans in an 11-page report. For a free copy, write 404 in the box on the reader service coupon.

● **Investment services for captives** are described in a report from Citibank. For a free copy, write 405 in the box on the reader service coupon.

● A booklet designed to assist in the **evaluation of 401(k) plans** is available from IDS Trust Co. For a free copy, write 406 in the box on the reader service coupon.

INTERNATIONAL

● H.M. Bates Insurance Pty. Ltd., an Australian insurance broker, publishes a quarterly newsletter on the **Australian insurance marketplace**. For a free copy, write 500 in the box on the reader service coupon.

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- Multinational experience ratings of employee benefit programs are described in detail in Swiss International Services Inc.'s 27-page booklet. For a free copy, write 501 in the box on the reader service coupon.

- A checklist and discussion of fire risks abroad, including the limitation of the British F.O.C. property form, is available from AFIA Worldwide Insurance. For a free copy, write 502 in the box on the reader service coupon.

- A report from The Roanoke Cos. explores the subject of duty insurance for importers. For a free copy, write 503 in the box on the reader service coupon.

- AFIA Worldwide Insurance has available a brochure discussing international surety bonds. For a free copy, write 504 in the box on the reader service coupon.

- "A Forecast of Risk in 72 Countries" is a 35-page overview of major risk factors in various nations, compiled by Frost & Sullivan Inc. For a free copy, write 505 in the box on the reader service coupon.

- A booklet from AFIA Worldwide Insurance provides an update on recent occurrences and litigation affecting overseas product liability. For a free copy, write 506 in the box on the reader service coupon.

- Insurance for worldwide operations from AFIA Worldwide Insurance is described in a company brochure. For a free copy, write 507 in the box on the reader service coupon.

- How the West German pension system affects the relationship between a German subsidiary and its U.S. parent company is described in a booklet from Kwasha Lipton. For a copy, write 508 in the box on the reader service coupon.

- American International Group explains pooling multinational employee benefit contracts and describes its services in a brochure. For a free copy, write 509 in the box on the reader service coupon.

- A list of more than 650 international insurance and reinsurance companies has been compiled by International Insurance Financial Service. For a free copy, write 510 in the box on the reader service coupon.

- The Rollins Burdick Hunter international risk services are described in a company brochure. For a free copy, write 511 in the box on the reader service coupon.

- For companies sending employees overseas, American International Group Cos. is offering "AIG Global Emergency Services," a folder of information on insurance coverage for traveling executives. For a free copy, write 512 in the box on the reader service coupon.

LOSS CONTROL/PEOPLE

- A checklist for cursory evaluation of a smaller organization's basic safety program, formulated by the International Safety Rating System, is available free from the International Loss Control Institute. For a copy, write 600 in the box on the reader service coupon.

- The Clayton Newsletter, from Clayton Environmental Consultants Inc., is designed to promote

understanding of environmental risks and solutions to control them. Information is included on air, water and hazardous waste and laboratory techniques and other topics. For a free copy, write 601 in the box on the reader service coupon.

- Reed Stenhouse Cos. has published the third edition of an illustrated booklet containing safety tips for helicopters. For a free copy, write 602 in the box on the reader service coupon.

- A new book on safety programs for fishing vessels discusses planning and executing safety procedures for commercial fishermen. The Texas A&M publication contains illustrations, sample forms and checklists. For a free copy, write 603 in the box on the reader service coupon.

- A brochure describing an au-

diovisual program that educates employees on prevention and treatment of back pain is available from Gates, McDonald & Co. For a free copy, write 604 in the box on the reader service coupon.

- A brochure describing the occupational health and safety services of Neilson Associates Inc. is available. For a free copy, write 605 in the box on the reader service coupon.

- Loss prevention for the self-insured is a brochure describing the consulting work of St. Paul Risk Services Inc. For a free copy, write 606 in the box on the reader service coupon.

- The Blue Book describes the consulting services of Neilson Associates Inc. for occupational medicine, industrial hygiene and related disciplines. For a free copy, write 607 in the box on the reader

service coupon.

- A free paper outlining the procedures for handling and storing acid containers is available from Reed Stenhouse. The paper concentrates on safety measures concerning California hazardous waste laws. For a free copy, write 608 in the box on the reader service coupon.

- Your Health & Fitness: Safety Edition is a magazine issued six times yearly from Curriculum Innovations Inc. that can be distributed to increase employee health awareness. For a free copy, write 609 in the box on the reader service coupon.

- A free booklet from Crawford & Co. outlines services that need to be conducted in evaluating a total safety effort. For a free copy, write 610 in the box on the reader service coupon.

- A brochure describing a product designed to help manage vehicle operating costs is available free from Efficient Driving Systems. For a free copy, write 611 in the box on the reader service coupon.

- Customized programs for protecting executives and their families are outlined in the free Wackenhut Corp. pamphlet, "Programs for Executive Protection & Crisis Management." For a free copy, write 612 in the box on the reader service coupon.

LOSS CONTROL/PROPERTY

- "Loss Control: The Other Side of Risk Management" explains the loss-control services of ESIS Inc. For a copy, write 700 in the box on the reader service coupon.

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- Industrial Risk Insurers describes their **management program for loss prevention**, "Overview," in a four-page brochure. For a free copy, write 702 in the box on the reader service coupon.

- A **fire-protection system for highly valuable items**, like computers and printing presses, is described in "When a Fire is Absolutely Unthinkable," from Fenwal Inc. For a free copy, write 703 in the box on the reader service coupon.

- The Wackenhut Corp.'s **loss-prevention services** are described in a company brochure. For a free copy, write 704 in the box on the reader service coupon.

- "Meeting the Challenge" is a booklet describing **restoration techniques used after catastrophes**, like fire, from Blackmon-Mooring. For a free copy, write 705 in the box on the reader service coupon.

- A one-page bulletin from Ansul Fire Protection explains the **hazards of mixing dry chemical extinguishing agents** in the same fire extinguisher. For a free copy, write 706 in the box on the reader service coupon.

- A brochure is available describing the services of Clarence M. Kelly & Associates, specialists in **white-collar crime and arson investigation**. For a free copy, write 707 in the box on the reader service coupon.

- Atwater McMillian Inc. describes its **hazardous waste site services** in the "Closure/Post-Closure Insurance," pamphlet. For a free copy, write 708 in the box on the reader service coupon.

- A high-speed **explosion suppression system** is described in a brochure from Fenwal Inc. For a free copy, write 709 in the box on the reader service coupon.

- Ansul Fire Protection offers a detailed guide to **industrial fire protection**. For a free copy, write 710 in the box on the reader service coupon.

- "U.S. Advisory," a quarterly newsletter directed to the insurance industry, describes the various **services of Underwriters Salvage Co.** For a free copy, write 711 in the box on the reader service coupon.

- A description of a **surveillance/protection system** from Video Tec Inc. is found in its "Vigilant" booklet. For a free copy, write 712 in the box on the reader service coupon.

- The **loss-control services** offered by American International Group are explained in the folder, "Why Our Consultants Don't Win Popularity Contests." For a free copy, write 713 in the box on the reader service coupon.

- A brochure outlining their **loss-prevention engineering services** is available from Ken Buhler Associates Inc. For a free copy, write 714 in the box on the reader service coupon.

- A booklet of specifications and descriptions on the Chemetron Halon 1301 **fire-extinguishing and suppressing systems** is available from Chemetron Fire Systems. For a free copy, write 715 in the box on the reader service coupon.

MARINE

- Wormald Fire Systems offers a set of booklets technically describing **fire-protection systems for marine facilities**. For a free copy, write 750 in the box on the reader service coupon.

- Commercial Union Insurance Cos.' **cargo insurance** brochure describes the company's marine services. For a free copy, write 751 in the box on the reader service coupon.

- Continental Underwriters, specializing in **marine insurance**, offers a brochure on their services.

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- A booklet on the basics of compiling and documenting claims on cargo losses is available from The Atlantic Cos. For a free copy, write 753 in the box on the reader service coupon.

- AFIA Worldwide Insurance's brochure on international marine cargo insurance describes its overseas claims and property recovery facilities. For a free copy, write 754 in the box on the reader service coupon.

REINSURANCE

- An illustrated booklet describes Mead Reinsurance Corp. services. For a free copy, write 760 in the box on the reader service coupon.

RISK MANAGEMENT

- Environmental consultants Fred C. Hart Associates Inc. has assembled an environmental liability management guide for risk managers. For a free copy, write 765 in the box on the reader service coupon.

- The Schirmer Engineering Corp. Code newsletter helps the reader to keep current on building code activity, with emphasis on fire-protection provisions. For a free copy, write 766 in the box on the reader service coupon.

- A sample issue of Smart's health and safety newsletter for public agencies, covering such topics as loss control, statistics and safety checklists, is available free. For a free copy, write 767 in the box on the reader service coupon.

- Johnson & Higgins of Pennsylvania offers a 12-page hospital risk management brochure. For a free copy, write 768 in the box on the reader service coupon.

- Two reprints from Business Insurance on understanding insurance clauses in leases are available from AuditRate Inc. For a free copy, write 769 in the box on the reader service coupon.

- Carmel Industrial Health has designed a detailed flow chart with accompanying text explaining OSHA regulations on flammable/combustible liquid handling and storage. For a free copy, write 770 in the box on the reader service coupon.

- Risk management consulting services from Financial Insurance Service Inc. are described in a company brochure. For a free copy, write 771 in the box on the reader service coupon.

- A calendar highlighting key dates for CPCUs is available from Insurance Achievement Inc. For a free copy, write 772 in the box on the reader service coupon.

- IRM Associates Ltd.'s brochure details careers in risk management, emphasizing entry requirements, advancement and growth. For a free copy, write 773 in the box on the reader service coupon.

- Reprinted from Risk Management magazine, an article on employee discrimination suits from The Wyatt Co. discusses the types of coverage available, including independent programs. For a free copy, write 774 in the box on the

reader service coupon.

- Environmental health consultants Carnow, Conibear & Associates Ltd. have published a paper discussing OSHA health standards that require employee training programs. For a free copy, write 775 in the box on the reader service coupon.

- Quantitative risk management techniques, in relation to cash flow and loss control, are described in a brochure from Republic Hogg Robinson Inc. For a free copy, write 776 in the box on the reader service coupon.

- A Wyatt Co. consultant gives tips on purchasing D&O insurance in a six-page report. For a free copy, write 777 in the box on the reader service coupon.

- A brochure describing the consulting services of The Wyatt

Co. is available. For a free copy, write 778 in the box on the reader service coupon.

- RIMCO Risk Management offers a paper for financial officers with risk management responsibilities who have limited backgrounds in risk management. For a free copy, write 779 in the box on the reader service coupon.

- A flier describing a home study course for certificate of general insurance is available from Insurance Achievement Inc. For a free copy, write 780 in the box on the reader service coupon.

- A brochure describing the risk management services of Fortune & Co./Risk Managers Inc. is available. For a free copy, write 781 in the box on the reader service coupon.

- A booklet from St. Paul Risk

Services describes its alternatives to traditional insurance programs. For a free copy, write 782 in the box on the reader service coupon.

- Andrews Publications Inc. has available a brochure describing its various litigation newsletters. For a free copy, write 783 in the box on the reader service coupon.

- The Wyatt Co. describes its risk management review services in a brochure. For a free copy, write 784 in the box on the reader service coupon.

- A reprint from Risk Management magazine, available from RIMCO Risk Management, discusses hiring risk management personnel. For a free copy, write 785 in the box on the reader service coupon.

- Consulting services for health

care institutions' risk management are described in a brochure from The Wyatt Co. For a free copy, write 786 in the box on the reader service coupon.

- An eight-page brochure from Republic Hogg Robinson Inc. discusses risk management information systems including selection and applications. For a free copy, write 787 in the box on the reader service coupon.

- A brochure describing Zurich-American Insurance Cos.' services for large, complex risk accounts is available. For a free copy, write 788 in the box on the reader service coupon.

- A report on distributed data processing for commercial lines insurance executives is available from Data Concepts Inc. For a free copy, write 789 in the box on the

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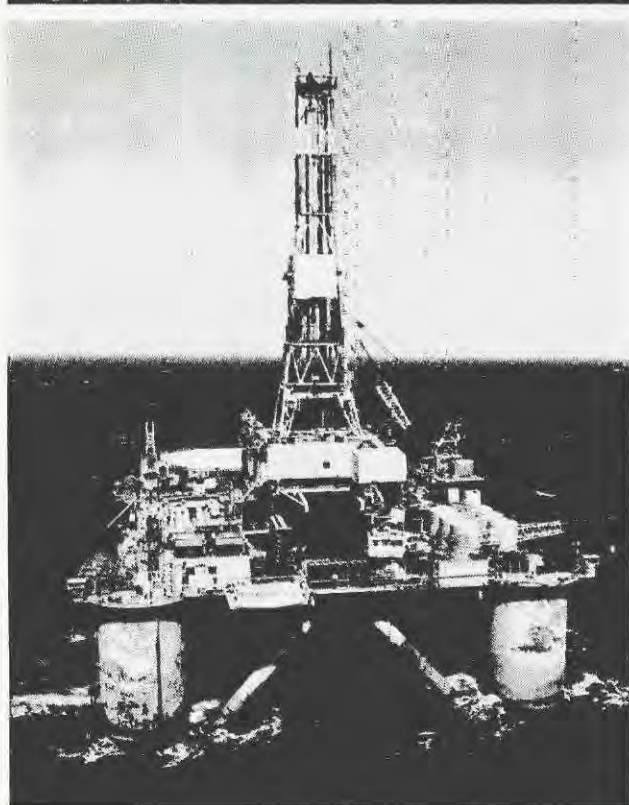
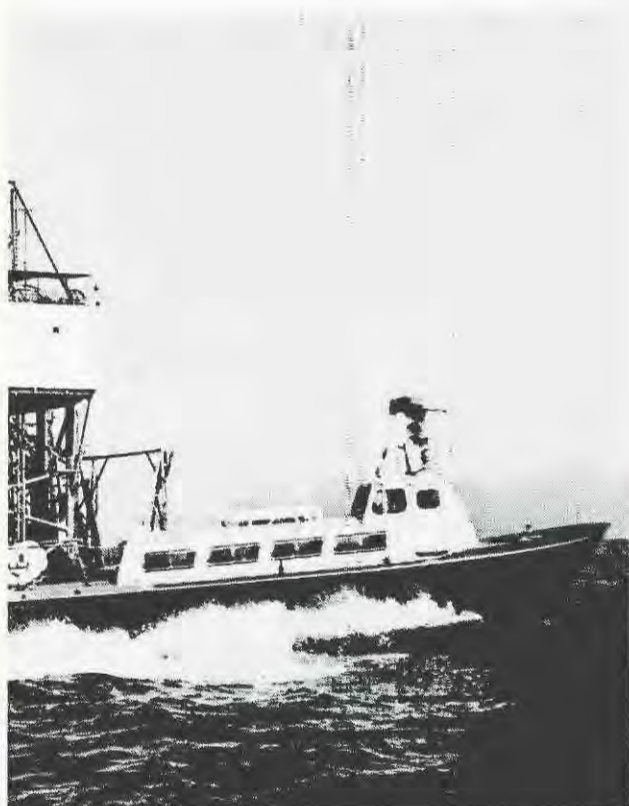
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reader service coupon.

- A pamphlet describing a home study course for the **CPCU designation** is available from Insurance Achievement Inc. For a free copy, write 790 in the box on the reader service coupon.

- A summary of the 1981 "**Cost-of-Risk Survey**," reprinted from Risk Management magazine, is available from Risk Planning Group Inc. For a free copy, write 791 in the box on the reader service coupon.

- Rollins Burdick Hunter Co. describes its **risk management services** in a company booklet. For a free copy, write 792 in the box on the reader service coupon.

- A listing of **design professionals' liability seminars** is available from Victor O. Schinnerer & Co. Inc. For a free copy, write 793 in the box on the reader service coupon.

- A package of three articles reprinted from Risk Management magazine on **risk management information systems** is available from Risk Planning Group Inc. For a free copy, write 794 in the box on the reader service coupon.

- Using **strategic planning in companies**, the benefits and steps necessary in beginning a plan are topics of a report, "Getting Started in Strategic Planning," from Birnbaum Associates. For a free copy, write 795 in the box on the reader service coupon.

- A flier describing a home study course for the **ARM designation** is available from Insurance Achievement Inc. For a free copy, write 796 in the box on the reader service coupon.

- "Insurance Decisions: Capturing Insurance Cash Flow," an INA Corp. management overview, discusses how captives, retro plans, deductibles and other **risk reduction methods** can affect a business' bottom line. For a free copy, write 797 in the box on the reader service coupon.

- "Who's Who in Mass Marketing" is a **directory of insurance companies, agents and brokers** and individuals involved in insurance mass marketing compiled by Mass Marketing Insurance Publications. For a free copy, write 798 in the box on the reader service coupon.

SELF-INSURANCE SERVICES

- A brochure describing **claims administration and auditing services** for self-insured organizations is available from St. Paul Risk Services Inc. For a free copy, write 800 in the box on the reader service coupon.

- A reprint from Risk Management magazine reviews **litigation between self-insurers and excess insurers** is available from The Wyatt Co. Legal concepts of good faith, fair dealing, conflicts of interest and contract provisions are discussed. For a free copy, write 801 in the box on the reader service coupon.

- An explanation of **how self-insurance applies to agents and brokers** is contained in a brochure from ESIS Inc. For a free copy, write 802 in the box on the reader service coupon.

- A brochure by Time Insurance Co. provides guidelines for **self-funding employee benefits**.

For a free copy, write 803 in the box on the reader service coupon.

- "The Other Alternative," a question-and-answer pamphlet from Health Claims Administration Inc., discusses the **concept of self-funding**. For a free copy, write 804 in the box on the reader service coupon.

- An explanation of how the self-insurance concept applies to **auto fleet operators** is contained in a brochure from ESIS Inc., third-party administrators. For a free copy, write 805 in the box on the reader service coupon.

- Time Insurance Co. answers questions **agents ask about self-funding** and offers self-funding program guidelines in a four-page brochure. For a free copy, write 806 in the box on the reader service coupon.

- An explanation of **how self-insurance applies to hospitals** is contained in a booklet from ESIS Inc., third-party administrators. For a free copy of the booklet, write 807 in the box on the reader service coupon.

- The **claims management and administration services** of Johns Eastern Co. are outlined in a company booklet. For a free copy, write 808 in the box on the reader service coupon.

- A description of Hewitt, Coleman & Associates Inc.'s **self-insured company and pools services** is contained in a six-page booklet. For a free copy, write 809 in the box on the reader service coupon.

- An explanation of the relationship between self-insurance and **aviation operations** is contained in a brochure from ESIS Inc., third-party administrators. For a free copy, write 810 in the box on the reader service coupon.

- A brochure from Gates, McDonald & Co. provides information to **Ohio self-insured employers** on a workers compensation disability cost-control program. For a free copy, write 811 in the box on the reader service coupon.

- A question-and-answer discussion of **self-funding medical plans** is in a brochure from Producers Exchange Management Co. Inc. For a free copy, write 812 in the box on the reader service coupon.

- An explanation of the **claims administration services** of third-party administrator ESIS Inc., is contained in the booklet, "Claims Administration: More than meets the eye." For a free copy, write 813 in the box on the reader service coupon.

- "Self Funding: A Financial Alternative" describes Insurance Benefit Administrator Inc.'s **self-funding services**. For a free copy, write 814 in the box on the reader service coupon.

- An explanation of how the self-insurance concept applies to **food processors and distributors** is contained in a brochure from ESIS Inc., third-party administrators. For a free copy, write 815 in the box on the reader service coupon.

- An explanation of how the self-insurance concept applies to the **medium-sized company** is contained in a brochure from ESIS Inc., third-party administrators. For a free copy, write 816 in the box on the reader service coupon.

- A brochure from Equifax Risk
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Management Services describes the company's **risk management services**. For a free copy, write 817 in the box on the reader service coupon.

- Massachusetts Mutual Life Insurance Co.'s brochure describes the company's **cost-containment services** for self-insured employee benefit plans. For a free copy, write 818 in the box on the reader service coupon.

- A **hospital self-insurance program** is outlined in a brochure from Victor O. Schinnerer & Co. Inc. For a free copy, write 819 in the box on the reader service coupon.

- A description of the **minimum premium plan** for self-insurance from Washington National Insurance Co. is described in a 36-page booklet. For a free copy, write 820 in the box on the reader service coupon.

- **Administrative services** for self-funded employee benefit programs are described in a brochure from Massachusetts Mutual Life Insurance Co. For a free copy, write 821 in the box on the reader service coupon.

- A brochure from Parker Services Inc. details the company's **risk management services** for self-insureds. For a free copy, write 822 in the box on the reader service coupon.

- The **general risk management services** of ESIS Inc., a third-party administrator, are described in a company brochure. For a free copy, write 823 in the box on the reader service coupon.

- An explanation of the benefits of **withdrawing from state unemployment funds** and reimbursing the state for actual claims is found in a brochure from Safety Mutual Casualty Corp. For a free copy, write 824 in the box on the reader service coupon.

- "A Thoughtful Approach to **Self-funding Your Medical Benefits**" describes the services of Employee Benefit Plans Inc. For a free copy, write 825 in the box on the reader service coupon.

- **Cost containment through self-funding benefits** is discussed in a booklet from Group Insurance Service Center Inc. For a free copy, write 826 in the box on the reader service coupon.

WORKERS COMPENSATION

- An article on **pooling workers compensation**, reprinted from Risk Management magazine, is available from RIMCO Risk Management. For a free copy, write 900 in the box on the reader service coupon.

- Fremont Indemnity Co. describes its **workers compensation safety groups** in a free brochure. For a free copy, write 901 in the box on the reader service coupon.

- Combined premiums, loss ratios and dividends paid for 10 years are part of a **California workers compensation insurers listing** from consultants Chapin Associates. For a free copy, write 902 in the box on the reader service coupon.

- A **California workers compensation newsletter** from Vector Inc. contains information on vocational rehabilitation, seminars, legislative updates and other data. For a free copy, write 903 in the box on

the reader service coupon.

- A workers compensation **dividend program**, "Invest-Comp," is detailed in a brochure of the same name from Fremont Indemnity Co. For a free copy, write 904 in the box on the reader service coupon.

- A one-page outline of **1983 California workers compensation law changes** is available from Chapin Associates consultants. For a free copy, write 905 in the box on the reader service coupon.

- Smart's Insurance Bulletin is a **weekly insurance newsletter** that covers workers compensation as well as other insurance and risk management topics. For a free copy, write 906 in the box on the reader service coupon.

- A brochure from APRIM Inc. describes the advantages of **rehabilitation**.
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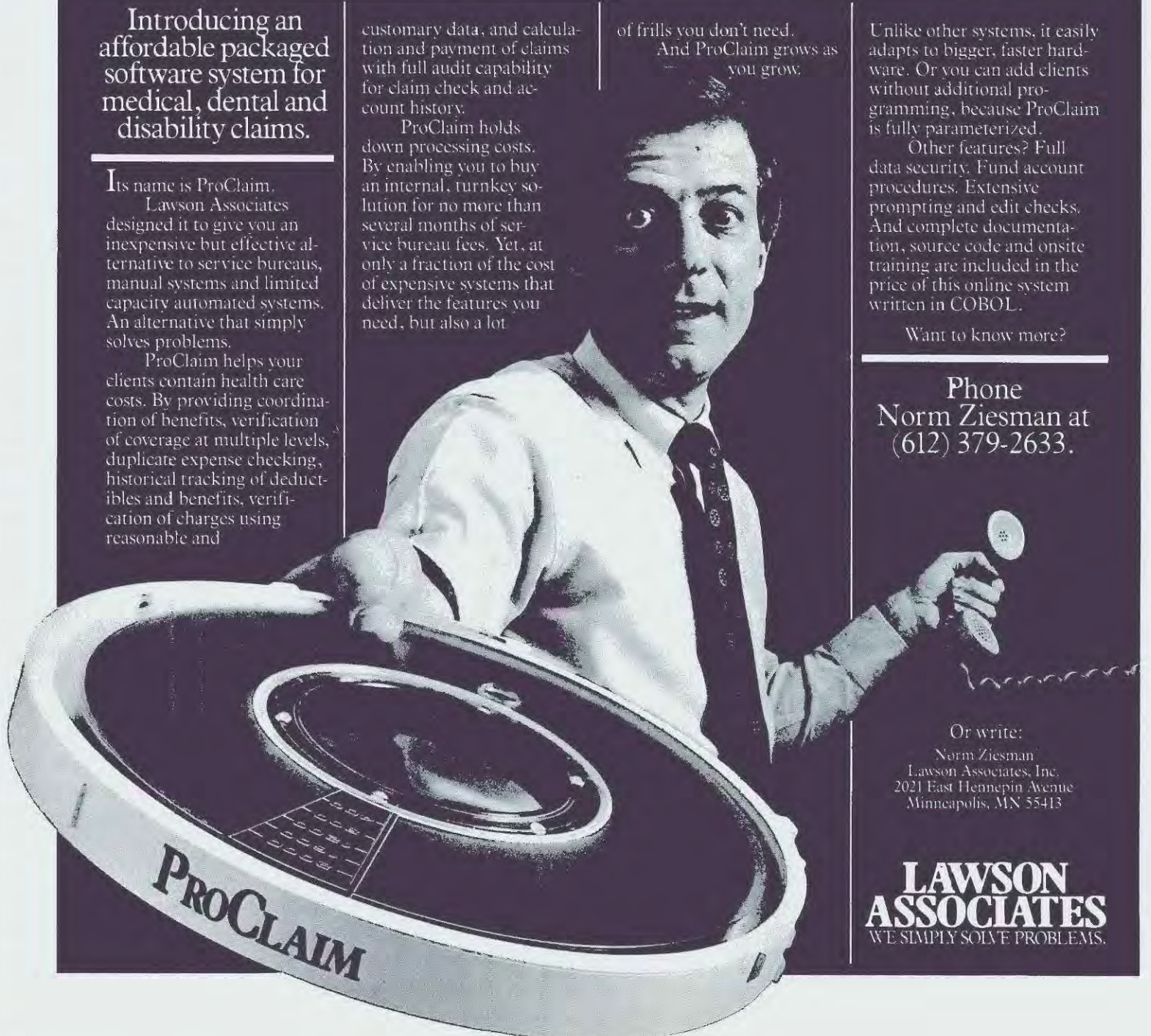
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Continued from previous page
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ald & Co. on **self-insuring workers compensation** is now available. For a free copy, write 910 in the box on the reader service coupon.

• American Mutual Insurance Cos.' brochure describes its **claims program** for workers compensation and general liability. For a free copy, write 911 in the box on the reader service coupon. ■

Allstate to sell Swiss unit to Zurich Insurance Co.

Allstate Insurance Cos. has agreed to sell its Swiss insurance subsidiary, Altstadt Insurance Co., to Zurich Insurance Co. of Zurich, Switzerland.

The sale will include Altstadt's office in Rotterdam, Netherlands. It will not include Altstadt's reinsurance operation, based in Zug, Switzerland, which will become a branch of London-based Allstate Reinsurance Co. Ltd.

Allstate says it is selling the Swiss subsidiary so it can focus on international markets in which it is already established, including Great Britain, Mexico and Japan.

MGA formed

A new managing general agency, Wilson-Oakley Special Risk Ltd., has been formed in Lutherville, Md.

Wilson-Oakley will serve clients in Maryland, Pennsylvania, New Jersey, Delaware, Virginia and the District of Columbia. It offers various special risk insurance programs, including truck physical damage and liability and hospital malpractice and workers compensation, and handles large, difficult-to-place casualty lines and um-

MARKETS

brellas.

Wilson-Oakley Special Risk Ltd. was formed Nov. 1 when it acquired the brokerage business of The Crossland Corp. of Lutherville and the Merit Agency of Philadelphia.

Wilson-Oakley's offices are located at 1301 York Road, Suite 808, Lutherville, Md. 21093; 301-337-3800.

Nordstrom sale

The Nordstrom Group of Minneapolis has sold its Houston office to its former manager, Timothy J. Brady, for an undisclosed purchase price, according to the new owner.

T.J. Brady & Associates, as the firm is now called, brokers coverage for 100 Texas State Optical stores and several oil drilling service companies, among others, for a premium volume of more than \$1.5 million, Mr. Brady said.

It retains its present five-person staff and address at 2190 North Loop West, Suite 201, Houston, Texas 77018; 713-688-1500.

Consultant formed

Alan B. Cantor has formed Cantor & Co. in Beverly Hills, Calif., a one-man firm that will provide risk management consulting, contract risk management, financial risk analysis, loss forecasting and analysis and risk management information systems and software development.

Mr. Cantor most recently worked at risk management consultant Warren, McVeigh & Griffin and was previously with Marsh & McLennan Inc.

Mr. Cantor is maintaining his office at 428 N. Palm Drive, Beverly Hills, Calif. 90210; 213-271-3933.

Claims services

Comstock Insurance Co., a subsidiary of Los Angeles-based Fremont Indemnity Co., has reorganized its claims handling services for several Western states.

As of Jan. 1, Comstock's Tigard, Ore., claims facility will handle all property/casualty claims from Alaska, Idaho, Montana, Oregon, Utah and Washington.

Claims from these states have previously been handled from Comstock's Los Angeles and San Mateo, Calif., offices.

Acquisitions

Management Services Inc., a Chicago-based risk management and claims administration firm, has acquired **Administrative Services Corp.**, a third-party administrator of self-insured group health programs based in Champaign, Ill. The acquisition culminates an 18-month joint-venture agreement.

Underwriters Quality Service, a life and disability insurance brokerage based in Wauwatosa, Wis., has merged with **T/N Broker Resources, Inc.**, a Milwaukee-based group insurance brokerage that is a subsidiary of Intertye Corp. Underwriters' Wauwatosa offices will be consolidated into the T/N offices at 324 E. Wisconsin Ave., Milwaukee, Wis. 53202.

New offices

Buck Consultants Inc., a New York-based benefits consulting firm, has opened its ninth branch office at Lincoln Bank Tower, 116 E. Berry St., Fort Wayne, Ind. 46802; 219-426-7800. Most of the staff and clientele of the new office have been acquired from Lincoln National Pension Insurance Co. of Fort Wayne, which discontinued its actuarial consulting operations in September.

Standard Insurance Co. of Portland, Ore., a group life and disability insurer, has opened two new Texas offices. A Dallas office is located at Park Central, 12750 Merit Drive, Suite 706, Dallas, Texas 75251; 214-392-2626; while a Houston office is located at 1800 W. Loop Tower S., Suite 805, Houston, Texas 77027; 713-439-1080. ■

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OSHA exempts many firms from record keeping

By JERRY GEISEL

WASHINGTON—Almost 500,000 employers in industries that are considered among the least hazardous no longer will be required to maintain on-the-job injury and illness records for the Occupational Safety and Health Administration.

Effective Jan. 1, OSHA exempted most employers in standard industrial classifications covering the retail trade industry (SICs 52-59); finance, real estate and insurance (SICs 60-67); and services (SICs 70-89). Many of the employers in those industries report fewer than two on-the-job accidents a year.

"The exemption...relieves a large number of employers of a paperwork burden that is unnecessary from the agency's point of view, without lessening on-the-job safety protection for workers," OSHA said.

However, some employers in the retail and service industries that have higher-than-average accident records will still have to keep safety records for OSHA.

For example, the OSHA exemption does not apply to retail trade employers like building materials and garden suppliers (SIC 52) and general merchandise and food stores (SIC 53 and 54).

In addition, service employers excluded from the exemption are: hotels and other lodging places (SIC 70); amusement and recreational services (SIC 79); and health services (SIC 80).

The OSHA record-keeping exemption was published in the Dec. 28 issue of the Federal Register.

Health benefit tax

Taxing employer-provided health insurance would have a severe impact on small firms, the Professional Insurance Agents of America says.

In a letter to the Reagan administration's Cabinet Council, the 40,000-member PIA said if the cost of health insurance were taxed as income to the employee, workers would seek salary increases to offset the new tax burden.

"We support the need to cut government spending and increase revenues. However, this particular tax revision would hit the small business owner especially hard," said PIA President Edward Akin.

While many larger companies could absorb the cost of boosting salaries to cover the employee-paid tax, it would hurt small independent insurance agents to do so, Mr. Akin added.

The administration is considering whether to recommend a change in the tax code to make employer-provided and paid health insurance taxable to employees (BI, Dec. 13, 1981). A final decision is expected later this month when the administration submits its proposed fiscal 1984 federal budget to Congress.

Joins private sector

Congress' most knowledgeable committee staff member on product liability insurance issues is leaving Capitol Hill to join a Washington law firm.

Michael Mullen, minority counsel for the Senate Commerce Committee, will join Crowell & Moring, a well-known Washington-based law firm, where he will be involved in a wide variety of insurance issues.

As a Senate Commerce Committee staff member, Mr. Mullen played a key role in drafting several pieces of federal product liability legislation.

For example, Mr. Mullen, 43, drafted major sections of the fed-

WASHINGTON

eral product liability bill introduced last year by Sen. Robert Kasten, R-Wis.

In addition, Mr. Mullen helped rewrite the Risk Retention Act in 1980 after insurance trade associations objected to a section in the original bill that would have let the Commerce Department regulate the product liability captives. That opposition threatened to kill the bill until Mr. Mullen helped draft a compromise that left regulation of the risk retention groups with the states.

Mr. Mullen's departure from the Commerce Committee had been expected because his boss, former Sen. Howard Cannon, D-Nev., was

defeated in November.

Pension withdrawal

The Pension Benefit Guaranty Corp. wants public comments on whether it should allow a New York multiemployer pension plan covering school bus drivers to permit certain employers to withdraw from the plan without paying any of the plan's unfunded vested benefits.

The Division 1181 Amalgamated Transit Union-New York Employees Pension Fund earlier asked the PBGC for permission to adopt a plan amendment that would allow many employers to leave the plan without incurring withdrawal liability.

According to the proposed amendment, an employer that left

the plan only would be subject to withdrawal liability if he remained in business in the jurisdiction of the collective bargaining agreement or resumed work in the area within five years of leaving the plan.

As a result, withdrawal liability would be eliminated for employers who retire, die or go bankrupt.

According to the plan, which is maintained under a collective bargaining agreement between Division 1181-1061 of the Amalgamated Transit Union and employers operating school buses for the New York City Board of Education, the stability of the plan is not affected when a contributing employer leaves the plan.

That's because under a special 1979 court order, employers that are awarded transportation contracts must hire employees on a

special Master Seniority List—those who were laid off prior to June 1, 1982,—and then contribute to the plan on behalf of those employees.

"The fact that one such employer or group of employers cease operation or go out of business does not affect the aggregate level of work, number of employees or contributions," according to the plan, which has 4,800 participants and about \$21 million in unfunded accrued liabilities.

Comments on whether the plan should be allowed to adopt the special withdrawal liability rule should be sent to the Assistant Executive Director for Policy and Planning (140), PBGC, 2020 K St. N.W., Washington, D.C. 20006.

Comments must be received by Feb. 17. ■

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Court says Shell not liable for damages from pesticide

By LAURENCE H. GROSS

TALLAHASSEE, Fla.—Shell Oil Co., which manufactured a pesticide removed from the market in 1977 because of health concerns, is not liable for \$275,000 in damages awarded to a Florida couple who claimed they were injured by the substance.

In a unanimous ruling, the three-member Florida 1st District Court of Appeal found that Shell had met its responsibilities by warning distributors about the dangers associated with a pesticide called Nemagon, also known as DBCP.

The Florida couple, Calvin and Cindy Harrison of Panama City, had been awarded \$400,000 in compensatory damages and \$270,000 in punitive damages by a circuit court jury in March 1981.

Shell, which manufactured DBCP in bulk form, and Kerr-McGee Chemical Corp., a subsidiary of the Oklahoma-based oil company that diluted, packaged and distributed the pesticide, were held liable for 35% and 60%, respectively, of the compensatory damages. Each company was ordered to pay \$135,000 in punitive damages.

The court ruled that the Harri-

sons were 5% negligent.

But the appeals court exonerated Shell, saying the company had adequately warned Kerr-McGee about properly labeling DBCP and asked the Oklahoma City-based company to make sure that amounts of the material greater than one gallon were sold for commercial use only.

"Did Shell, as the manufacturer and bulk supplier of a dangerous toxic component, have a non-delegable duty to warn ultimate users of the hazards...when the commodities were formulated, packaged, labeled and distributed by others?" the court opinion asked. "We think not."

"Shell, as the manufacturer or supplier selling in bulk to one (buyer) other than an ultimate consumer, took the necessary precautions commensurate with the dangers reasonably anticipated under the circumstances," the court concluded.

Shell—which hailed the appellate ruling as a potential precedent in product liability law that could limit the liability of bulk manufacturers—said eight other court cases involving DBCP are pending, including a widely publicized San Francisco jury trial that began last

month.

"Of course, other courts will not have to follow the Florida precedent," says a Shell spokeswoman. "Our contention all along was that we gave all necessary warnings about the product and didn't have control over its ultimate use."

Although Shell appealed the lower-court award, Kerr-McGee has paid the award to the Harrisons. However, Kerr-McGee will not have to pay Shell's portion of the award.

The Harrisons had charged they were forced to move from their Panama City home after Mr. Harrison accidentally broke a one-gallon bottle of Nemagon in the family garage. The couple said they were exposed to the material for several hours while trying to clean up the spill, adding that the fumes from the product made their home uninhabitable.

The couple also claimed a fear of contracting cancer from exposure to the chemical, although they had not developed signs of the disease.

The Harrison's attorney, C. Douglas Brown of Panama City, was unavailable for comment on whether the couple intends to further appeal the ruling. ■

Growth in HMO enrollment slows

EXCELSIOR, Minn.—The troubled economy appears to be affecting the growth in health maintenance organization enrollment.

HMO enrollment between June 1981 and June 1982 increased just 5%, rising to 10.8 million members from 10.3 million. That increase is down sharply from the 12% average growth rate over the last two years, reveals a new survey by InterStudy, an HMO research group.

The slowdown in HMO enroll-

ment may be the result of high unemployment. Workers often lose their employer-paid health care coverage, like enrollment in an HMO, when they are laid off, an InterStudy spokeswoman noted.

Workers and their employers, though, now have more HMOs than ever from which to choose. The number of HMOs jumped to 265 from 243, an indication that private businesses, like insurers, are more interested than ever in investing in

HMOs despite cutbacks in federal loans and grants.

California continues to have the most HMOs, 34, and the highest HMO enrollment, 4.5 million. But California's domination of the HMO industry is easing.

For example, of the 10.8 million people enrolled in HMOs, 42% are in California plans. That's a decrease of 4% from 1979 when 46% of the national HMO enrollment of 6.94 million were in California HMOs.

Small HMOs seem to be the fastest-growing plans. Enrollments in HMOs with fewer than 5,000 subscribers increased to 134,000 from 102,000, a 31.4% rise.

Enrollment in medium-sized plans—HMOs with 25,000 to 49,999 members—climbed to 1.56 million from 1.3 million, a 20% increase. Enrollment in the nation's 18 largest HMOs, plans with at least 100,000 subscribers, rose to 6.66 million from 6.29 million, an increase of 5.9%.

By contrast, enrollment in plans with between 50,000 and 99,999 subscribers slipped to 852,300 from 1,037,000, a drop of 21.7%.

After California, states with high HMO enrollments include: New York, 1.08 million people in 10 plans; Minnesota, 544,461 people in 10 plans; Wisconsin, 456,226 in 19 HMOs; Illinois, 344,085 people in 13 plans; and Washington, 340,775 people in six plans.

The survey also found that:

- The average monthly family premium charged by HMOs between June 1981 and June 1982 rose to \$150.98 from \$132.20.

- During the last year, the average plan reported a hospital utilization rate of 467 days per 1,000 members.

- Some 38 HMOs began operations between June 1981 and June 1982, while 15 plans shut down.

- Kaiser Foundation Health Plan, which serves Northern California, is the nation's largest HMO with 1.78 million members.

Copies of the "1982 National HMO Census" are available from InterStudy, Box 458, Excelsior, Minn. 55331; 612-474-1176; Attention: Librarian. The cost of the survey is \$10; all orders must be prepaid.

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Industrial firms' pension costs fall in 1981

NEW YORK—Industrial corporations' pension costs declined in 1981, a reflection of the sluggish economy, according to a new survey.

Total pension costs among the nation's largest industrial corporations dropped 1.1% to \$20.8 billion in 1981, down from \$21 billion in 1980.

Pension costs at many companies tend to decline when the economy slumps because layoffs mean lower payrolls and less pension coverage.

In addition, pension costs eased because corporations were getting better returns on investment of plan assets, according to the latest Johnson & Higgins pension survey.

However, pension costs among large non-industrial companies, whose employment levels usually stay stable during an economic slowdown, generally continued to increase.

Among non-industrial companies surveyed, pension costs between 1980 and 1981 increased to \$8.06 billion from \$7.99 billion, up 0.9%.

Of the non-industrial companies surveyed, pension costs increased the most in the transportation group, where pension costs among the 40 companies surveyed rose to \$1.66 billion from \$1.58 billion, up 5.5%.

Pension costs, though, among the 48 surveyed utility companies, which also fall in the non-industrial category, slipped 1% to \$4.88 billion in 1981 from \$4.93 billion in 1980.

To measure corporate pension costs, J&H examined pension data contained in the annual reports of 461 of the Fortune 500 industrial corporations and 173 of the largest non-industrial companies in each of four categories: commercial banking; retailing; transportation; and utilities.

Total pension costs among industrial companies decreased the most in the 16 surveyed motor vehicle companies, which reported a 12.9% decrease in cost in 1981 to \$3.26 billion from \$3.74 billion in 1980. The average pension cost per motor vehicle manufacturer declined to \$203.6 million from \$233.8 million.

Other industries where pension costs declined include: rubber and plastic products, down 6.7% to \$372.5 million from \$399.1 million; paper, fiber and wood products, down 6.5% to \$562 million from \$601.3 million; music instruments, toys and sporting goods, down 5.2% to \$27.5 million from \$29 million; and petroleum refining, down 4.8% to \$2.48 billion from \$2.68 billion.

But some industries, where employment levels stayed high, bucked the trend. For example, in

the apparel industry, where few employees were laid off, pension costs rose 10.2% to \$88.4 million from \$80.2 million. The average pension cost per apparel company jumped to \$9.8 million from \$8.9 million.

In addition, pension costs among the 17 surveyed companies in the profit-strong pharmaceutical industry totaled \$454.8 million in 1981 compared with \$420.8 million in 1980, an 8% increase. An average pharmaceutical manufacturer spent \$26.7 million on its pension plan in 1981, up from \$24.8 million in 1980.

The average motor vehicle manufacturer spent the most on pension plans: \$203.6 million. Other industries with high pension costs per company in 1981 include: electronics and appliances, \$70 million,

up from \$68.8 million; petroleum refining, \$65.4 million, down from \$68.6 million; tobacco, \$61.7 million, up from \$55.6 million; and metal manufacturing, \$57.9 million, up from \$54.3 million.

Industries with the lowest pension costs on a per-company basis include: rubber and plastic products, where the average company in 1981 spent \$2 million to maintain its pension plan, down from \$2.2 million in 1980; music instruments, toys and sporting goods, \$6.9 million, down from \$7.3 million; and textiles, \$8.4 million, down from \$8.5 million.

When pension costs are considered as a percent of pretax profit among industries where more than one company is surveyed, the motor vehicle industry ranks first at 143.6%, the only industry group

whose pension costs exceeded pretax profits.

"This is the result of yet another troubled year for the automobile industry," J&H noted. However, that industry's hefty 1981 ratio of pension costs to pretax profits is a dramatic improvement compared with 1980 when pension costs equaled 378.3% of pretax profits.

Other industries with high pension costs as a percent of pretax profits in 1981 include: aerospace, 27%, compared with 25.3% in 1980; rubber and plastic products, 26.8%, down from 58%; glass, concrete and gypsum, 26.1%, up from 21.1%.

Industries with the lowest pension costs as a percent of pretax dollars include: mining and crude oil production, 2.5% in 1981, compared with 2.4% in 1980; petroleum refining, 4.4%, up from 4.1%; and

music instruments, toys and sporting goods, 6.4%, down from 12%.

The survey also reported that:

- Just nine of 625 surveyed companies reported that unfunded vested pension benefits exceeded 30% of their net worth in 1981.

- Pension costs as a percent of payroll among surveyed industrial corporations dropped to 7.1% in 1981, down from 8.5% in 1980.

- Pension costs as a percent of pretax profits slipped to 12.6% for the average industrial company in 1981, down from 13% the prior year.

Free copies of "Funding Costs and Liabilities of Large Corporate Pension Plans: 1982 Executive Report," are available from Johnson & Higgins, Employee Benefit Plan Department, Research Department, 95 Wall St., New York, N.Y. 10005.



McCabe heads BC/BS board

CHICAGO—John C. McCabe, president and chief executive officer of Blue Cross & Blue Shield of Michigan, has been elected chairman of the 41-member board of directors of the national Blue Cross & Blue Shield Assn.

Joseph F. Duplisky, president of Blue Cross & Blue Shield of Connecticut, was named vice chairman of the board.

Other members of the national board's executive committee include: Dr. George Mitchell of Arkansas Blue Cross & Blue Shield; William E. Flaherty of Blue Cross & Blue Shield of Florida; Bruce Taylor of Blue Cross of Greater Philadelphia; S. Martin Hickman of Blue Cross & Blue Shield of Illinois; and Edwin R. Werner of Blue Cross & Blue Shield of Greater New York.

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Britain's Commercial Union to name Marshall chairman

A.B. (Sandy) Marshall will become chairman of London-based Commercial Union Assurance Co. P.L.C. in April.

Mr. Marshall has been a director of CU Assurance since 1970. He will succeed **Sir Francis Sandilands**, CU's chairman since 1972, who will retire at the annual general meeting in April.

Commercial Union Assurance is the parent company of Commercial Union Insurance Cos., a large property/casualty insurer headquartered in Boston.

In addition, **Carroll B. Smith** appointed vp at CU Commercial Lines Inc. in Boston. Mr. Smith is responsible for the Preferred Account Development system and for coverage development and related services for groups and associations. He was previously manager of the company's Boston service office.

Other insurer changes:

Raymond L. Wilson promoted to senior vp of Nationwide Life Insurance Co.'s new consolidated individual and group life and health operations in Columbus, Ohio. He will continue in his post as head of Nationwide's Medicare operation. He had been vp of group operations.

Dan M. DeGood appointed vp in charge of Metropolitan Life Insurance Co.'s new group life and health regional office in Houston. Mr. DeGood was previously a regional account director with Metropolitan.

K. Rodger Nogaki elected vp of Reliance Insurance Co. in Philadelphia. Mr. Nogaki continues to manage the loss-control services division and the environmental health laboratory. Mr. Nogaki was formerly director of Reliance's property service division.



Mr. Nogaki

Alan K. Kaliski and **Archie J. Whyte** appointed vps at Royal Insurance in New York. Mr. Kaliski is responsible for casualty lines in the commercial lines division, exclusive of national accounts. He was previously an assistant vp at Royal. Mr. Whyte is responsible for property lines in the commercial lines division. He had also been an assistant vp.

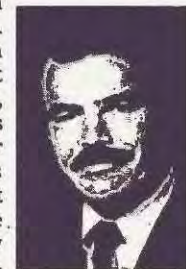
Darrell K. Porath appointed vp for commercial automobile, general liability and glass at Fireman's Fund Insurance Cos. in Novato, Calif. Mr. Porath had been a resident vp and branch manager for Insurance Co. of North America in Atlanta.



Mr. Jones

Raymond Pike named vp of workers compensation claims at Fremont Indemnity Co. in Los Angeles. Mr. Pike has been with Fremont for three years.

Jim Jones named president and chief operating officer at Transport Insurance Co. in Dallas. Mr. Jones had been executive vp at Transport. Also, **Dion Riley** was named senior vp-operations and finance at Transport. He was previously senior vp-finance and trea-



Mr. Riley

COMINGS & GOINGS INDUSTRY

surer. Transport writes coverage for motor carriers.

Reinsurers

Robert D. Graf named vp at North American Reinsurance Corp. in New York. Mr. Graf was previously assistant vp at North American Re.



Mr. Graf

K. Thomas Kemp named senior vp at Resolute Group Inc., a wholly owned subsidiary of GEICO Corp., in

New York. He will serve as senior vp, chief financial officer, treasurer and assistant secretary of Resolute Reinsurance Co. and Resolute Management Corp. Mr. Kemp had been vp, treasurer and chief financial officer at Resolute Group, which writes non-life reinsurance.

John K. Latham Jr. and **Thomas O. Vebber** appointed vps at General Reinsurance Corp. Mr. Latham is in the Dallas office of General Re and Mr. Vebber is in the Los Angeles office.

Thomas W.G. Robertson appointed vp at Kerwick & Curran Inc., a reinsurance and specialty underwriter in Jericho, N.Y. Mr. Robertson had been with Robertson & Donald Associates prior to joining Kerwick.

James J. Phair has been elected chairman of Booth, Potter, Seal & Co. a Philadelphia reinsurance brokerage. He had been president of the firm.

Excess/surplus

Dale C. Crawford joined Terra-mar Insurance Managers Inc., an excess/surplus brokerage in Houston as vp. He was formerly regional manager and assistant vp of Bellefonte Reinsurance Co. in Houston.



Mr. Crawford

Wayne McDonald named vp of RGAF Managers in Ocala, Fla. Mr. McDonald previously had been self-employed. RGAF Managers operates RGAF Underwriters, which is the insurance reciprocal formed by the Retail Grocers Assn. of Florida.

Other suppliers

Bill D. Gramlich elected executive vp-field operations for Equifax Services Inc. in Atlanta. He was previously a vp at Equifax. Mr. Gramlich succeeds **Milton L. Howell**, who is retiring.

Russell G. Roberts named consulting principal at A.S. Hansen Inc. in Lake Bluff, Ill.

Karen Maccucci appointed vp-operations for the California region of EBI Cos. in San Jose. She will be responsible for underwriting, among other duties. She was most recently assistant vp and California region underwriting manager at EBI.



Mr. Roberts

New York regulator wants to outlaw captive fronting

Continued from page 2

torney suggests that this portion of the proposal could limit the use of unlicensed insurers for any portion of facultative reinsurance.

The proposed regulation would also require that insurers submit any reinsurance transaction involving union pension and welfare funds to the superintendent and maintain a file of all reinsurance contracts with written affirmations of regulatory compliance prepared by the insurer's legal counsel.

Insurers may request an exception from the superintendent under the regulation.

Unlike the 1978 proposal, the draft regulation does not target the credit life insurance industry or limit the amount of reinsurance purchased from unlicensed insurers.

The 1978 plan was dropped by the New York department less than a month after it was proposed when few supporters could be found in or outside the insurance and risk management community.

New York Insurance Superintendent Albert B. Lewis was not available to explain why the insurance department has decided to repropose fronting regulation at this time, but told *Business Insurance* during the National Assn. of Insurance Commissioners in Dallas last month that the fronting rules would be part of his overall crackdown on reinsurance fraud (*BI*, Dec. 1, 1982).

Insurance industry leaders were surprised by the regulatory proposal and could not cite reasons supporting its adoption.

"I think the only reason for this proposal is that there have been some areas of reinsurance that

have led to scams and scandals and the eventual insolvencies of a few insurance companies," remarks Maurice R. Greenberg, president of American International Group in New York.

Isolated frauds, however, are not sufficient reason to eliminate "classical arrangements involving private commercial transactions" that allow corporations to self-fund their risks, he says. "It's like throwing the baby out with the bathwater."

AI Group has frequently advertised its willingness to issue policies for corporations that wish to reinsure a large portion of the risk with captives and has found the technique to be proper for both parties, he notes.

Richard Rice, senior vp of brokerage Johnson & Higgins, testified against the 1978 proposed regulation and is preparing new testimony to be presented on behalf of his firm at the Jan. 19 meeting.

He agrees with Mr. Greenberg that the proposal infringes on a corporation's ability to design a risk management program in New York according to previously acceptable standards.

"What the proposal is saying is that the largest insurance buyers in the world can't continue the arrangement of their insurance affairs in the manner they are used to, and, of course, that is wrong."

The proposed regulation may have a more general negative impact, adds Donald Greene, senior partner with LeBoeuf, Lamb, Leiby & MacRae, a New York law firm that represents Lloyd's of London and many other insurance interests.

"It would certainly drive business away from New York and away from the insurance industry," he notes. "We have thousands of regulations in New York that require a corporation to demonstrate financial responsibility in order to do business. The three major ways of making this demonstration include a pledging of assets, bonds or a certificate of insurance."

If corporations could not reinsure certificates of insurance issued by local insurance companies, they would be forced to abandon the industry for many needs and "probably take their business to banks."

"I'm surprised that this proposal

was introduced at this time, before the new New York governor's legislative staff has had the opportunity to review it with the insurance department for its overall impact," he continued. "But this is a perennial proposal from insurance department staff. The last time it was introduced, the hearing room was filled with people testifying against the regulation while not one person testified in favor."

A law eliminating fronting would be unnecessary and unable to eliminate reinsurance fraud, if that is Superintendent Lewis' intent, Mr. Greene adds.

"It's laughable to suggest that this regulation has to do with stopping of crooks. American crooks have been raping insurers for 25 years and only Superintendent Lewis' personal dedication, not regulation, led to the eventual conviction of some of them," he said.

The Risk & Insurance Management Society in New York acknowledged that it has received the proposed regulation and intends to respond to the insurance department after closer study, a spokesperson said.

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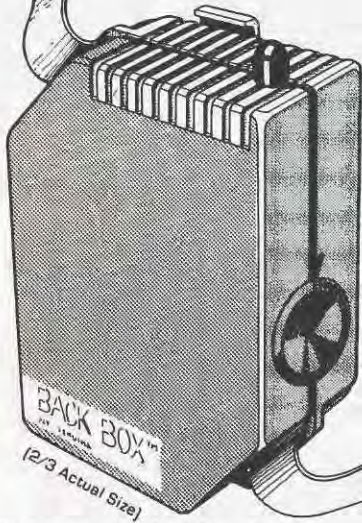
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Patents Pending

New Congress may be eager to place taxes on benefits

Continued from page 2
taxes.

• Accelerating scheduled Social Security payroll tax increases and expanding the number of employees who must participate in the retirement system.

In addition, the troubled economy could trigger changes in the structure of most employers' pension plans.

As more workers lose their accrued pension benefits when they are laid off, there will be more pressure to overhaul the Employee Retirement Income Security Act to provide faster vesting, predicts Kenneth Keene, senior vp at Johnson & Higgins in New York.

Currently, most companies offer 10-year "cliff vesting" pension plans in which an employee must work for the company 10 years before he or she is entitled to the benefit. As a result, workers who are laid off before their 10th year of service lose the pension if they are not rehired by the same employer.

"Those laid-off workers will make a lot of noise that Congress will listen to," Mr. Keene said.

The opening shot in the benefit

'Because we are much closer to the brink, 1983 has to be the year of Social Security legislation. Without legislation, there will be dead politicians all over the place as the monthly checks are delayed,' Mr. Schieber says.

tax war could come this month when the Reagan administration is expected to propose, as part of the federal budget for fiscal 1983, a limit on the amount of tax-free health care coverage an employer can provide.

For example, premiums that exceed \$50 a month for individual coverage or \$200 a month for family coverage might be considered part of an employee's taxable income.

An informal alliance of insurers, employers and unions are mobilizing to resist a health care premium tax. However, they face powerful opposition.

David Stockman, director of the Office of Management and Budget, and Martin Feldstein, President Reagan's chief economic adviser, favor a tax on health care. Mr. Feldstein, in particular, has argued that the availability of tax-free, employer-provided health insurance has been a cause of soaring medical care inflation.

Limitations also are expected on the use of the increasingly popular 401(k) salary reduction plans. Those plans, named after the section of the Internal Revenue Code authorizing them, allow an employee to reduce pretax income and put that amount into a company savings plan where it accumulates tax-free interest.

"Congress will be asking whether 401(k) plans should have the tax advantages it rejected for Individual Retirement Accounts when it expanded IRAs in 1981," said Mr. Kaye.

For example, withdrawals from a 401(k) plan are subject to the highly favorable 10-year forward averaging tax treatment. By contrast, IRA withdrawals are taxed as ordinary income.

In addition, IRA contributions are not subtracted from an employee's Social Security wage base. Wages deferred under 401(k) plans are exempt from FICA taxes, a practice that could cost the Social Security program hundreds of millions of dollars a year as the plans' popularity increases.

Subjecting wages deferred under salary reduction plans to FICA taxes is one of the "easy" Social Security changes Congress could make.

But federal legislators, like Sen.

John Heinz, R-Pa., are concerned that the Social Security wage base is being eroded as employee compensation in the form of benefits—which are not included in the wage base—increases.

Subjecting benefits to Social Security taxes would cause enormous administrative problems for employers. While a FICA tax on benefits is given only a slight chance of approval during this session of Congress, legislators are expected to study the issue closely, experts say.

However, other Social Security changes are likely to occur as the old-age retirement fund, which provides monthly benefits to 36 million people, starts to run out of money this summer.

"Because we are much closer to the brink, 1983 has to be the year of Social Security legislation," said Sylvester Schieber, research director at the EBRI. "Without legislation, there will be dead politicians all over the place as the monthly checks are delayed."

Legislation putting Social Security on solid financial ground could move quickly. The House Ways and Means Committee, for example, has scheduled hearings on Social Security beginning Feb. 1. Committee members would like a Social Security relief bill passed by the end of March.

The Social Security bill that is eventually passed is expected to contain several major changes, according to Mr. Schieber and other experts, including:

- Speeding up payroll tax increases scheduled for 1985 to next year. Currently, the FICA tax is 6.7% of the first \$35,700 of wages. The tax is now scheduled to increase to 7.085% in 1985.

It isn't known yet what the tax base will be in 1984, but it almost certainly will increase.

- Extending Social Security coverage to new and recently hired federal employees as well as barring non-profit employers, like hospitals, from leaving the Social Security program.

- Placing some kind of cap on future benefit increases so that benefits cannot increase faster than wages during periods of high inflation. Currently, benefits are increased annually to match the rise in the Consumer Price Index. ■

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Groundwater pollution may exist at 180,000 sites, EPA report says

WASHINGTON—Groundwater contamination may result from industrial and other types of waste dumped at more than 180,000 pits and lagoons nationwide, an Environmental Protection Agency report reveals.

The report, based on studies begun in 1978, concludes that about 90% of the ponds at 180,263 sites pose at least a potential threat of groundwater contamination. Only about 8,000 of the sites are industrial waste sites, according to Victor J. Kimm, director of the EPA's office of drinking water.

The study for the report involved "desktop" research without

visits to actual sites, Mr. Kimm said. But he added that a "significant proportion" of the sites has already been investigated by various state and federal agencies.

Money for cleanup of the sites could come from federal or state sources, or from the companies or individuals responsible for the pollution, Mr. Kimm said, adding he did not know if any of the waste producers have been required to contribute to a cleanup effort.

Some of the sites listed are among the 418 hazardous waste dumps identified by the EPA on Dec. 20 as "worst cases" and may receive federal cleanup funds. ■

Congress may amend 1981 Risk Retention Act

By JERRY GEISEL

WASHINGTON—Questions concerning the definition of product liability may prompt Congress to amend the Risk Retention Act during its new session.

Legislators could overhaul the 1981 law—which makes it easier for businesses to form captives to insure product liability risks—to make clear that the federal definition of product liability contained in the law supersedes any state definition.

However, the outlook for congressional action on a federal tort reform law, a federally supported trust to compensate asbestos victims or changes in the federal Longshoremen's and Harbor Workers' Compensation Act, is much less certain.

Congressional action on the Risk Retention Act could come if state legislatures enact a model bill adopted by National Assn. of Insurance Commissioners last month that allows a state to impose its own definition of product liability on risk retention groups, a source said (BI, Dec. 6, 1982).

Legal experts have warned that risk retention groups, in many cases, would be rendered useless if they were limited by different state laws on what types of risks they could insure.

Most observers believe that the very broad federal definition of product liability contained in the Risk Retention Act pre-empts any state definition.

"But even more explicit language may be necessary to discourage any state from adopting the NAIC model bill," the source added.

However, legislation that would establish a uniform federal product liability law clearly faces an uphill battle.

Some believe that business support for the federal product liability reform bill introduced by Sen. Robert Kasten, R-Wis., diminished late last year when the legislation was amended to make it more acceptable to consumer interests. However, others deny that the move to pass such a bill has slowed.

"In the fall of 1981, there was no bill and no sponsors. One year later, the Senate Commerce Committee had passed a bill and produced a report on the bill," said Victor Schwartz, counsel for The Product Liability Alliance, a Washington-based group that represents about 200 businesses and trade groups on federal product liability issues.

"If we continue at this pace, a bill can be enacted in two years," Mr. Schwartz predicted.

Congress also will consider proposals that would require the federal government to contribute half of the cost of establishing a compensation fund for victims of asbestos disease.

"There is no consensus on what federal action, if any, is appropriate," said Eric Oxfield, an employee benefits attorney with the U.S. Chamber of Commerce. "Many legislators will be turned off because of the complexities of the (compensation) issue."

However, Congressional consideration of federal action to compensate occupational disease victims could encourage insurers to settle differences among themselves on appropriate compensation formulas, explained Les Cheek, vp-federal affairs for Crum & Forster.

During the last session of Congress, the Senate passed legislation

overhauling the federal Longshore Act to curb the growth of future benefits payable to injured workers under the law (BI, Aug. 2, 1982). The bill, proposed by Sen. Don Nickles, R-Okla., however, never made it out of a House committee.

"Frankly, we were very disappointed," said Tom O'Day, assistant vp at the Alliance of American Insurers and chairman of the Longshore Action Committee.

But while a new bill will be introduced this year, its fate is uncertain. "I suspect that while support is very broad, it isn't very deep," said a business lobbyist.

Others say, however, that it is far too early to make any predictions about longshore legislation. ■

Stadium owner covered for collapse

Continued from page 2

dium in time for the game were also covered under the contract through an expediting-expense feature in the policy.

"They have a good insurance program and are adequately covered," the spokesman said.

The all-risk policy covering the Metrodome has limits of approximately \$80 million, industry sources say.

The accident occurred while workers were removing snow from the dome's roof on Dec. 30 following a huge snowfall. The sports commission was concerned the heavy snow would collapse the dome. Some of the snow shifted off the roof, resulting in an uneven weight distribution that caused part of the roof to rise and strike a snow-removal bucket.

The bucket tore a 6-foot hole in the roof fabric that continued to grow as air rushed out of the stadium.

Eventually, a 100-foot-long tear developed that was 40 feet across at its widest point.

"It was like a bedsheet," the spokesman for the commission said. "Once it ripped, it continued ripping. It was really a freak thing that happened."

The accident was the second time the fabric roof of the Metrodome deflated after a snowstorm. In a November 1981 incident, part of the roof deflated under the weight of the snow.

That incident also caused an estimated \$400,000 in damage.

Last month's accident, however, was not caused by the weight of snow on the stadium's roof, the commission spokesman pointed out.

About 10 people were working on the dome roof at the time of the incident. There were no injuries. "We got lucky on that," the commission spokesman said.

The commission that owns the Metrodome is an independent political subdivision of the state.

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Judge's order upsets Hyatt settlement

By BILL DENSMORE

KANSAS CITY, Mo.—An unexpected action by a federal judge could raise the stakes for defendants in the Kansas City Hyatt Regency Hotel skywalk collapse litigation.

U.S. District Judge Scott O. Wright last week found defense attorneys in contempt of court for proposing a state-court class settlement in the case (BI, Dec. 13, 1982). Judge Wright then ordered an estimated 185 victims who withdrew from a competing federal court class action after Dec. 6 back into the federal class.

The federal class-action trial is expected to begin this week in Judge Wright's court.

In addition, some 999 people who were present at the hotel when the skywalks collapsed on July 17, 1981, and have received \$1,000 settlements from Hallmark, were ordered back into the federal class.

However, all 1,184 claimants have until Jan. 12 to decide whether to remain in the federal class, rejoin the proposed state class settlement or pursue their claims individually.

Hallmark Cards Inc., Hyatt Corp. and other skywalk defendants could possibly pay out millions of additional dollars if most of these claimants decide to remain in the federal class, led by Washington at-

torney Irving Younger of the firm of Williams & Connolly.

On Dec. 6, state court plaintiffs and Hallmark announced they had agreed to create a punitive damage fund of up to \$20 million to resolve claims pending in state court. Under the proposal, plaintiffs would have to agree to either settle claims or sue only for compensatory damages in state court to be entitled to a share of the punitive damage fund.

The state class settlement extended to anyone present when the skywalks collapsed, thus encompassing all the claims pending in the competing federal court class action.

Mr. Younger, the lead federal class attorney, immediately protested the state class settlement, claiming it interfered with the federal proceedings.

In a related development last week, Jackson County Circuit Court Presiding Judge Forest W. Hanna delayed giving final approval to the state class settlement.

Without final state court approval, Hallmark, Hyatt and other defendants were faced with beginning the federal court trial this week without knowing whether they had indeed settled with state court plaintiffs, whose claims are estimated to be worth \$40 million.

The defendants have been hoping the state court settlement

would bar federal class victims from obtaining punitive damages. Defense lawyers believe that Missouri law says that punitive damages can only be awarded against a defendant once in a particular incident.

Thus, if the state judge approves the punitive damage settlement fund, federal plaintiffs could not receive punitive damages, the defense attorneys maintain.

Lawyers had been expecting another state court judge, Timothy D. O'Leary, to give fast approval to the proposed settlement. But Judge O'Leary withdrew from the case Jan. 4, citing a potential conflict because a niece and nephew were in the Hyatt lobby and potentially could accept the \$1,000 settlements offered by Hallmark.

Judge Hanna had already been consulting with Judge O'Leary on the case, lawyers said.

Federal Judge Wright's order, issued Jan. 4, also voids the liability releases signed by the 999 people who accepted the \$1,000 settlements. The order directs that the \$1,000 payments be considered as "advances" on any future damage awards to these claimants.

The payments were made in behalf of all defendants by Commercial Union Insurance Co., which wrote a \$1 million primary and a \$10 million excess/umbrella liability policy for Hallmark.

A Hallmark subsidiary, Crown Center Redevelopment Corp., built and owns the building which houses the luxury hotel, which is managed by Hyatt.

The federal judge ruled that a notice sent to Hyatt victims under the authority of the state court failed to point out that the Dec. 6 settlement proposal was only tentative and might not be approved by the state court.

The federal judge also said the notice did not point out that if the state settlement is not approved, members of the state class who have withdrawn from the federal

class to take advantage of the state settlement would be left in neither case.

Judge Wright says such actions evidence a deliberate attempt on the part of defendants "to evade this court's supervisory authority" and to cause "disruption of the entire skywalks litigation."

"If this court permits the defendants to make an end run around its supervisory authority, the principle that will be established for future class actions is unconscionable," the order adds.

Judge Wright says the timing of the defendants' acts, coming just prior to the start of a federal trial, "echo their intent."

The federal judge's order declares that the news conference and other direct communications between state parties and federal class members violated legal ethics. Hence, Judge Wright found anyone who wrote the federal court after Dec. 6, asking to be removed from the federal class, must be given an opportunity to reconsider.

Since the beginning of federal court proceedings, a total of approximately 335 claimants have opted to renounce their membership in the federal class and continue their claims either in state court or individually in federal court. Fifty plaintiffs withdrew prior to Dec. 6, 100 on Dec. 6, the date the proposed settlement was announced, and 185 withdrew after the announcement.

Judge Wright's decision does not affect the 150 victims that opted out of the federal class action on or before Dec. 6.

A total of 204 cases have been settled to date at a cost to the defendants of approximately \$34 million. An additional 36 cases have reached the level of a "handshake agreement" to settle, both sides say, and will result in additional payments of \$15 million.

"We're not afraid of a trial from the standpoint of publicity or the court results," says a Hallmark at-

torney, John M. Townsend of the New York law firm of Hughes, Hubbard & Reed. Attorneys familiar with the litigation estimate the trial would cost both sides an estimated \$1 million in court costs and legal fees.

Commercial Union exhausted its limits in settlements prior to Dec. 31, says Stephen A. Cozen of the Philadelphia law firm of Cozen, Begier & O'Connor, which represents CU.

Northbrook Excess & Surplus Insurance Co. previously exhausted its limits of \$25 million on behalf of its policyholder, Hyatt, as did Hyatt's primary liability insurer, Occidental Fire & Casualty Co. of North Carolina.

Baccala & Shoop Insurance Services of Newport Beach, Calif., is now sharing claims-handling responsibilities with the American Insurance Co. of Novato, Calif. American, a Fireman's Fund Insurance Co. subsidiary, wrote a \$50 million excess policy above CU in the Hallmark line, and Baccala is the underwriting and claims manager for three excess insurers that shared a \$25 million layer in the Hyatt line above Northbrook.

Last week, attorneys for Hyatt disclosed they had reached a written agreement with Hallmark under which Hyatt agrees to support the proposed state court settlement arranged by Hallmark and thereby be free of any further victims' claims in that proceeding.

The terms of the agreement were not disclosed but sources said the agreement calls for Hyatt to pay no punitive damages. Rather, Hyatt agrees to direct its insurers to participate in funding any compensatory damage settlements that result from the agreement.

Attorneys for Eldridge & Son Construction Co., Inc., which built the hotel, said they had reached a similar agreement with Hallmark. Other defendants, if they do not reach similar agreements, could still sue or be sued.

Wage-loss proposal introduced

BATON ROUGE, La.—Louisiana could become the second state to compensate injured workers only for proven lost wages. The proposed legislation also seeks to create a new state-administered workers compensation system.

The wage-loss portion of Senate Bill 14 is modeled after Florida's 1979 reform, but Louisiana officials have replaced the phrase "wage-loss" with "supplemental earnings benefits."

The legislation, which was introduced in the Senate Jan. 4, seeks to replace a permanent partial disability benefit system with compensation only for proven lost wages after an accident.

The reform also would create a system to process claims rather than have disputed claims go through the district court system.

The bill will die if it is not passed before Jan. 19, the last day of the special legislative session.

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MGM claims may be capped at \$115 million

Continued from page 1

In the aftermath of what was described as one of the worst fires in recent U.S. history, MGM purchased an additional \$170 million in retroactive liability coverage at a cost of \$39 million to meet potential claims resulting from the fire which killed 85 people and injured 591 on Nov. 21, 1980. (BI, Feb. 9, 1981).

The back-dated liability coverage, which has been a source of courtroom controversy from the outset of the massive litigation, was layered in four tiers. The policy providing the first layer of retroactive insurance of \$35 million was issued by Union Indemnity Insurance Co. of New York, a subsidiary of broker Frank B. Hall & Co., which brokered the back-dated insurance. Union's policy, which was reinsured primarily with General Reinsurance Corp., is the policy immediately at risk in the settlement.

MGM's general counsel Bernard Segelin said MGM will pay the settlement cost initially with its own funds and will then move to resolve its insurance claims.

When the final figures are tallied, it is projected that the MGM settlement will have saturated the \$30 million in liability coverage the company had prior to the fire, the first two layers of retroactive coverage totaling \$70 million, and push into the third tier of insurance. The final \$75 million excess of \$125 million in retroactive coverage is expected to remain untouched.

Although it is almost a certainty that there will be resistance among at least the first two layers of insurers once they receive MGM's claims, the companies are declining comment on the case until the settlement is finalized.

"Because this retro coverage is such a new animal, there are any number of unanswered questions on just how each policy will respond," said one attorney attached to the case. "I expect MGM will be pushed to litigate to settle some of the insurance issues."

An insurance expert close to the case and familiar with both the settlement and the Union policy said, "Obviously there is conflict (between Union and MGM). You look at the policy and you look at what's being said in the newspaper (about the coverage responding) and they just don't match."

Allan Goldman, chief attorney for MGM in the litigation, said that approximately \$10 million of that \$35 million layer already has been absorbed by settlement costs, leaving about \$25 million that would be the first tapped by MGM in the current \$75 million settlement.

"Union Indemnity, the carrier presently at risk, has said very clearly to us 'MGM, you go make your settlement and then you come to us for indemnification,'" said Mr. Goldman, of the Los Angeles law firm of Wyman, Bautzer, Rothman & Silbert, in characterizing Union's participation in the negotiation process. "They were given drafts of all the negotiations and we were encouraged by the insurers to negotiate toward a settlement."

However, there is no indication that the insurers watching the proceedings gave any stamp of approval to the final product.

"The insurers could take a lot of different positions (on any claims filed by MGM) like 'You're paying too much money,'" Mr. Goldman said. "But we've been having discussions with them throughout and I would certainly be hopeful that no major problems will arise."

Potential problems with insurers could hinge on interpretation of the policy terms. The insurers and reinsurers may also balk because the settlement is coming sooner—

just over two years since the fire—than the six to 10 years some had expected. The sooner the insurers have to pay losses, the less investment income they can earn on the prepaid premium.

The first stage of the agreement, which was completed last Monday, called for MGM to place \$25 million in a trust upon the initial signing of the plan. MGM has complied by placing \$25 million in the court-monitored fund established by the agreement.

A second \$25 million is to be paid into the trust upon delivery of 100% of the releases from the 450 claimants, which would relieve MGM from further liability in those cases.

The final \$25 million would then be paid over a two-year period in two installments.

The court-approved agreement requires that the Plaintiffs' Legal Committee, a committee of 10 attorneys appointed to represent the myriad of plaintiffs, deliver these releases by April 1, 1983, or the settlement is subject to cancellation by MGM.

The 450 lawsuits include 65 death claims, 872 individual personal injury claims and a handful of property damage claims. Settlement figures have been reached in approximately 60% of these cases, with exact settlement amounts on the other claims still being finalized.

Once the \$75 million has been individually prorated in each of the 450 suits, the plaintiffs' committee will present these offers to the claimants for individual approval.

Although MGM officials have indicated that they would accept less than 100% of the claimants' releases, sources close to the case say that if less than 75% of the claimants approve the settlement offer, MGM might consider withdrawing from the settlement.

Finalizing the settlement is also contingent on the plaintiffs' committee's ability to collect additional amounts of money from other defendants in the case.

On Tuesday, following the initial signing of the MGM agreement, four small contractors among the other 112 defendants named in the case joined MGM by offering a settlement totaling \$2 million.

Air Balance Co., W. A. Perry, Standard Cabinet Co. and Advance Mechanical Co. each agreed to pay \$500,000, according to plaintiff's committee co-chairman, New Orleans attorney Wendall Gautier.

All four of these defendants have liability insurance which is expected to respond to the settlement agreement, said Mr. Gautier.

A total figure of the additional amounts required by the Plaintiffs' Legal Committee to finalize the settlement has not been disclosed. There are several other major defendants that have not moved toward settlement and still face a Jan. 17 trial date.

Among them is California Electric Construction Co., a unit of GK Technologies Inc., which also purchased \$40 million in retroactive liability insurance. However, more defendants are expected to propose settlements as the trial date draws closer.

The proposed MGM settlement received formal approval last Tuesday from United States District Court Judge Louis C. Bechtel, who has been presiding over the vast majority of these cases following his appointment by the Judicial Panel on Multi-District Litigation (BI, Sept. 28, 1981).

Judge Bechtel said he found the settlement "fair, just and reasonable." Although there are a number of contingencies that must be met before the settlement is finalized, both plaintiff and defense attorneys seem optimistic that the remaining conditions can be met.

Once the settlement is finalized, MGM would then be in a position to file claims for indemnification of its liability losses.

Mr. Segelin said discussions are under way with insurers regarding the projected losses. The final financial impact of the hotel fire on MGM will rest on the result of those discussions and on just how much of the liability costs the insurers agree to indemnify.

Once the first tier of the retroactive insurance underwritten by Union Indemnity has been exhausted, bringing the total liability costs paid to \$65 million, a second tier that is layered from \$65 million to \$100 million would be tapped.

This second \$35 million layer includes Central National Insurance Co. for \$16.1 million; American International Group Inc. for \$10.5 million; General Reinsurance Corp. for \$3.5 million; Chubb & Son for \$2 million; Lloyd's and British companies for \$1.75 million; and Crum & Forster for \$1.1 million (BI, Sept. 28, 1981).

The \$35 million provided by Union Indemnity is believed to have cost about \$20 million and the second layer of \$35 million underwritten by six other insurers is thought to have cost \$7 million.

When MGM reaches into this second \$35 million layer, the claims will be spread among those companies with all participating on a pro rata basis, according to an MGM attorney.

Once these layers are exhausted, the third layer provides \$25 million in excess of the \$100 million underlying coverage. The cost of that coverage is estimated at \$2.5 million.

Companies participating in the third layer, which will most likely be penetrated for \$15 million to \$20 million, include National Union Fire Insurance Co. for \$10.35 million; Insurance Corp. of Ireland for \$5 million; St. Paul Surplus Lines Insurance Co. for \$3.2 million; Northbrook Insurance Co. for \$2.5 million; Travelers Indemnity Co. for \$1 million; Crum & Forster Group for \$1 million; The Home Insurance Co. for \$1 million; Northumberland General Insurance Co. for \$750,000; and Guardian Insurance Co. of Canada for \$200,000.

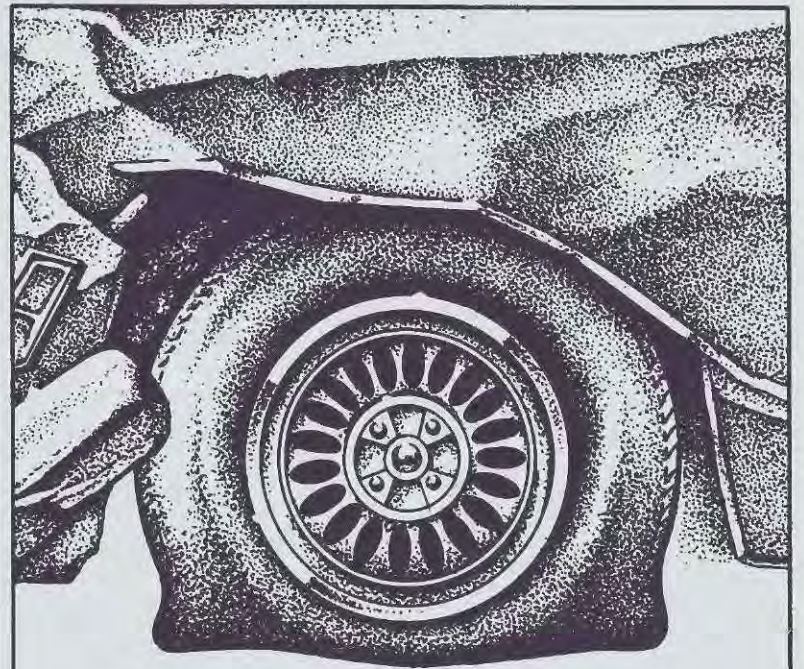
"The \$100 million to \$125 million layer is a pro rata layer too," said Mr. Goldman. "Then from \$125 million to \$200 million it gets very complicated. In some areas it is pro rata and in other areas it is fixed and there are many, many companies involved."

While it is doubtful that MGM will pierce the top \$75 million layer of retro coverage, there are 12 participants in this layer which is believed to have cost MGM between \$5 million and \$9 million.

Participants in this layer include Lloyd's & British companies for \$39.4 million; Union International-U.S. branch for \$19.8 million (of which \$3 million is reinsured by Resolute Reinsurance Co. and the balance by General Reinsurance Corp.); Federal Insurance Co. for \$2 million; Mercantile Mutual for \$3 million; Grand Union Insurance Co. for \$1.5 million; The Travelers Insurance Co. for \$2 million; Oriental Fire & Marine for \$225,000; The Home Insurance Co. for \$1 million; Employers Insurance of Wausau for \$3 million; Birmingham Insurance for \$1.5 million; Agencie Interoceania for \$75,000; and Falcon Insurance Co. for \$1.5 million.

This settlement in no way affects the \$70 million suit brought by MGM against two of its property insurers resulting from a dispute on the rebuilding of the Las Vegas hotel-casino after the fire (BI, March 1, 1982).

According to an MGM attorney, that suit is proceeding toward a trial date of August 1, 1983.



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Tylenol suit

Continued from page 1

In addition to those losses, McNeilab spent more than \$60 million to withdraw its Extra-Strength Tylenol and other capsule products from the market, the suit says. It is asking for reimbursement for these actual withdrawal costs from excess and umbrella liability insurers in the first four layers of its umbrella liability insurance program.

If the court finds that J&J's excess liability insurers are not liable to their policyholder for payment of product withdrawal expenses, then the lawsuit asks for recovery of these recall costs under the Affiliated FM all-risk property policy in addition to the business interruption costs. In any event, the maximum limit of that policy would not permit recovery for both the withdrawal and business interruption losses.

McNeilab has submitted claims to all of the insurers named in the suit, but none has acknowledged coverage for withdrawal or business interruption expenses, the complaint states.

In its claim against its excess liability insurers, McNeilab appears to be arguing that the Tylenol recall prevented additional user deaths and direct product liability claims against the company. Since death claims against the Tylenol maker would be recoverable under the policies, so too should the expenses incurred to avoid those damages, the policyholder argues.

Asked to summarize McNeilab's arguments for coverage under its various policies, Johnson & Johnson Assistant General Counsel Roger Fine referred to the complaint.

"I think the language speaks for itself," he said, pointing to two paragraphs within the suit.

"Once McNeil was put on notice of the rash of random poison injections into its Tylenol capsules, its failure to effect prompt withdrawal of the Tylenol capsules... could, and in all likelihood would, have been claimed as a negligent or grossly negligent omission constituting a proximate cause of any further poisonings."

The other key paragraph refers to J&J's claim for business interruption and extra expense coverage under its all-risk property policy.

"The physical damage to the Ty-

lenol capsules injected with poison... resulted in withdrawal of all Tylenol capsules from the marketplace and business interruption and extra expenses suffered by McNeil, for all of which defendant Affiliated FM Insurance Co. is obligated...."

This language describes a chain of causation beginning with the physical contamination of the product that leads to eventual loss of earnings and extra expenses.

"J&J retains an insurable interest in Tylenol in the marketplace. When there is direct physical damage to the product in the marketplace, that triggers the coverage," explains Gregory L. Diskant, a partner in the New York law firm of Patterson, Felknap, Webb & Tyler, which is representing McNeilab in tandem with Smith, Stratton, Wise & Heber in Princeton, N.J.

Mr. Diskant pointed out that his client is seeking recovery of the full \$50 million policy limit under the all-risk property policy.

The \$60 million sought under the excess policies, or alternatively under the business interruption policy, to reimburse withdrawal expenses could change as better estimates of the actual costs become available. But the trend in that estimate is down from the \$100 million originally calculated by the company, he said.

Most of the recall costs were incurred in buying back Tylenol bottles from retailers and consumers and shipping them to disposal points. The cost of testing all the recalled capsules for the presence of poisons exceeded their value; therefore, all the withdrawn capsules were destroyed.

The coverage dispute is complicated by the participation of Middlesex Assurance Co. Ltd., J&J's wholly-owned Bermuda captive insurer, in the parent's product liability program. Middlesex underwrites the first \$5 million of J&J's U.S. product liability coverage and assumes an additional \$2.5 million in both the first and third excess umbrella layers.

Ordinarily, excess insurers will not pay a loss until underlying limits are exhausted. But, Mr. Fine says that payment to the parent by the captive is not an issue that any of the excess insurers has raised.

"Middlesex has not paid on a claim—but no one has even asked about it," he noted.

Ordinarily, excess insurers would expect a primary insurer to lead their legal defense. But, in this case, since the primary insurer is a subsidiary of the policyholder, it is uncertain how the defense will be coordinated among the defendants.

Three of the defendants—North River Insurance Co., a unit of Crum & Forster, Employers Insurance of Wausau and Transit Casualty Co.—have retained the New York law firm of Mendes & Mount to defend them against the McNeilab suit, confirmed Richard Seybold, an attorney at the firm who is handling the litigation.

"To my knowledge, there has been no meeting of the parties and there is no great uniform approach," he said.

Northbrook Excess & Surplus Insurance Co. has retained Feinberg, Feinberg & Tritsch, a Rahway, N.J., law firm, reported an executive in the insurer's claims department.

The legal defense plans of the other excess and umbrella insurers, including Aetna Casualty & Surety Co., American Centennial Insurance Co., Granite State Insurance Co. and First State Insurance Co., could not be determined.

Affiliated FM Mutual Insurance Co. has retained the Newark firm of Podvey, Sachs & Catenacci to represent it in the lawsuit.

"We've just been retained and have not really had a chance to study the case," said Henry Catenacci, a partner in the firm. But he raised two issues he expects to figure in the suit.

"Business interruption is triggered by perils covered in a policy," he noted. "Does the policy cover business interruption that is caused by voluntary withdrawal of the product from the market?"

The second issue is the limit of Affiliated FM's liability under its policy. It is not clear from the policy if the full \$50 million catastrophe limits afforded by the policy would be available to pay McNeilab's claim, said Mr. Catenacci. He added that the insurer's very large policy is heavily reinsured.

Under federal court rules of procedure, the parties have 35 calendar days from service of the suit to answer, said Mr. Catenacci. Some of the defendants reported they were served Jan. 4, although most were already aware that the suit had been filed.

The day following the filing of

the suit in the Newark federal court, McNeilab attorneys asked the court to delay service of summons until they gave the go-ahead.

"We wanted to have a chance to talk to the insurers before commencing suit," explains Mr. Fine in J&J's legal department.

However, none of the defendants or their attorneys contacted by *Business Insurance* acknowledged that serious claims negotiations have taken place. "There haven't been any to my knowledge," said Mr. Seybold at Mendes & Mount.

Because they had not yet seen the complaint, general counsels and claims executives at the insurers were reluctant to discuss the likely direction their defense would take. Privately, they were aghast that a policyholder would sue for product withdrawal coverage under an umbrella excess policy.

"That's really stretching it," said an attorney in one of the defendant insurer's legal departments.

Most umbrella policies include an exclusion for "damages claimed for the withdrawal, inspection, repair, replacement or loss of use of the named insureds products....," noted James A. Robertson, editor of "The Umbrella Book," a respected reference on commercial umbrella and excess liability forms that is published by risk management consultants Warren, McVeigh & Griffin.

But J&J's first-layer excess umbrella, underwritten by North River, is a manuscript policy and could be an exception to the rule. "What I would expect is that the policy speaks for itself," observes Donald F. Muldoon, who heads the company bearing his name that also acts as managing general agency of Transit Casualty Co.

The key will be the intention of the parties in drafting the policies and interpretation by the court of possible ambiguities. State law typically requires that ambiguities in insurance coverage be construed in favor of the policyholder.

J&J's product liability coverage, provided by its captive and its excess and umbrella liability policies, exceeds \$100 million, confirmed Mr. Fine. The first \$80 million is structured as follows:

Middlesex Assurance Co. Ltd., one of two J&J Bermuda captives, underwrites the first \$5 million

combined single limit each occurrence, each product and annual aggregate, including defense costs.

The first excess layer, underwritten by L. W. Biegler Inc. in Chicago provides limits of \$5 million and is split equally between Middlesex and North River. The premium for this excess layer, to be shared by Middlesex and North River, is based on sales, beginning at 47 cents per \$1,000 of gross sales of contraceptives, intrauterine devices and ethical drug products; 19.6 cents per \$1,000 of gross sales of non-ethical drug products and 1.7 cents per \$1,000 of all other gross sales. In the second year, the rates increase to 48 cents from 47 cents and to 20 cents from 19.6 cents. In any event, the maximum cost of the 36-month policy is to be \$2.85 million.

J&J paid a minimum and deposit premium to North River on Jan. 1, 1982, of \$422,830 in U.S. dollars and \$17,983 in Canadian dollars. The policy also calls for installments to North River of \$431,640 in U.S. funds and \$18,360 in Canadian funds on Jan. 1, 1983, and again on Jan. 1, 1984.

The second excess layer provides limits of \$20 million and is written by North River for \$12.4 million, Middlesex for \$2.5 million, Transit Casualty for \$500,000 and Employers of Wausau for \$4.6 million.

The third excess layer provides limits of \$25 million and is underwritten by Aetna Casualty & Surety for \$7.5 million, American Centennial for \$5 million, Granite State for \$4.9 million, North River for \$5 million and an unidentified insurer for \$2.6 million.

The fourth excess layer provides limits of \$25 million and is underwritten by Aetna for \$5 million, Granite State for \$6 million, First State for \$5 million and Northbrook Excess & Surplus for \$9 million.

Much of the excess coverage is reinsured in London markets, say industry sources.

The all-risk property policy provided by Affiliated FM Insurance Co. was underwritten for a three-year period ending July 1, 1984, for a total premium of about \$1.8 million including \$611,000 at inception and an equal amount each anniversary.

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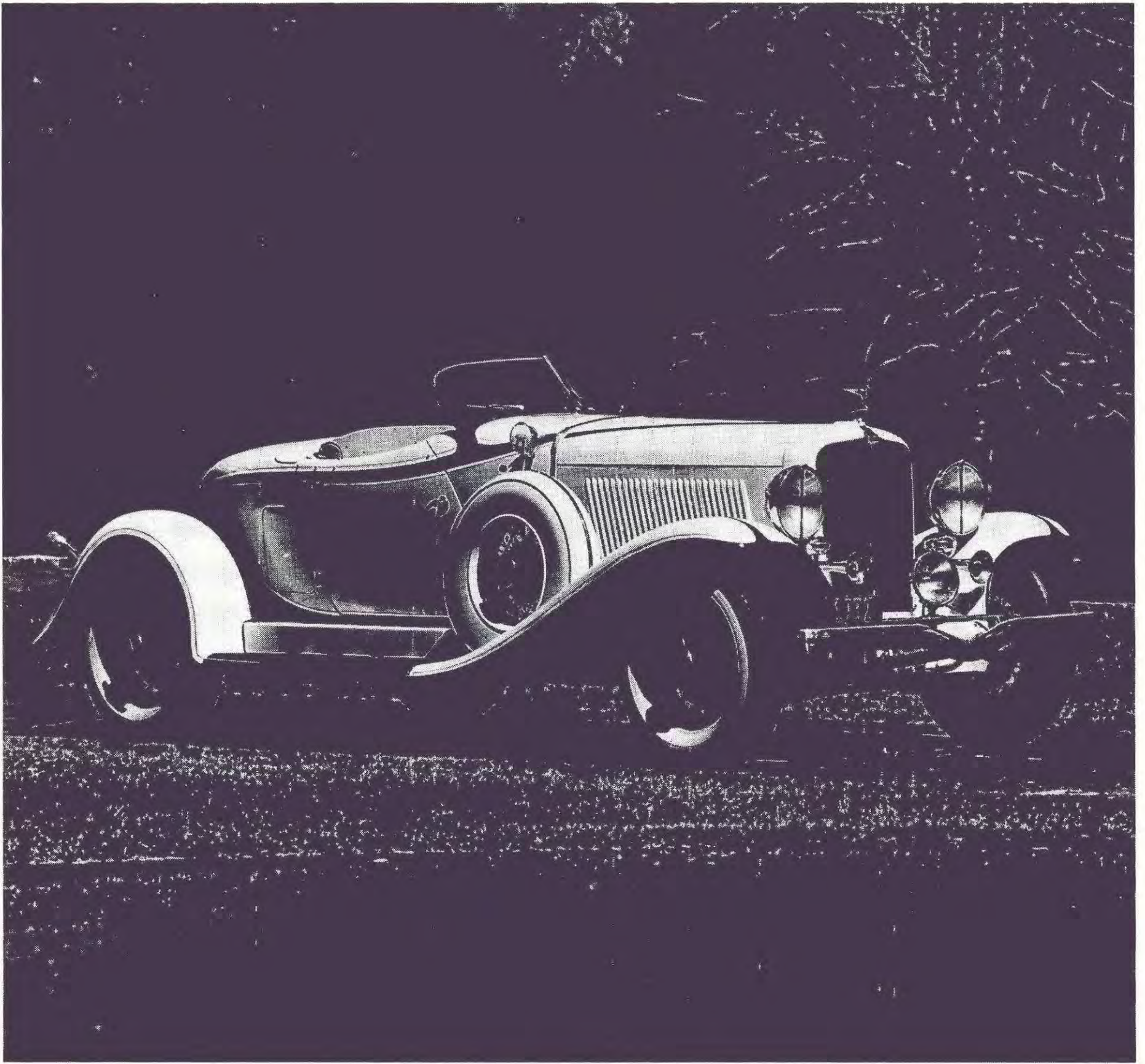
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