

# business insurance

**update:**

## New limits on noise to cost \$254 million

WASHINGTON—Employers will be required to offer more protection for workers exposed to high noise levels—protection that is expected to cost \$254 million to implement, the Occupational Safety and Health Administration says.

The final OSHA standard, published in the Jan. 16 Federal Register, says  
*Continued on next page*

the national newsweekly of loss prevention, risk financing & benefit management/\$1 a copy; \$30 a year © Entire contents copyright 1981 by Crain Communications Inc. All rights reserved.

## Low prices win stars for broker

By LEN STRAZEWSKI

WHITE PLAINS, N.Y.—Service sells a broker, most insurance buyers say, but low price won a piece of the giant Texaco Inc. insurance program for the local office of Emmett & Chandler.

The Los Angeles-based broker beat out Corroon & Black, a Texaco broker since 1949, and Rollins Burdick Hunter in a competitive bid for the oil firm's primary casualty coverage. The program exceeds \$20 million in premium, including some coverages not with the new broker, said Texaco insurance manager Robert Kreiling.

"We've never changed brokers for a lack of service," Mr. Kreiling explained. "We deal with most of the major brokerage houses and all of them seem to have the services we require. What we are looking for is the lowest price."

"I don't want 10 pages of service promotion in a broker's proposal. I can't read all of that," he continued. "I want the shortest possible plan for dealing with our needs and a clear statement of how much it will cost."

Mr. Kreiling would not disclose the winning bid, but did outline his broker's tasks for the coming year. Service will be the primary function be-

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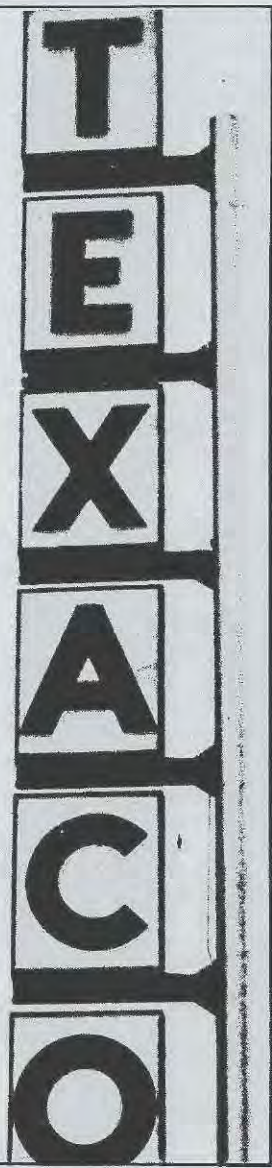


Photo: Mary Cairns

## Insurer cash flows signal hike in rates

By STUART EMMRICH

NEW YORK—The rising tide of investment income gains for insurers that has supported cheap insurance prices is starting to fall, foreshadowing a quicker return to higher insurance prices.

The price change could occur later this year, some analysts say.

Insurers competing for business by slashing insurance rates are left with smaller gains in premium dollars to invest, hence a drop in the record investment income growth rates.

At the same time, underwriting losses are increasing, draining cash flows.

"Cash flows are coming down," said Michael Morrissey, senior vp at Crum & Forster. "We have more money to invest than we did five or six years ago, but less relative to 1978 and 1979."

Premium volume grew only 5% to 6% in 1980 for many companies, he noted. "Cash flow is down 25% to 30% over last year for some companies," he said.

The result: Insurers' investment income will be only 18% more in 1980 than in 1979 and only 15% more in 1981 than in 1980, analysts predict. These are significant drops in growth compared with gains exceeding 20% during 1977-1979 (see chart).

"We see a pretty good decline in the rate of growth of investment income," says Robert Bryan of analysts Conning & Co. in Hartford, Conn. "This is happening all over the industry, with many companies showing significant percentage decreases."

Other analysts and insurers agree investment income increases are tapering off, a trend that could have significant impact for insurance buyers if it continues.

For the last several years, buyers have been purchasing insurance at bargain prices because

underwriters knew they could recoup losses from record-high levels of investment income.

This slowing of investment income growth alone won't be enough to force most underwriters to charge more for insurance, analysts agree, although some may tighten their underwriting. But continuing slowdown will speed the advent of higher insurance prices that have been predicted to come as un-

*Continued on page 31*

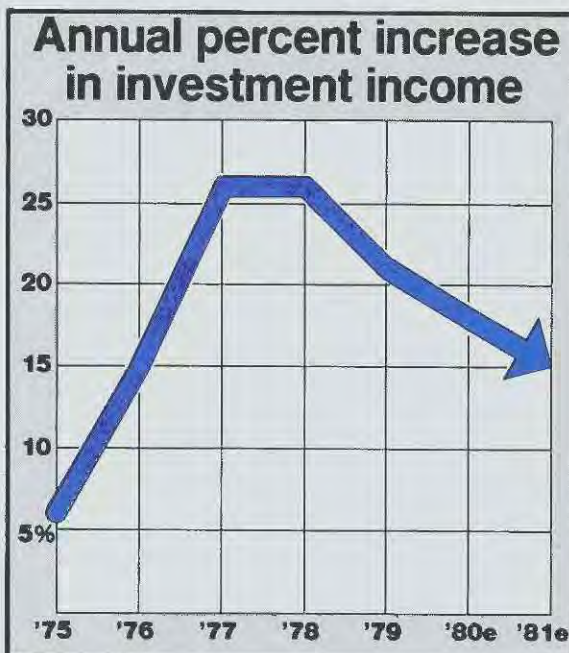


Chart: Toby Roberts

## Firms worry ruling frees worker to sue

By EILEEN NORRIS

SAN FRANCISCO—Business leaders here are worried a recent court ruling will erode the workers compensation system by permitting employees to sue their employers—and collect.

If upheld by the California Appellate Court, the county court decision could be a precedent for other states and disarm employers that are bucking the employee litigation trend, they say.

Involved in the case is a legal argument that a corporate self-insurer of workers compensation puts itself in the dual capacity of insurer and employer, exposing itself as an insurer to a third-party suit by an injured employee.

That could cause litigation problems not

only for self-insurers, but also insurers.

The case dates back to 1974, when a California employee of New York-based International Paper Co. was badly burned in a sawdust explosion and fire at IPC's Northern California plant.

Lumbermill worker Winston S. Williams, who has been out of work since the accident, has collected more than \$120,000 in medical and disability benefits.

His lawsuit against his self-insured employer (as insurer) came to trial last October, and he was awarded \$825,000 in damages by a Siskiyou County Superior Court jury.

IPC is planning to appeal the decision.

The employee's lawyer, Robert M. Arbutnot of San Francisco, successfully argued that as a self-insured workers compen-

*Continued on page 27*

## Policies play defense for NFL

NEW ORLEANS—While Jim Plunkett and Ron Jaworski are calling audibles, the NFL will be well defended for Superbowl XV Sunday, it says.

The NFL, which is renting the Louisiana Superdome for the championship game between the Oakland Raiders and Philadelphia Eagles, has broadened coverage under its umbrella insurance policy for the big game, said an NFL spokesman.

Specific coverages and limits had to be added to meet regulations of the Superdome stadium authority.

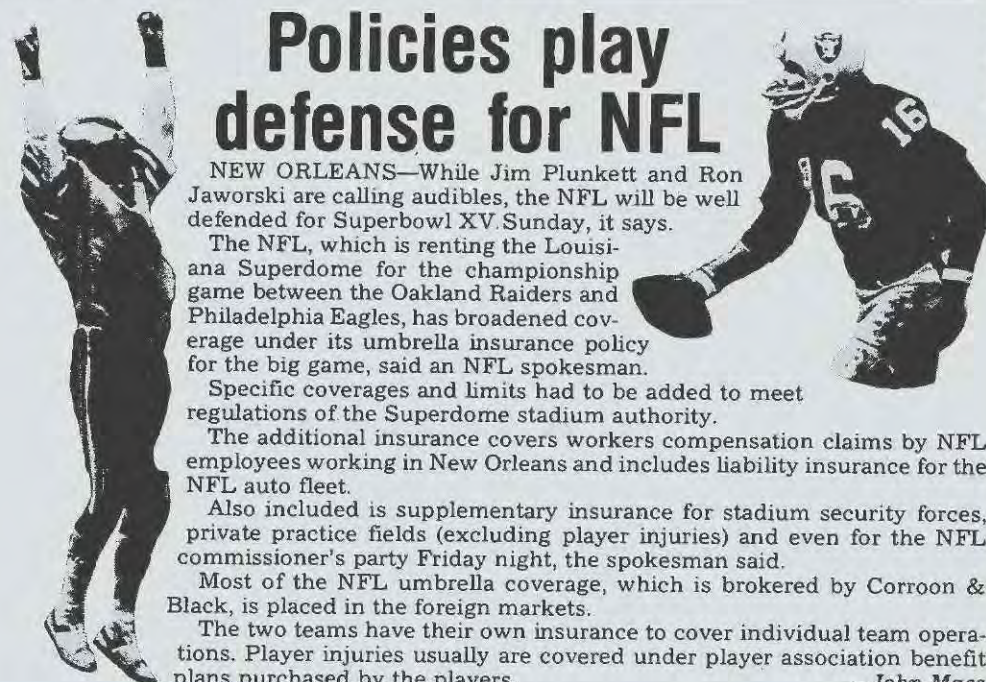
The additional insurance covers workers compensation claims by NFL employees working in New Orleans and includes liability insurance for the NFL auto fleet.

Also included is supplementary insurance for stadium security forces, private practice fields (excluding player injuries) and even for the NFL commissioner's party Friday night, the spokesman said.

Most of the NFL umbrella coverage, which is brokered by Corroon & Black, is placed in the foreign markets.

The two teams have their own insurance to cover individual team operations. Player injuries usually are covered under player association benefit plans purchased by the players.

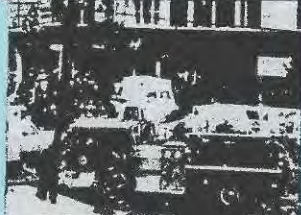
—John Maes



Photos: Wide World

**INSIDE:**

Shelter-care fire prompts look at codes  
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Reagan to cut HMO support  
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## update:

### OSHA sets hearing standard

Continued from previous page  
earmuffs or earplugs must be made available to workers if the noise level exceeds 85 decibels daily.

If the noise level exceeds 90 decibels, workers must wear protective devices. In addition, employers must offer periodic hearing tests if their workers are exposed to more than 85 decibels over an eight-hour period.

The standard, which will be phased in over a year, affects 2.9 million workers exposed to at least 85 decibels and 2.3 million workers exposed to more than 90 decibels. It will improve workplace safety, reduce absenteeism and cut workers compensation costs, said outgoing OSHA chief Eula Bingham.

Another final OSHA standard simplifies a code to protect workers and property against potential hazards of electricity.

### FICA overhaul urged

WASHINGTON—Another major commission has recommended a sweeping overhaul of the Social Security System.

The congressionally appointed National Commission on Social Security says the age at which a worker can collect full benefits should be raised to 68 from 65 by the year 2000.

The commission also recommends benefits not be fully indexed to match inflation and that all new public employees be required to participate in Social Security.

The commission's recommendations are similar to those made by the President's Commission on Pension Policy.

The outgoing Carter administration last week also asked Congress to change current cost-of-living benefit increase formulas for Social Security and other federal retirement programs.

It suggested retirement benefit increases be based on a modified consumer price index that omits mortgage interest rates.

### Journal covered for libel suit

NEW YORK—Libel insurance would cover potential losses from a \$63 million suit filed against the Wall Street Journal, Dow Jones Co. confirms.

But John Maiorana, insurance manager for the Journal's parent company, declined to discuss the policy's limits or what deductible, if any, the company would have to pay.

The insurance was written primarily by Mutual of Bermuda, Mr. Maiorana said, declining to identify other insurers on the policy.

The suit was filed against the Journal by two former Justice Department attorneys, currently in private practice, who allege a feature story published April 11, 1979, damaged their reputations, lost them clients and caused them to suffer "great embarrassment, humiliation, anxiety, stress and mental agony."

The suit asks for \$33 million in compensatory damages and \$30 million in punitive damages.

### Quinn named commissioner

SACRAMENTO—Robert Quinn, 43, is the new commissioner of the California Insurance Department. Mr. Quinn was appointed by Gov. Jerry Brown to fill the post vacated by Wesley J. Kinder (BI, Dec. 22, 1980).

Mr. Quinn is a former executive with Nationwide Insurance Co. in Columbus, Ohio, and recently completed teaching classes at his law school alma mater, Ohio State University.

### Blackout probes sought

SALT LAKE CITY—State prison officials and a consumer group are seeking investigations to determine who is liable for damages to electrical equipment following a six-hour blackout earlier this month.

Hundreds of residents of Utah and parts of Idaho and Wyoming say Utah Power & Light Co. is liable. The utility, however, says the outage occurred after a controlled trash fire at a state prison near Salt Lake City caused an explosion that severed a power line.

Prison officials have called for an investigation by the Utah Attorney General's Office. A consumer group wants the Utah Public Service Commission to investigate any possible negligence of the utility.

### Eight ships lost in storms

LONDON—Storms off the coast of Algeria sank or capsized eight vessels and damaged 16 others, according to Lloyd's of London sources.

Insurance details were available on only one ship—the Kapetan Markos, a Greek freighter valued at \$7 million that burned and went aground near Arzuw. The ship's hull coverage was underwritten by Lloyd's and London companies.

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# Quake protection to cost \$750 million

By RHONDA L. RUNDLE

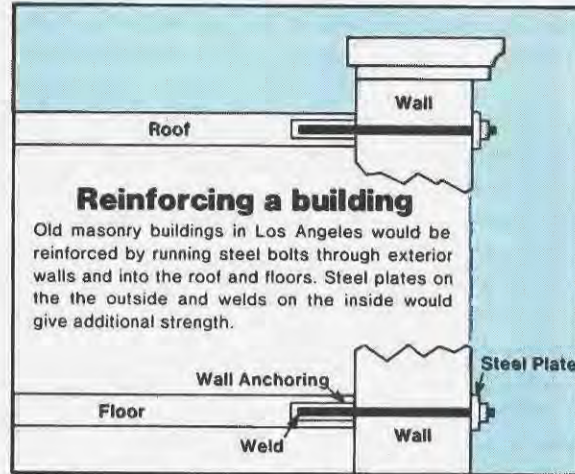
LOS ANGELES—Property owners here will have to shell out an estimated \$750 million over the next 15 years to comply with a new city ordinance requiring structural strengthening of earthquake-hazardous buildings.

About 8,000 old masonry buildings are affected by the new law, passed by the City Council Jan. 7 over the vigorous opposition of landlords and other property owners. The ordinance requires designated buildings to meet about 60% of current earthquake safety standards.

"This city is sitting on a time bomb," said councilman Hal Bernson, a strong advocate of the measure. City officials argue that full compliance could significantly reduce the death toll of a severe quake in Southern California.

Many owners unwilling or unable to pay the high cost of reinforcing the buildings, ranging from \$4 to \$12 per square foot, say they will demolish them. Included are about 4,000 commercial buildings, 2,500 industrial structures, 268 hotels and 811 apartment buildings in downtown Los Angeles and Hollywood.

Some owners also are concerned about the liability insurance implications of the new ordinance, although industry representatives contacted by Business Insurance said fears of unavailability and higher



premiums probably are unfounded.

Stephen Melnick, president of the Apartment Assn. of Los Angeles County, predicts owners will encounter problems obtaining insurance once their buildings are declared substandard. Insurers might not want to underwrite a risk the city has branded as hazardous, owners believe.

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## Cargo insurers waiting

# Seatrain owes claims

By ELLIS SIMON

NEW YORK—Cargo insurers seeking to recover damages from Seatrain Lines Inc. are stuck in port while the financially troubled steamship company sorts out its debts.

If the insurers are unsuccessful, shippers will bear the cost in higher loss ratios on their ocean marine insurance programs.

Recovering damages resulting from a steamship company's negligence is a main tool cargo insurers use to control losses. Shippers benefit from their insurers' success because the amount recovered is credited against a shipper's cargo losses.

Seatrain, which stopped its container ship operations in December, is not paying cargo insurers'

claims on that business, a company spokesman confirmed. Seatrain's bank, Chase Manhattan, instructed it to conserve cash for ongoing operations, the spokesman said.

The company hopes to restore prosperity by continuing its profitable businesses: an Alaska-to-California tanker trade and a Texas oil refinery. Seatrain also plans to pay off creditors by selling its container shipping line, explained Seatrain vp and controller Donald Herten.

Cargo insurers, like other Seatrain creditors, have been left unassured about outstanding debts. Some have filed suit and others are negotiating settlements with Seatrain.

Recovery Services International

Inc., a subsidiary of INA Corp. that recovers cargo losses for INA and other insurers, filed suit against Seatrain in mid-December. Gerald Nichols, Recovery Services president, says Seatrain owes his clients \$100,000.

Other insurers were not able to say how much they think Seatrain owes them. However, one insurance company executive who asked not to be identified said his firm has a \$5 million suit pending against Seatrain filed before Seatrain's financial woes.

MOAC, another insurer, says it has not filed suit against Seatrain, hoping to work out the problems instead.

"We'll try to get our money, but we don't want to see a U.S. carrier go down the drain," said vp-recov-

Continued on page 30

# California adds new punch to regulations for retro plans

By RHONDA L. RUNDLE

LOS ANGELES—The California Insurance Department is putting teeth into its rules restricting the use of cash-flow insurance

plans for workers compensation that could take a bite out of the programs' advantages.

A new bulletin clarifying the state rules on the plans will likely convince insurers to increase in-

terest rates due on premium notes to meet insurance department requirements, say executives from Fireman's Fund Insurance Cos. and Insurance Co. of North America.

The four-page, strongly worded bulletin cautions insurers "that the adoption or offer of a cash-flow plan places their certificate of authority to continue writing business in this state in jeopardy."

A careful reading of the document, however, reveals the insurance department uses the term "cash-flow plan" to designate illegal plans that do not meet criteria outlined in an earlier bulletin issued last April (BI, May 5, 1980). The department determined then that paid-loss retrospectively rated plans could be structured to meet legal requirements.

In risk management parlance, the term "cash-flow plan" is used to describe any insurance program that permits partial premium payment deferral until the close of the policy period. Under California

Continued on page 26

## errors & omissions

• Prices of the British issues listed on the Jan. 12 BI ticker page were closing prices on Jan. 6. Due to a typographical error, the closing was stated as Dec. 29.

• Due to a typographical error, the name of R. Sidney Osofsky, assistant treasurer at Grand Union Co. in Paramus, N.J., was incorrectly listed as R. Stanley in the Jan. 5 Comings and goings: buyers column. Business Insurance regrets the error.

• Blue Shield of California is the health plan insurer for claims exceeding \$500 for the Mendocino County Office of Education, not Blue Cross & Blue Shield as incorrectly stated because of an editing

error in the Dec. 8 issue. Blue Shield of California is also the insurer of the vision plan, which is being provided at no charge to the district because of savings under the district's new health plan described in the Dec. 8 article.

• Gerald Payne of Alexander & Alexander was incorrectly identified in the Jan. 12 issue as working for Marsh & McLennan. In the same article on kidnap and ransom insurance, a typographical error changed the meaning of a quote by Mr. Payne. The quote should have read: "With reinsurance, I could easily put together something in the range of \$40 million to \$50 million."

# Chrysler wins first bout over right to self-fund

By LEN STRAZEWSKI

DETROIT—Chrysler Corp. has won the first round in its fight to continue self-funding workers compensation in its home state of Michigan.

Canceling a Jan. 9 hearing, the Michigan Bureau of Worker Disability Compensation has agreed to allow the automaker to continue to self-insure workers compensation for its 42,000 local workers while the bureau reviews the firm's latest self-funding plan.

Chrysler, as previously reported in *Business Insurance*, has proposed regular payments to a trust fund earmarked for workers compensation claims (*BI*, Jan. 5). The fund is expected to accrue about \$5 million over the next 12 months, a Chrysler spokesman confirmed.

To build up the fund as a hedge against future claims, Chrysler would pay a monthly workers compensation bill of slightly more than its current losses. The overpayment would go into the trust.

The workers compensation bureau, however, has not yet agreed formally to the scheme, director James Brakora said. He revoked a suspension order "because we felt we were going to be able to work out a method by which Chrysler could

continue to self-insure."

The trust fund plan is not yet in motion, pending the state office's approval. However, when fully funded under the Chrysler proposal, the trust would not meet the manufacturer's annual workers compensation tab in Michigan.

The firm paid out nearly \$40 million in workers compensation benefits last year for Michigan employees, former employees still receiving benefits and retirees also receiving benefits under the state's liberal laws.

The state workers compensation bureau also may ask Chrysler to post a surety bond guaranteeing its ability to pay.

Meanwhile in Illinois, the manufacturer still faces a Jan. 20 suspension of its self-insurance plan for 3,500 Belvidere plant employees.

Chrysler had proposed a similar trust fund remedy in Illinois days before its filing with Michigan, but the Illinois Industrial Commission has not ruled on the proposal nor suspended the revocation order.

In Illinois, where workers compensation benefits cost the firm nearly \$2 million, Chrysler also is willing to reduce its self-insured retention to \$250,000 from \$500,000, according to Illinois counsel for

*Continued on page 30*



The Jan. 9 fire at Beachview Rest Home in Keansburg, N.J., killed 30 residents.

# Codes questioned after rest home fire

By MARY ANN MATLOCK

KEANSBURG, N.J.—At least two underwriters are bracing for claims after a fire Jan. 9 at Beachview Rest Home here killed 30 elderly residents and again raised the question of the adequacy of state fire codes.

- Insurance Co. of North America insures the 80-year-old facility, which housed 110 persons, for \$400,000, said a company spokesman.

- Interstate Fire & Casualty Co. underwrites \$100,000 of the owners, landlords and tenants bodily injury coverage, \$25,000 of property coverage and \$300,000 of professional liability coverage, according to Princeton Risk Managers Inc.

- The remainder of the insurance, believed to be in the excess/surplus markets, was placed by the Captain's Agency in Belford, N.J. It declined to detail the coverage.

No damage estimates were available.

Insurance questions, however, are not the focus of this fire investigation, which has federal, state and county officials in New Jersey examining regulations for boarding homes for the elderly for the second time in

less than eight months.

In July, 23 persons died in a fire at Brinley Inn, an unlicensed boarding home in the nearby shore community of Bradley Beach.

This disaster led to passage of regulations calling for the licensing of boarding homes that house an estimated 15,000 of the state's elderly and former mental patients. The regulations also require sprinkler systems and fire doors for facilities of three or more floors.

The Beachview Rest Home, however, was a combination two-floor shelter care boarding home licensed by the state health department and a one-floor nursing home licensed by the federal government.

Sprinklers were required by law in only the nursing home portion of the building, but that requirement had been waived.

No one died in this section of the building. All 30 fire victims were believed to reside in the two-floor boarding home, which received an excellent rating by the state after a July inspection.

"Beachview was not one of our problem facilities," said a state health department spokesman. *Continued on page 26*

# Reiss clients brainstorm buyout of management

By KATHRYN J. McINTYRE

CHICAGO—Clients of International Risk Management Ltd. and other Fred Reiss ventures are brainstorming a plan for preserving the well-oiled operations if and when Mr. Reiss wants out.

A client purchase of the captive management facilities including IRML, American Risk Management and European Risk Management is a possibility, *Business Insurance* learned.

Client discussions, spurred late last year by word that Aetna was talking to Mr. Reiss about purchasing his operations, are cooling down somewhat since Mr. Reiss told clients

in December that no sale is planned.

"There was a collective sigh of relief when he said he'd be the owner for the next several years," one client reported.

But there is still interest among some clients in "doing something," several Reiss clients told *BI*. Because nothing is certain, everyone interviewed asked not to be identified. Mr. Reiss could not be reached for comment.

The Reiss operations are known best for the pioneering work of organizing and managing the huge property insurance pool Hopewell International Ltd., a Bermuda company now owned by 34 major corporations. *Continued on page 8*

# Federal funds for HMOs to be reduced

By JERRY GEISEL

WASHINGTON—Proposed HMOs should not look to Washington for any handouts to get rolling, but health maintenance organizations that have relied on federal loan money to make it through the bumpy first years can count on some continued support.

In a major policy shift, the Reagan administration will drastically cut or end the seven-year-old federal grant program for new federally qualified prepaid health care plans. This would leave the private health care industry to bear the cost of funding new HMOs.



Veit

"We see the handwriting on the wall," Boyd Thompson, executive vp of the American Assn. of Foundations for Medical Care, told the fourth annual HMO National Policy Conference here last week. "The current (grants) program probably will not continue."

It looks like there will be no new starts," said James Doherty, ex-

ecutive director of the Group Health Assn. of America. Grants since 1973 have totaled \$128 million.

But while federal HMO grants may be victims of the Reagan administration's drive to cut federal spending on all fronts, the federal HMO loan program will continue.

The Reagan health transition team has said the new administration will support legislation to shore up the rapidly depleting HMO loan fund, said Mr. Thompson. That loan program has pumped \$177 million into HMOs since 1973.

But the amount of money available could be less than that promised by the Carter administration, said Howard Veit, director of the Department of Health and Human Services' Office of HMOs. The 1981 federal budget drafted by Carter aides tripled HMO funding to \$69 million from \$23 million in 1980.

HMO experts who believe the federal loan program is vital to the financial stability of fledgling HMOs doubt that level of funding will continue under President Reagan.

"We need to protect previous investments in HMOs," Mr. Veit stressed.

Nine federally qualified HMOs have gone bankrupt. Of HMOs not federally qualified, 60 had folded by the end of 1979 (*BI*, Nov. 17, 1980).

There now are 117 federally qualified HMOs and about 250

HMOs altogether.

Mr. Veit says the Reagan administration will tackle the following questions on HMOs:

- Will the federal HMO office have authority to approve new HMOs or should HMO development be left to the private sector?
- How much money will be available to expand existing pro-

grams?

- How can HMO regulation be streamlined?

- How can subscribers be protected from being stuck with enormous medical bills if their HMO goes bankrupt?

The new administration will set the stage for vastly reduced federal HMO regulation, Mr. Veit says. ■

# Workers warned about risk

WASHINGTON—Employees beware: Belonging to an HMO could be unhealthy for your pocketbook.

That is the warning from Hewlett-Packard of Palo Alto, Calif., to its 7,500 employees enrolled in 28 health maintenance organizations.

They are being told they may be stuck with thousands of dollars in unpaid medical bills if their HMO goes bankrupt, and their employer will not bail them out, said Hewlett-Packard benefit manager Art Young.

He concedes the warning probably has caused some Hewlett-Packard employees to shun HMOs.

But Mr. Young defended the warning before an HMO conference last

week sponsored by the Group Health Assn. of America and the American Assn. of Foundations for Medical Care Inc.

"It's my job to ensure that employees are offered safe plans," he said.

"It is not acceptable to offer such plans without informing employees of the risk," he stressed.

The company, which employs 41,000 and has been a major backer of HMOs, has reason to look more cautiously at the prepaid health care plans. About 250 Hewlett-Packard employees were stuck with \$250,000 in unpaid medical bills when the ChoiceCare health maintenance organization in Fort

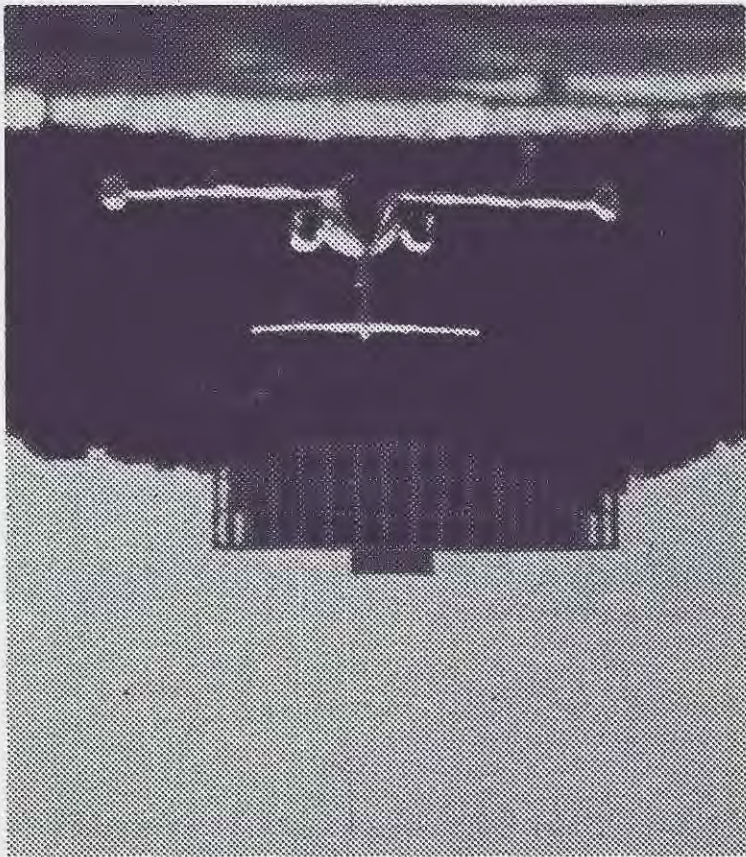
*Continued on page 26*



Art Young warns of HMO risks.



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## comings & goings: buyers

### Holland to administer Houston firm claims

COOPER INDUSTRIES of Houston has appointed **Mark Holland** to the newly created position of corporate claims administrator. Mr. Holland is responsible for product liability, auto liability and other related claims. He reports to Jim Martin, manager of property casualty insurance. Before this appointment, Mr. Holland was employed with Wausau Insurance Co. in Houston as a claims examiner. He has a bachelor's degree in business administration from Southeastern Louisiana University.

\*\*\*  
 Henry J. Corriggio has been

named chief of the insurance bureau for the state of Florida. Mr. Corriggio oversees an 80,000-member self-insured health plan, an 82,000-member fully insured life plan and a senior management disability insurance program. He reports to Gilda H. Jacobs, director of the division of personnel. Mr. Corriggio, formerly chief of the bureau of training, replaces **Fred Loopman**, now staff director in the office of the secretary of administration. Mr. Corriggio has a master of science degree in management from the University of South Florida.

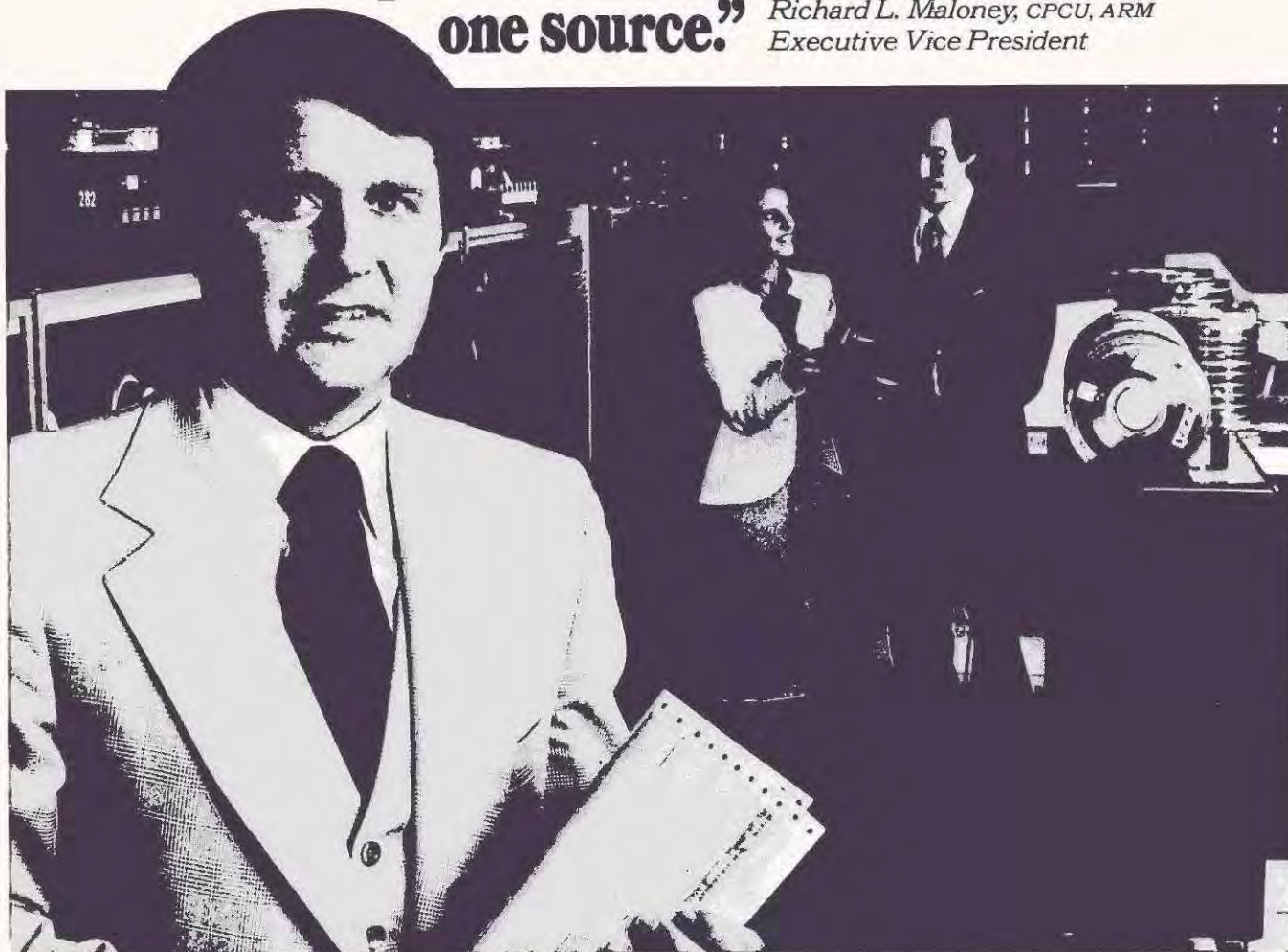
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**Betty Owens**, 31, has been selected to fill the newly created post of director of employee benefits at Max Factor & Co. in Hollywood, Calif. Ms. Owens is responsible for the review, design and implementation of benefits for both domestic and international employees. She reports to William J. Gibbons, vp-U.S. personnel and employee relations. Ms. Owens was previously employed as director of compensation and benefits in the Los Angeles home center division of New York-based W. R. Grace & Co. That position was dissolved during a reorganization of the company. She has a bachelor's degree in psychology from the University of Texas at Austin.

We'd like to report on staff changes in your risk management or employee benefits department. Just drop a note to Joanne O'Hare, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611 or call 312-649-5482.

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## Investment income not high: NCCI

CHICAGO—Insurers don't earn as much investment income on workers compensation premiums as policyholders suspect, says the National Council on Compensation Insurance's top actuary.

"I think we can dispel the belief and misconception that a lot of money is made through investment income," Frank Harwayne of NCCI told an Illinois Insurance Department hearing here.

"The policyholder's expectations are based relative to the inflation rate, but overall claims costs and the cost of medical care are growing at a rate faster than inflation," he said.

The Illinois Insurance Department is trying to develop a formula for calculating workers compensation rates that allows a discount for insurers' investment income.

**Interpreting 1979 data** from U.S. insurers, Mr. Harwayne said the insurers earned an average income from invested premium reserves equal to only 0.66% of standard earned premium after paying federal taxes.

Income from invested loss reserves after federal taxes yielded only 4.6% of premium for 1979.

Combining income from loss reserves and portions of premiums available for short-term investment by insurers, U.S. insurers earned only an annual average of about 5.3% of premium.

"The income is just not significant compared to the risks an insurance company takes," Mr. Harwayne said.



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# Clients discuss purchase

*Continued from page 3*

The owners and other clients insure property risks with Hopewell to the tune of \$80 million in premium volume annually and involving more than 100 worldwide reinsurers. Some captive clients act as reinsurers of Hopewell, securing unrelated risks for their captives.

Among the owners of Hopewell are Sperry Rand, TRW, Scott Paper, Genstar, Consolidated Foods, Firestone, Weyerhaeuser, Mead, Archer Daniels Midland, Eaton, Eli Lilly, Celanese Corp., Owens-

Illinois and other U.S. and foreign multinationals. International Harvester has pulled out as a Hopewell owner.

At least a half-dozen Reiss group clients have talked about a possible purchase of the Reiss captive management operations, *BI* learned, but "there is no form yet to any group," one Hopewell client told *BI*.

"There is interest among some of the Reiss clients to put together something. We don't know what, but we don't want another insur-

ance company to come along and buy him out. It wouldn't be in the interest of the group."

Another client explained that any major insurance company with tax, regulatory and shareholder-interest burdens would have to charge more for services than currently charged by Mr. Reiss, who enjoys the low tax and regulatory benefits of Bermuda and sole ownership.

"There are three key aspects to the operation," said another client. "The management company and its employees, the client group and the reinsurers. We can't break that up."

"There's some interest in the client group purchasing the management company," he said. "I'd like to see the interest continue, but it's unknown what will happen."

A couple clients, however, say that while they don't want to see a major insurer move in, they aren't interested in purchasing the company.

A high price could deter a client purchase, one client noted.

The Reiss operations are wide-ranging. IRML in Bermuda is a subsidiary of American Risk Management, a New Jersey-based firm. Reiss-related companies are involved in the management of United Insurance Co., a Cayman Island-based casualty insurance company owned by 27 companies, and another Reiss-related company, Transnational in the Cayman Islands.

United includes a risk-shifting pool for clients that takes in and retrocedes about \$100 million annually in premiums and it underwrites another \$60 million in third-party risks, much of which is ceded to the company by reinsurers of Hopewell.

Counting Hopewell, United and captive management clients, Mr. Reiss has more than 100 clients, he said recently.

Besides the prospect of a sellout to a major insurance company, some clients have expressed concern about the management succession should "Mr. Reiss come to an untimely end," as one client put it.

Other clients say they are confident a plan of succession is in place to keep IRM going.

The news of a possible sale to Aetna also spread rumors that employees leaving IRM and ARM were doing so out of "sellout fear."

Donald F. Muldoon, the best-known employee to leave the Reiss group recently, denied that motivation. "I left to form my own company, Donald F. Muldoon & Co. in New York," he told *BI*. The plans for the company predated the Aetna discussions, he said.

The new Muldoon company will act as a specialized broker for captive insurers, Mr. Muldoon said. As a general agency for Transit Casualty Co., Donald F. Muldoon & Co. can arrange policy issuance and excess of loss and aggregate reinsurance protection for captives with Transit, he said.

The company also is working with other managing general agents, advising them on how to set up their own captive insurers to insure some of the business they now place with other insurers.

"It's a natural extension of the captive evolution," Mr. Muldoon suggested. An MGA has the same control over good risks from clients that a risk manager has over corporate risks, he says. MGAs should profit from that business and not just through existing profit-sharing agreements with insurers, he argues.

Joining Mr. Muldoon from ARM is Don Mosier.

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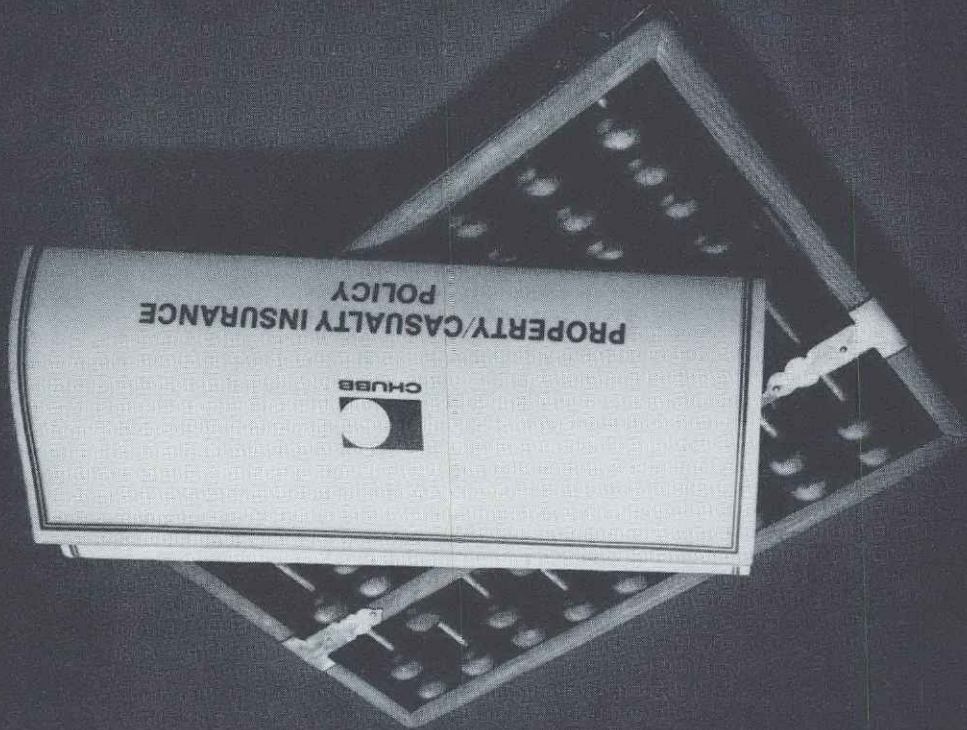
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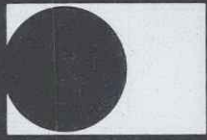
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## editorial opinions

# Extinguishing arson

**A**DD DICK Tracy to the list of "public figures" who would like to solve social problems by tinkering with the insurance product.

We're used to someone suggesting the forced purchase of insurance to solve a social problem. But now we have a comic strip character suggesting insurance buyers' rights be limited to stop arson.

In case you missed it, we're reprinting here the crime-stopper Tracy's advice on how to solve the arson-for-profit problem.

Saying fire insurance policies should pay only when the building is rebuilt is not practical advice for solving the arson problem.

First, it's economically impossible. Insurance written on an actual cash value policy wouldn't even cover the cost of rebuilding. Replacement value insurance is more expensive and wouldn't always be available.

Second, forcing property insurance buyers to rebuild to collect insurance proceeds also would unfairly restrict business's options to reassemble the pieces after a major loss. We

can think of many instances which a business might be better off not rebuilding a burned-out structure and using the insurance recovery for another purpose.

Consider a small business, owned by an aging couple, that burns to the ground. Liquidation for retirement was just a few years off. Why deny them the option of not rebuilding?

Consider a large business with an aging plant making a marginally profitable product and another pressing cash need at the time the building burns. The plant's and product's days were numbered anyway. Why force the company to rebuild that building?

In each case, the company has paid pre-

miums for insurance and it deserves to collect the benefits whether or not it rebuilds. The insurance policy is protecting the corporate assets invested in the building not just the building.

Both our scenarios of legitimate reasons not to rebuild also could be prime motivations for torching the buildings, we admit. If the insurer and police suspect arson, they should investigate, pursuing it with Tracy-like tenaciousness.

More cooperation between insurers and police to pursue arson investigations would help convict the guilty and deter the tempted. Laws restricting that cooperation in the name of privacy protection should be amended to allow fair pursuit of criminals.

Investigations before issuing an insurance policy would be even better.

Insurers could use a little of the paranoia inherent in Dick Tracy crime-stopper tips—like his warning that people who drive around with their car windows half down are trying to conceal their identities.

Insurers should get a little more paranoid about underwriting property insurance and beef up their underwriting. Thorough property investigations and background checks on policy buyers will sniff out potential fires.

The National Assn. of Insurance Commissioners is offering insurers sound advice on solving the arson problem by suggesting the kind of underwriting information that should be gathered in arson-prone areas. We caution insurers not to overreact and stop underwriting in these areas.

Meanwhile, Dick Tracy is doggedly pursuing the arson theme. Despite the shortsightedness of his advice, it's encouraging to see that the arson problem is getting exposure. When a topic hits the comics, you know it gets attention.

NOT UNTIL EVERY STATE PASSES LAWS SO THAT A LANDLORD COLLECTS INSURANCE ON A FIRE-DAMAGED BUILDING ONLY IF HE REBUILDS IT.



## letters

*Business Insurance welcomes letters from its readers. Please keep your comments as brief as possible and we reserve the right to edit or shorten letters for clarity or space. Please send your comments to Letters to the Editor, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611.*

## Don't take statements lightly

To the Editor: I hope that the statements Peter Downes made in the Speaking Out column ("Call this liability theory a 'rip-off' BI, Dec. 29, 1980) are not taken too lightly because of your reference to his writing of "columns of satire." These situations do arise, and not only in the liability field.

Not long ago, something similar occurred with one of our group medical claims. A covered employee underwent minor surgery in a hospital. Somebody did something which caused the patient to suffer serious damage of a permanent and irreparable nature.

The group medical policy was written under a retrospective premium arrangement so that the employer was ultimately liable for the premium to offset the approximately \$40,000 of reimbursable medical expenses incurred by the employee. When the time for payment of this premium arrived, attorneys representing the employer contended that this additional amount was not due us because we

should not have paid the claim on the ground that there was malpractice involved, an allegation that they would be testing in the courts.

It took about six months to convince them that, as a group insurer, we have no choice but to reimburse medical expenses to the extent provided under our group medical policy, regardless of whether malpractice is alleged or even determined to be involved or not; and that moreover, we are not in a position—nor would we want to be—of determining the presence or absence of malpractice in each and every claim brought to us.

Fortunately, their contention never went beyond the conversation and correspondence stage, nor did it ever reach the courts. But the thought was definitely there.

George Brummer

Senior vp  
Zurich-American Insurance Cos.  
Schaumburg, Ill.

## action line

## Need benefits skills? CEBS program can help

Periodically, you have articles concerning continuing education for employee benefit specialists. I would appreciate any additional information you could give me concerning educational opportunities that may be available through correspondence courses on this subject.

Also in your Jan. 5 issue, there was an article concerning courses through The Wharton School at the University of Pennsylvania and the International Foundation of Employee Benefit Plans that would qualify a successful graduate to become a Certified Employee Benefits Specialist. Any additional information on that program would also be appreciated.

Jack L. McAbee  
Vp-customer service  
Blue Cross & Blue Shield  
of Florida

Your request for information on benefits correspondence courses indicates you are interested in continuing your education without attending formal classes.

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of Employee Benefit Plans that you mentioned would be of interest to you.

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Action line will answer readers' requests for information. Have a question regarding insurance or your profession? Write Action line, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611.

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# Rig move poses market challenge

By JOHN MILLER

LONDON—Lloyd's underwriters are preparing for the costliest marine risk their market has ever faced: The towing of the huge Statjord oil platform from its construction site in Norway to the North Sea this summer. Coverage is estimated at \$1.25 billion.

The platform has been covered in the United Kingdom since construction began three years ago, with capacity provided by a London master drilling rig contract pool of Lloyd's and marine companies.

Extra coverage has been short, however, because the U.K. market's capacity for major oil

## london line

platforms is estimated at \$750 million. Insurers in the United Kingdom and elsewhere are being approached for additional coverage.

## Search for suspect

An international search is under way for U.K. insurance consultant James Howey, 38, who is wanted by the Australian government because of his links with Saltergate Insurance Co. before its collapse two years ago.

Mr. Howey is facing extradition charges in the United Kingdom for allegedly falsifying documents. He jumped his \$100,000 bail last December just before his case was to be heard in court.

Fraud squad detectives in London are hoping to question him about his suspected connection with a major Lloyd's marine insurance syndicate that ran up claims of more than \$2 million in 1979. Reinsurance arrangements should meet some of these losses, but meanwhile the syndicate's 300 members are being called to help the situation, under Lloyd's rules.

The syndicate was run by Ashby & Co., a Lloyd's agency that ceased business in mid-1979. Some of its risks were tied to such U.S. nonmarine lines as trucking coverage and marine coverage for docks and piers at some U.S. harbors.

Much of the business was reinsured with Commodore General Insurance Co. of Hong Kong, in whose London office Mr. Howey was active as a consultant.

## Lloyd's losses

Lloyd's syndicates will suffer a \$178 million loss on their 1979 accounts, compared with a \$310 million profit for 1977, Lloyd's last reported year, predicts stockbroker Laurie, Milbank & Co.

"Prospects for Lloyd's have never been so gloomy as they are now, and the outlook is the worst in its history," the stockbrokerage adds in a survey of its world operations. But they expect 1978 accounts to be reasonably the same as in 1977.

Marine risks are blamed for much of the downturn, as shipping losses remain at a high level, but a growing list of long-tail nonmarine claims has heightened the market's problems. These claims follow Lloyd's tendency in the last few years to go for such special risks as computer leasing coverage in order to fight off international competition.

## Fire damage

Insured fire damage in the United Kingdom is expected to reach \$1.2 billion for last year compared with \$850 million in 1979. This includes disastrous warehouse fires in the earlier part of the year.

## Lloyd's bill

Parliament will know shortly whether the proposed Lloyd's act will face any major challenge.

Under Parliament's rules, MPs may soon express their views during a three-hour debate on the bill and will be able to go further into the details of the bill in March or April.

Several controversial issues are embodied in the bill, which would set up a new Council of Lloyd's by 1982 for regulation purposes.

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# Carter establishes council on benefits

By JERRY GEISEL

WASHINGTON—President Carter has signed an executive order establishing a new Interagency Employee Benefit Council to develop short- and long-term federal policy approaches on employee benefits, ERISA and other retirement issues.

The benefits advisory council, whose formation was recommended last year by the Office of Management and Budget in a report on ERISA reorganization (BI, Feb. 11, 1980), will be composed of representatives from more than a dozen federal agencies.

The council will be cochaired by the secretaries of labor and treasury.

The council, which will meet at least three times a year, will:

- Develop and maintain an inventory of employee benefit related programs of the federal government.

- Submit annually to the president a review and evaluation of ERISA's effectiveness as well as proposals for its improvement.

- Analyze and advise the director of OMB on ERISA-related legislation proposed by the executive branch, particularly regarding the potential economic consequences for the business community.

"There is a need for a single forum where representatives of the different federal agencies can exchange information and discuss issues," said Ian Lanoff, administrator of the Labor Department's Office of Pension and Welfare Benefit Programs.

The council, however, won't begin to get rolling until transition problems of the Reagan administration are ironed out.

## washington

they were exposing the plan," the court added.

The injunction was granted after the U.S. Department of Labor filed suit to block the loan. The glaziers pension plan has assets of \$3.2 million.

### Coverage lacking

Less than half of the work force is covered by pension plans, says the President's Commission on Pension Policy.

About 48% of the work force participates in pension plans, the commission reports in "Private Pension Coverage in the U.S."

Other findings include:

- 23% of the private sector work force has vested in pension plans.

- Pension coverage increases dramatically with income. Only 12% of workers earning less than \$5,000 are covered by pension plans, but 55% of those earning \$10,000 to \$12,500 and 73% of those earning \$20,000 to \$25,000 are covered.

"The data illustrates the importance the commission has placed on extending pension coverage to more workers," said executive director Thomas Woodruff.

### Plan officers sued

Three officers of associations

that manage employee benefit plans are being sued by the Labor Department to recover benefit plan assets they allegedly mismanaged.

Named in the Labor Department lawsuit are Clarence Beam, Earl Ray Hampson and Meredith Shaw, officers of Transwestern Employer-Employee Benefit Assn., United Services Employee Benefit Assn. and Merit Dental Plan. The organizations are based in Everett, Wash., and manage benefit plans in Washington, California and Oregon.

The defendants are charged with using plan assets to pay themselves excessive amounts for management services and to pay commissions to agents who arranged for plans to be administered by the associations.

Under the Employee Retirement Income Security Act, plan assets may be used only to provide benefits to participants and to pay reasonable expenses of administrative duties.

The defendants also are accused of failing to obtain proper bonding for persons handling plan assets and failing to notify plan sponsors and participants that the plans had insufficient funds to pay promised benefits.

The Labor Department suit, filed in the U. S. District Court for the Western District of Washington, asks the court to remove the defendants as plan managers for the associations.

The suit also seeks to have the defendants reimburse the plans for losses due to their alleged actions.

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### Risky investment

Committing more than 20% of a pension plan's assets to a single real estate investment project is too risky, a federal court says.

The U.S. District Court for the District of Hawaii said a proposed \$750,000 loan by the trustees of the Glass/Metal Assn. and Glaziers and Glassworkers Pension Plan for the construction of the Holiday Country Club in Makaha Valley, Hawaii, violates ERISA's provisions on prudence and diversification investment.

"A commitment of 23% of the glaziers pension plan's total assets to a single loan subjects a disproportionate amount of the trust assets to the risk of a large loan," the court said in issuing an injunction barring the proposed loan.

"The evidence shows that the plan trustees, lacking prior lending experience, failed to follow the procedures which a prudent lender would utilize and thus did not perceive the dangers to which

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# Norwegian pool to pay \$62.4 million

OSLO—A Norwegian insurance pool will pay \$62.4 million to a drilling company as settlement for the March 1980 drilling rig disaster in the North Sea that killed 123 workers.

The payment to the Stavenger Drilling Co. does not include payments to the families of the victims on the Alexander Kielland, which was used as a floating hotel (BI, April 7, 1980).

The board of the insurance pool has declared the rig a total loss after salvage attempts were called off last month. U.K. marine insurers expect to contribute heavily toward the loss. Two-thirds of the risk had been held in London with the rest in Scandinavia and elsewhere.

The capsized rig, currently floating upside down, is believed to still contain the bodies of 36 crew

## worldwide

members who drowned when one of the structure's legs broke during a storm.

### Expanded power

KINGSTON—The Jamaican Parliament has enacted new amendments to its national insurance code that will expand the powers of the courts and the superintendent of insurance in controlling amalgamations or transfers of business.

Under the new measure, insurers writing life-health policies must secure the approval of the superintendent before merging with another company or transferring the business to another firm, re-

ports the Daily Gleaner newspaper here.

Government spokesmen said officials have been concerned about protection of local policyholders when a Jamaican insurer merges with a company of another country.

### India-China pact

NEW DELHI—New India Assurance Co. of Bombay, a public insurer, and People's Insurance Co. of China have reached agreement for expanded operations between the two countries.

Under the agreement, New India will get a large portion of the reinsurance business in the antici-

pated wave of new industrial developments in China.

In exchange, the Chinese will obtain advice and guidance in setting up insurance operations, insurance techniques, personnel training and loss prevention and will share their expertise with their Indian counterparts.

### Pension protection

OTTAWA—The Ontario government has passed legislation to protect pensioners' benefits by setting up a Pension Benefits Guarantee Fund to make up shortfalls in benefits.

The legislation, effective early last month, protects benefits accrued while the worker was employed in the province, according to a Johnson & Higgins/Willis Faber Ltd. bulletin. ■

## markets

### Firm assists self-insurers in benefits

ALVIN J. SIMS & Associates of Boston has been formed to specialize in services to self-insurers.

The firm will emphasize employee benefits services including stop-loss coverages, claims processing, claims audits, plan documents and ERISA compliance, but also will provide workers compensation services including excess coverages, claims and programs audits and group self-insurance development.

Benefit plans include group medical, dental, vision, short- and long-term disability and legal.

### Tennessee captive

Tennessee's fourth captive insurance company is open for business.

Pinkerton's Insurance Co., a wholly owned subsidiary of Pinkerton's Inc. of New York City, began business Jan. 1 with initial capital of \$750,000.

American Risk Management Inc., a captive management firm, also has opened offices in the Nashville area at Maryland Farms, Brentwood, Tenn. 37027. American Risk Management will oversee the operation of Pinkerton's captive.

### U.S. manager

New Providence Corp. of Johnston, R.I., has been appointed reinsurance underwriting manager for North American business for the Taisho Fire & Marine Insurance Co. Ltd.'s U.S. branch.

New Providence Corp. is a subsidiary of Allendale Mutual Insurance Co.

Vp J.M. Faulkner will direct New Providence's reinsurance management of Taisho. Taisho is headquartered in Tokyo and operates worldwide.

### Acquisitions

Equitable of Iowa Cos. in Des Moines has completed its acquisition of the stock of Massachusetts Casualty Co. of Boston for \$38.4 million in cash and short-term notes.

Maryland Casualty Co. has sold Fidelity & Deposit Co. of Maryland to a company jointly owned by Swiss Reinsurance Co. and Zurich Insurance Co., both of Zurich, Switzerland.

Rollins Burdick Hunter Co. has completed the acquisition of Dougan Eader Reynolds & Wheller Inc., a Seattle brokerage, for undisclosed terms. ■

The cost of health care coverage is actually two costs. The retention costs (which cover everything from administrative costs to reserves). And the cost of benefits. All too often, only retention costs get much attention.

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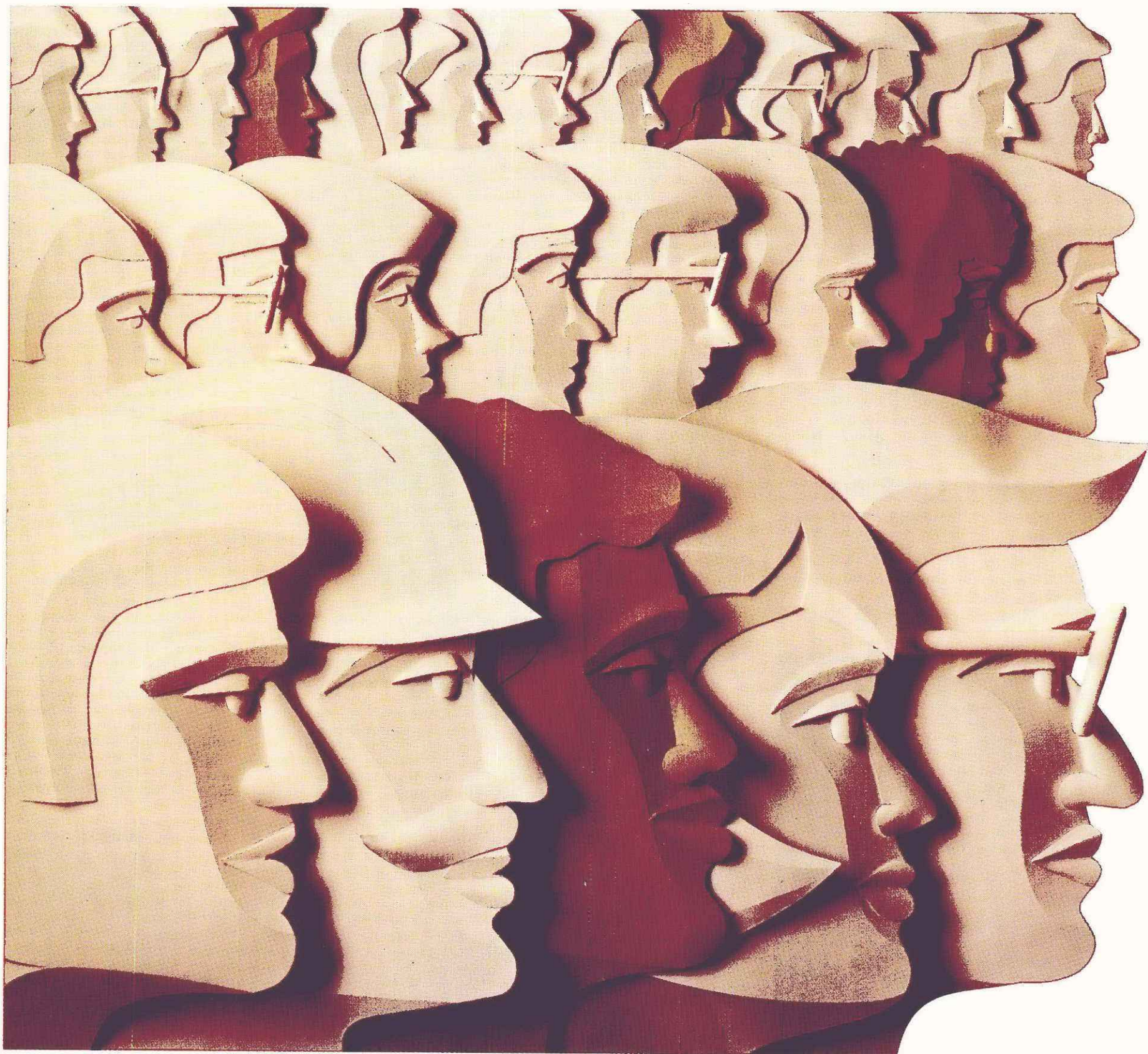
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# N.Y. ruling limits E&O plan scope

## around the states

ALBANY—Professional errors and omissions policies cover professional acts only and not business actions, New York's highest court has ruled.

In *Schiff vs. Flack*, the Court of Appeals ruled Lloyd's of London underwriters did not have to defend a suit accusing Albert J. Schiff Associates Inc., a life insurance agency, of stealing a competitor's product.

The court upheld a lower court ruling that Schiff's alleged action did "not in any way suggest a negligent act, error or omission in the performance of any professional services."

Schiff's attorneys contended cover should apply because the al-

leged impropriety furthered the firm's professional activities.

The court found Lloyd's had no more duty to defend such a case than it would to defend a dispute "arising out of a merger agreement with a former competitor, or one with the assured's landlord over a commercial tenancy or even one with a computer company which services office equipment."

Roy E. Pomerantz of Kroll, Killarney, Pomerantz & Cameron in New York represented lead underwriter Alan Flack and other Lloyd's underwriters. Schiff was represented by Burton I. Monasch of Monasch, Chazen & Stream, New York.

## No malpractice limit

CONCORD—New Hampshire doctors will be liable for unlimited medical malpractice damages as a result of the New Hampshire Supreme Court's overturning of a 1977 state law limiting damages.

In its combined ruling on six separate cases that had challenged the statute, the court objected that the \$250,000 limit on damages for pain and suffering would not be sufficient for the patients that needed the money the most.

Attorneys for the doctors involved have filed a petition for a rehearing.

## Cancellation report

ALBANY—Insurers issuing professional medical liability policies in New York State must now file a report of any policy cancellations for reasons other than non-payment of premiums, under an amendment to the state insurance law.

The Report on Termination must be filed with the state superintendent of insurance and state commissioner of health within 15 days after the end of each month.

## Work comp panel

NASHVILLE—A special legislative committee will study Tennessee's workers compensation laws and hold hearings through 1981 and likely into 1982.

The committee will study benefits, costs of workers compensation, the wage-loss concept, self-insurance and self-insurance pools. Also under study will be the state's court-administered workers compensation system. Unlike most other states, which have industrial commissions to hear workers compensation cases, disputed claims in Tennessee are heard in circuit court.

The committee was authorized by the state legislature in its closing session of 1980.

## No discrimination

LITTLE ROCK—The Arkansas Insurance Department has issued new regulations prohibiting insurers from discriminating on the basis of sex or marital status in their rates or benefits, as well as from unfair discrimination in life and disability insurance on the basis of physical and mental disabilities. Both regulations were effective Jan. 1.

Effective Feb. 1, new regulations will set minimum standards for disability benefits.

# How can John Hancock's IGP give multinationals the best service in the world? Ask Mike Allan.

*Mike Allan is John Hancock's International Group Program Director of Sales and Service for North American multinationals.*

## WHAT ENABLES IGP TO PROVIDE BETTER SERVICE?

The fact is that we're the only network with a substantial, trained staff specializing in after-sales service. Prospective clients often seem to assume that, naturally, every network has this capability. Unfortunately, it isn't necessarily so. In fact when you're selecting an international network, this can be the single most important question you ask.

## HOW IS YOUR STAFF ORGANIZED TO MEET YOUR CLIENTS' NEEDS?

The answer in our case is that, of the 17 people working full-time in Boston on IGP sales and service for North American multinationals, fully two-thirds are assigned to teams that work exclusively for existing clients.

These teams are able to provide comprehensive service to each of their accounts on a continuing basis. They become very familiar with each client's needs and have the resources to solve their problems. Furthermore, I believe

these teams are staffed with some of the best people in the business.

## WHAT MAKES THE IGP STAFF SO DIFFERENT?

They have the know-how and flexibility to do what works best. And because they bring extensive experience from diverse backgrounds including actuarial, underwriting and administration, each adds expertise to the team effort. In fact, two of our people were corporate international employee benefits managers before joining us. Their insights into the client's perspective are invaluable.

Our ongoing training program assures that everyone stays current in the fast-changing international employee benefits environment. Because of IGP's substantial size, we have more resources that enable us to train our people thoroughly.

## YOU REFERRED TO SIZE A COUPLE OF TIMES. ARE YOU SAYING BIGGER IS BETTER?

Not necessarily. Basically, the size of our staff is geared to the volume of our business. But being bigger does allow us to offer certain advantages.

Our team approach to service is a good example. IGP clients are serviced by teams. There's always a member of the client's team available when he or she calls with a question.

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*"Our team approach to service assures every IGP client that we'll be where we're needed when we're needed."*

## comings & goings: industry

# James Kemper III heads central unit

LONG GROVE, Ill.—James S. Kemper III has been named central division president for the Kemper Group, succeeding Palmer App, who retired last month after 43 years with the company.

Mr. Kemper joined the company in 1960 in a Los Angeles branch office where he held a number of underwriting positions. In 1968 he transferred to Chicago as assistant manager of commercial fire and package underwriting and in 1971 was named underwriting manager of the Chicago branch office.

### Other insurer changes:

**John J. Tickner** elected assistant vp in development operations at The Hartford Insurance Group. **Marguerite A. Harrington** named assistant secretary in the group management services department and **David C. Sterling** elected secretary in the general liability department.



Harrington

**Ray L. Beneke** elected vp-sales in the general agency department of Washington National Insurance Co. of Evanston, Ill. Other promotions include: **Earl J. Borgeson** to vp-health insurance; **John B. Patton** to vp-sales in the district agency department, and **Duane E. Williams** to vp-government relations in the law department.

**Alfred M. Cavallin** appointed a secretary of The Continental Insurance Cos., headquartered in New York. Mr. Cavallin is the senior bond underwriting officer for Continental's Pacific region, based in San Francisco.

**Howard P. Akerley** named an assistant vp of the New Hampshire Insurance Co., responsible for the commercial property multiperil department.

### Reinsurers

E.W. Blanch Co., a reinsurance services company in Minneapolis, has announced the following promotions in the sales and service department: **John E. Galleger**, **Richard E. Swager** and **Michael G. Woll** to senior vps and **John A. Corroon Jr.**, **John M. Ginley**, **Charles C. Hewitt III** and **William P. Windhorst** to secretaries.

### Other suppliers

**Evelyn Toni Mulder** appointed assistant vp of casualty risk consulting at Edward H. Friend & Co. consulting actuaries in Washington, D.C.



Mulder

**Anna W. Summers** elected vp and **Marion Searscon** assistant vp of International Risk Management Ltd. in Bermuda.

### Agents/brokers

**Richard L. Michelson** joined Fred S. James & Co. of New England in large account production.

**David W. Jones** elected vp of Great Lakes Agency in Chicago. **Henry T. Marks** elected vp-international.

**Jack D. Stewart** elected vp of Underwriters Safety & Claims Inc., a Kentucky agency specializ-

ing in self-insured workers compensation and self-funded medical plans.

**Candace J. Hallett** promoted to assistant vp of Lockwood, Dipple & Green Inc. in Boston.

**Sam Butler Jr.** and **Alfred L. Williams** promoted to senior vps at Atkins Insurance Corp. in Little Rock and Hot Springs, Ark.; **Bill Brookshire**, **Bill Bussey**, **Charles Dillon** and **Norman Stacks** promoted to vps. **Mary Colling**, **Raymond Haynie**, **Charles K. "Bud" Hughes Jr.** and **Marty VanPelt** named assistant vps.

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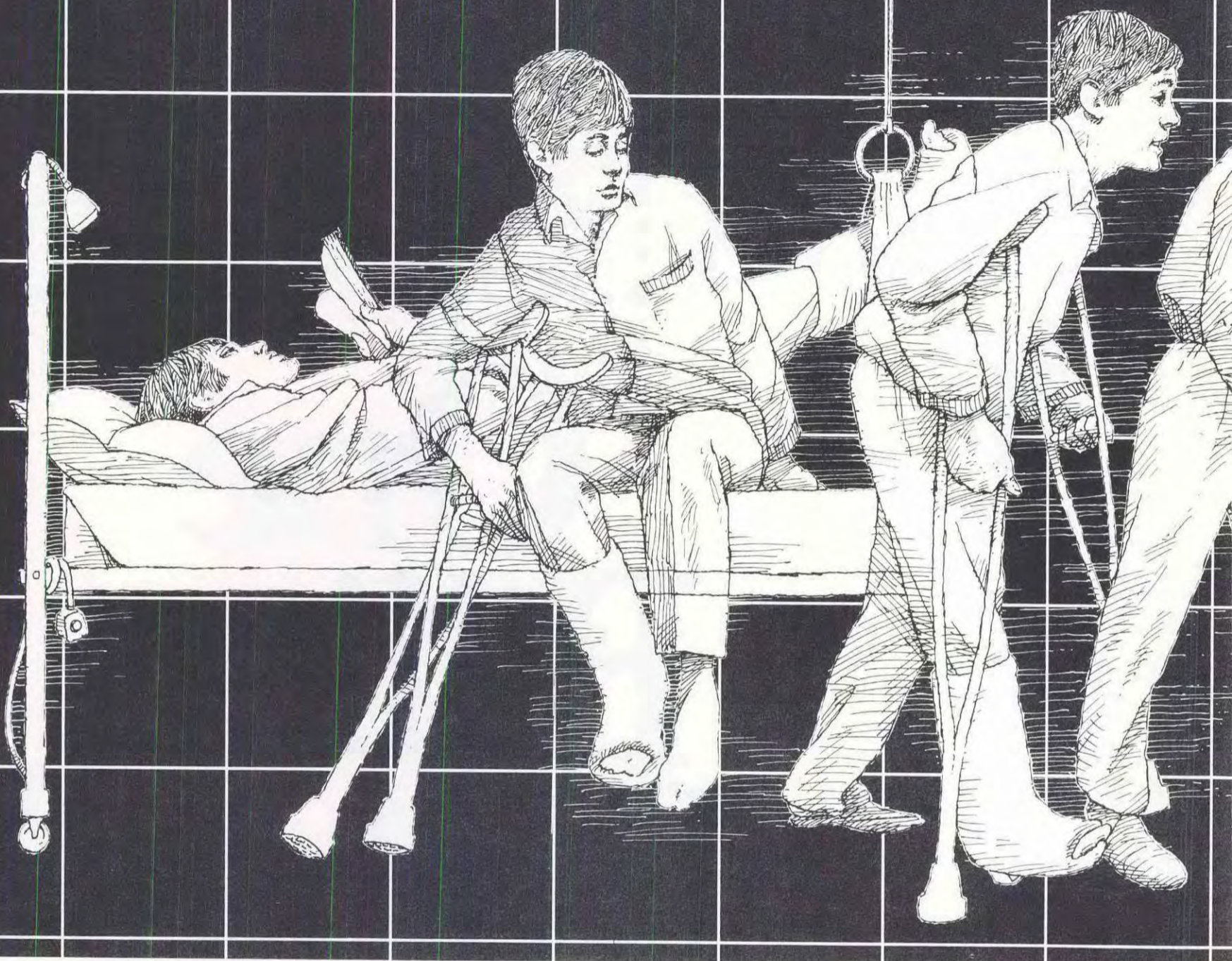
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**IN WORKERS' COMP CASES:**

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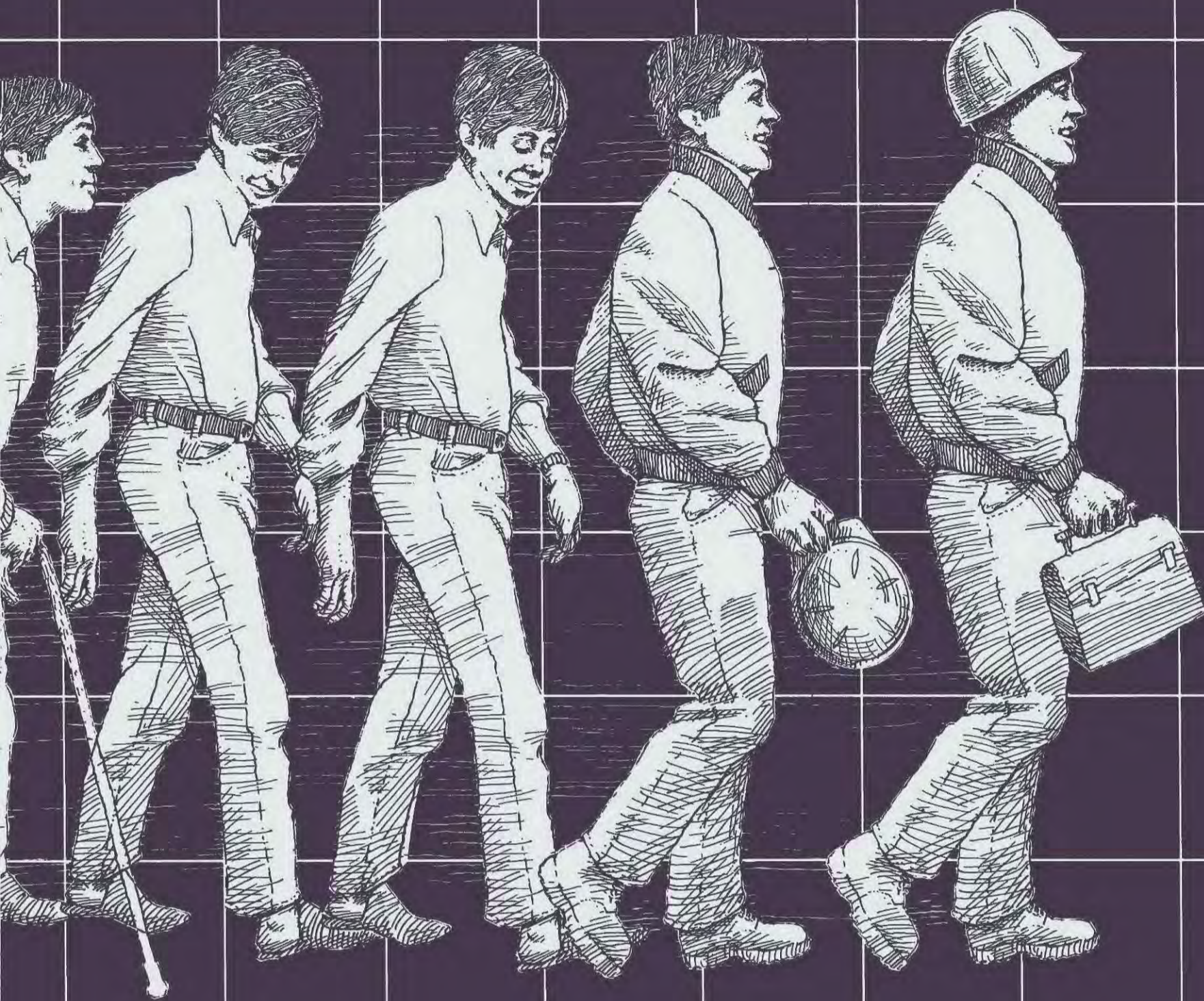
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## perspective

## Public pooling

## Ignorance holds back many from joining

By Thomas J. Wander

**T**HE OMINOUS expectations of many insurance experts regarding tightened underwriting practices and increased rates for 1981 are, in part, spurring the continued interest by governmental entities in alternative methods to fund risk. Over the past five years, it has not been unusual for public bodies to increase property tax mill rates, either as a result of drastic premium increases or large uninsured losses. Insurance and risk management costs have grown from a relatively insignificant budget item to a cost exceeded only by payroll in many public bodies.

Most taxpayers have been affected by the lack of risk-funding techniques. This factor alone demands risk management and insurance experts take an active interest to see that governmental entities throughout the country have new options other than the continued individual purchase of commercial insurance.

Since 1974, when the Texas Municipal League Workers Compensation Self-Insurance Fund was established to provide a pooling mechanism for Texas cities, the pooling concept has saved millions of dollars. Today, governmental bodies including cities, towns, counties, school districts and other special districts are operating pools in at least 15 states. Pools also are being considered in seven other states. In addition, a captive has been implemented by the Iowa Assn. of Counties and is being considered by a number of other state groups and two national governmental associations.

While workers compensation is by far the most common risk being pooled, many pools are providing coverage in general, auto, E&O and professional liability, property, crime and unemployment compensation. A number of pools even provide broad coverage for civil rights liability.

Overall savings range from 15% to 45%. Yet with all the favorable aspects of pooling (cost savings, broader coverage, improved risk-control services and increased stability of coverage), many governmental entities are not participating in pools, for three reasons:

- Some larger public agencies have established self-insurance programs enabling them to receive the benefits on their own.
- Some states do not allow political subdivisions to pool risks.
- Some governmental entities have

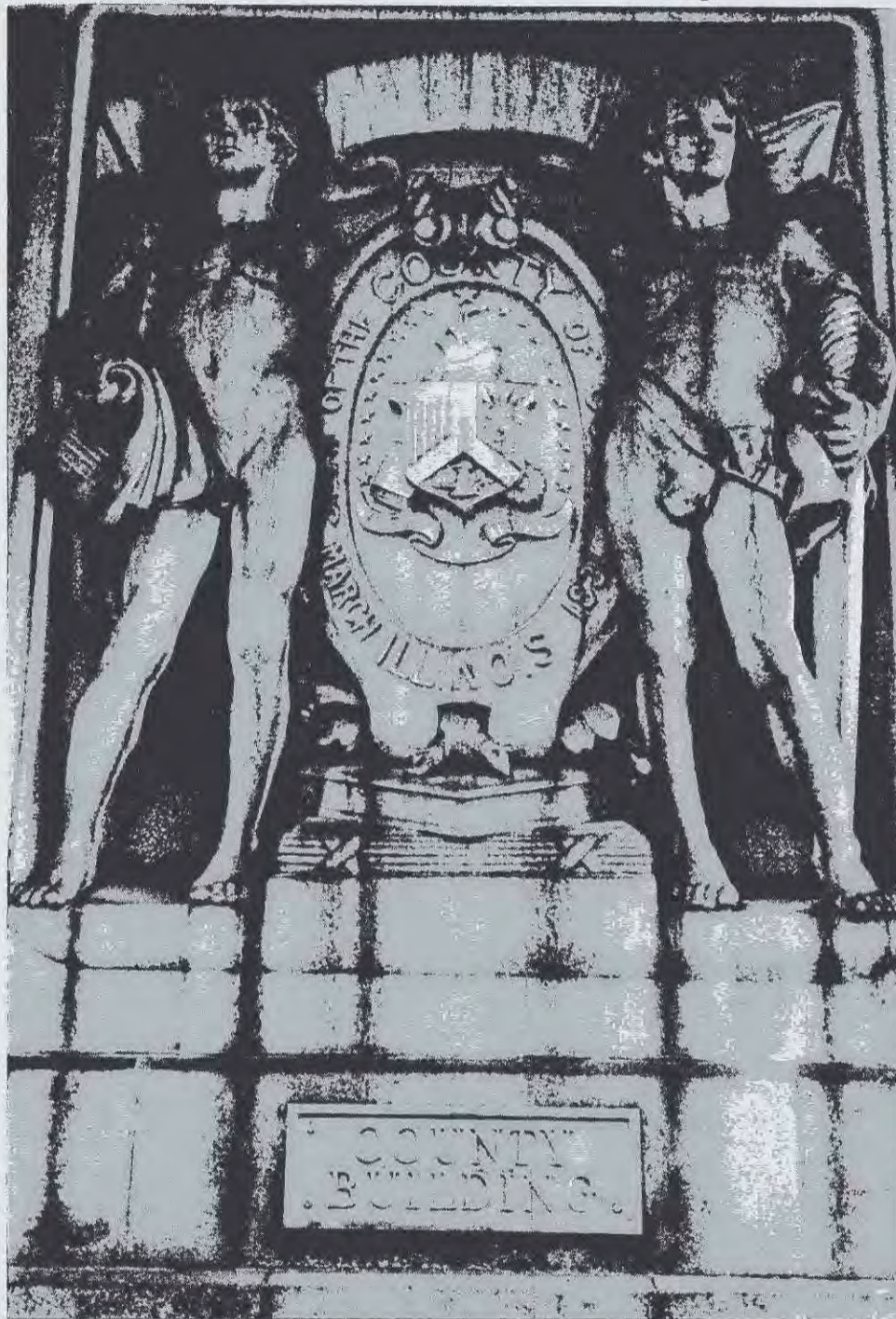


Photo: Mary Cairns

Governmental entities including cities, towns, counties and school districts are operating pools in at least 15 states.

decided they are satisfied with their commercial insurance programs.

The first reason is valid. Admittedly, pooling is designed primarily for small or medium-sized governmental risks that cannot self-insure because of an insufficient spread of risk. Large public bodies with sizable exposure and considerable capacity to self-insure often find that when pooling is available, they are better off financially by establishing individual self-insurance programs.

The second reason is less justifiable. Perhaps the best example of the unacceptability of this position is found in New York State. Pooling probably has been researched, analyzed and debated more in New York than in any other state.

The New York Assembly Ways and Means Committee undertook an extensive study to determine the applicability and feasibility of pooling for local governments. An excellent report en-

titled "Municipal Insurance Pools—An Appropriate Alternative for Local Government" presented findings, conclusions and recommendations in support of pooling.

**W**hile the report provided evidence that pooling could be beneficial, it noted that governments could not take advantage of pooling until enabling legislation was passed. And while statewide public hearings voiced virtually unanimous support for legislation to provide municipalities with alternatives to address their insurance needs, the Senate was unable to approve legislation even though the Assembly approved it by more than a 2-to-1 margin.

Among the reasons for the failure has been the effort by the Professional Insurance Agents of New York. PIA published a report urging its 11,000 members to oppose all legislation allowing governmental bodies to share

risk. The opposition includes the statement that "they (pools) are unsound, both politically and technically and they would irreparably damage the present healthy marketplace for municipal insurance in this state."

There is some rationale for the third reason. In some cases, a public body will thoroughly evaluate a pool, compare it to its current insurance program and objectively decide it is better off with the commercial insurance market. Although such a scenario is possible, it is not common. When it does occur, the decision to remain is often influenced by the local agent and underwriter suddenly developing a new insurance package competitive with the pool.

When a tax-supported agency opts to wait and see how a new pool develops, this may be the result of natural prudence or, more frequently, a lack of commitment or understanding of the particular pool. There is no objection to such a position, but the public body is passing up cost savings and improvements in its risk management program.

**U**nfortunately, there have been instances when public bodies are unaware of a pool and its associated benefits. In these cases, it may be because of the pool sponsor's lack of marketing effort or relative newness of the program.

While it is understandable from an agency perspective, brokers and agents who serve as consultants to governmental clients may be in a questionable legal position regarding errors and omissions liability by not informing their clients of the pooling alternative and objectively assessing the coverage, cost and service of the pool.

When political ties between a public body and its agent or broker serve to stifle pool consideration or participation, the result is deplorable. While it is naive to think such actions will ever stop completely, such political maneuvering with sizable portions of tax dollars is only begging for political fallout and possible public officials' liability claims as well as agents' and brokers' E&O claims.

I hardly pretend that such plans are panaceas for all public bodies. Rather, I am encouraging risk management and insurance professionals and taxpayers to review the situation to ensure all governmental entities are provided with reasonable options to commercial insurance.

It is especially important that these options be available to public bodies now, before the underwriting cycle deteriorates and governments are greeted with dramatically increased rates and/or coverage reductions. Professional insurance agents, brokers and reputable insurance companies need only look at these alternatives as competition, not necessarily a loss of business.



Thomas J. Wander is a staff consultant with Risk Planning Group Inc. in Darien, Conn.

## perspective

# Ramifications of

## Employee benefits will see slowdown in federal rules

By Joseph L. Fromm

**T**HE REAGAN presidency probably will affect employee benefits in three areas:

- Actions that may not happen.
- Results of general policies to control inflation.
- Direct actions.

President Reagan's successful campaign was based on a promise to reduce the role of government. The most important influence on employee benefits undoubtedly will be the result of what may not happen in regulatory proliferation, national health insurance, mandatory pension coverage and federal workers compensation.

- Regulatory proliferation. Employee benefit managers are hopeful their greatest burden—increasing government regulations—will be eased. Regulations resulting from such agencies and acts as DOL, IRS, EEOC, OSHA, ERISA and ADEA have been time-consuming and expensive.

A precursor of this may have been when the Equal Employment Opportunity Commission put off regulations to require accrual of pension benefits for employees working after age 65. Although the decision was reached before the election, the candidacy of Ronald Reagan may have been a factor.

**M**any key regulatory officials, however, are career civil servants immune to political pressures, so it appears unlikely that few, if any, existing regulations will be changed or eliminated in the near future.

- National health insurance. A Washington-based group on health indicated in a preliminary analysis of the election impact that the chance of some form of national health insurance legislation passing Congress was enhanced under a Reagan administration, perhaps because of past sponsorship of a catastrophic health care bill by Sen. Robert Dole (R-Kan.), the new chairman of the Senate Finance Committee. Most employee benefit managers, however, believe legislation to replace or supplement group benefits provided by employers would be inconsistent with President Reagan's promise of less government involvement.

- Mandatory pension coverage. The interim report of the President's Commission on Pension Policy, issued in May 1980, concluded that "serious consideration should be given to the establishment of a universal minimum advance-funded pension system." The Reagan presidency and a more conservative Congress undoubtedly would not be receptive to expanding government's role in this area even if the final report to be issued in February 1981 were to make this recommendation.

- Federal workers compensation. Sen. Harrison Williams (D-N.J.) and outgoing Sen. Jacob Javits (R-N.Y.) have since the early 1970s cosponsored legislation setting minimum federal standards on benefits for on-the-job injuries or job-related illness. Last year, the White House publicly endorsed federal standards. It appears likely the Reagan presidency will continue to leave these benefits in the hands of state governments.

A second effect of the new administration on em-

ployee benefits would be the intangible results of general policies, particularly in efforts to bring inflation under control. All benefits directly related to vacations or holidays or representing wage replacements, such as pensions and disability benefits, have increased significantly as the rate of inflation has increased.

A recent Johnson & Higgins study showed pension costs have increased more than 30% during 1978 and 1979. In every major round of labor negotiations, the dominant issue has been cost-of-living provisions for pensions to preserve the purchasing power of retiree income.

A recent five-year survey by Bankers Trust Co. indicated 70% of plans studied provided cost-of-living adjustments to retirees—up from 64% in a 1975 study. In addition, pensions based on a three-year final average salary have increased to 16% of the plans studied—up from 2% in 1975.

Inflation is a deeply embedded element in the American economy. All indications are that immediate solutions will be difficult for the new president. The erosion of purchasing power will pressure employee benefit managers.

**T**he Reagan presidency will affect employee benefits by providing tax incentives or by changes in Social Security.

- Tax incentives. Current tax policies and inflation psychology discourage savings and fuel inflation. One possibility is a change in tax policies to encourage workers to save voluntarily and to participate in individual or company-sponsored capital accumulation plans. This could be done by reducing taxes on interest and dividends or by permitting participants to make tax-free contributions to a pension or savings plan.

The primary action of Reagan will be to make income tax cuts. Tax incentives for voluntary savings will be secondary and probably will not happen until the tax cuts and their effects on budget deficits are clearly determined.

- Social Security. Recognizing the political implications of Social Security benefits for 30 million recipients, President Reagan promised during the campaign not to change existing rules. Some changes may occur in the formula for benefit increases to retirees, later retirement age eligibility, inclusion of federal employees or alternative sources of funding such non-retirement benefits as Medicare.

What would employee benefit managers like to have happen? Their most common request would likely be for legislation to reduce the paperwork overkill and unnecessary costs generated by ERISA.



Joseph L. Fromm is assistant treasurer and is in charge of risk management and employee benefits for American Motors Corp. in Southfield, Mich.



# Reagan's reign

## OSHA to drop punitive role, learn educational approach

By Jack B. ReVelle

**T**HE IMPACT of a Reagan presidency supported by a new Republican majority in the Senate may very well undo the recent beginnings of a respectable reputation for the Occupational Safety and Health Administration.

Both President Reagan and his Republican Party platform have spelled out their positions regarding the frequently controversial agency and the law that created it when President Nixon signed the bill in December 1969.

The ramifications of the potential changes to OSHA and amendments to the OSHA Act are likely to be extensive if the bill (S. 2153, the OSH Improvements Act of 1980) introduced by Sen. Richard Schweiker (R-Pa.) late in 1979 is any portent of political things to come.

Remember, Sen. Schweiker was Mr. Reagan's announced choice for runningmate had Mr. Reagan been the GOP presidential candidate in 1976, and now Mr. Reagan has named Sen. Schweiker to the Cabinet post of director of the Department of Health and Human Services.

We can analyze past records and statements and party performances to develop a profile of what is likely to occur in occupational safety and health programs.

Perhaps the clearest statement of the Republican Party's intent is contained in its platform: "We recognize the need for governmental oversight of the health and safety of the workplace, without interfering in the economic well-being of employers or the job security of workers."

It goes on to reflect the party's support of the Schweiker bill: "OSHA should concentrate its resources on encouraging voluntary compliance by employers and monitoring situations where close federal supervision is needed and serious hazards are most likely to occur. OSHA should be required to consult with, advise and assist businesses in coping with the regulatory burden before imposing any penalty for noncompliance. Small businesses and employers with good safety records should be exempt for safety inspections and penalties should be increased for those with consistently poor performance."

President Reagan has made his personal position on OSHA crystal clear in these recent statements:

- "There is a compelling need for an effective program to improve safety and health in the workplace for America's working men and women . . . ."

- "The purpose of OSHA is to reduce industrial accidents, an important concern for working families . . . ."

- "I propose . . . to refocus on the real objectives of the Occupational Safety and Health Act, and retarget OSHA's standards to a performance-oriented, common-sense approach. Current standards, which dictate single methods of meeting goals, result in bureaucratic nonsense that serves no productive purpose other than to divert attention and funds from other safety and health priorities. Such rules are blind to the differences among workplace operations and hazards. Instead, OSHA standards, such as those regulating worker exposure to hazardous substances, should set a performance goal and help industry to develop common-sense answers for achieving that goal . . . ."

- "Instead of making a real effort to seek the cooperation of the business community and local state agencies to improve workplace safety, the Carter administration has too often assumed the role of the adversary. Instead, we must work for a state/federal partnership which promotes true workplace safety and greater cooperation between labor and management."

In another statement earlier this year, President Reagan said: "My idea of an OSHA would be if government set up an agency that would do research and study how things could be improved, and industry could go to it and say, 'We have a problem here and we seem to lose more people by accident in this particular function. Would you come and look at our plant and then come back and give us a survey of what should be done?'"

**T**he Louis Harris organization conducted a survey last spring to determine views on how well eight regulatory agencies are doing their jobs to make our society acceptably safe. Surveyed were members of Congress, top corporate executives from the 1,500 largest U.S. corporations, federal regulatory officials and the investment and banking communities.

Ranked either first or second by all respondents were the Civil Aeronautics Board and the Food and Drug Administration. Ranked either seventh or eighth (next to last or last) were the Office of Technology Assessment and the Department of Energy.

Between these two extremes were the Environmental Protection Agency in third place, OSHA in fourth (just making the first division), the Consumer Product Safety Commission in fifth and the Nuclear Regulatory Commission in sixth.

The leadership groups' perceptions varied on how well OSHA has been doing its job. The executives and the financiers rated OSHA fifth in the field of eight agencies while the federal regulators ranked OSHA fourth. However, members of Congress rated OSHA highest, awarding it third place.

While specific OSHA strategies have yet to be announced, the Republican party platform, the President's statements and the political influence of executives and financiers on the new administration all lead to the same conclusion: OSHA is in for some big changes when the Reagan administration enters the White House this week. Whatever the next four years may bring, one thing is certain—they will bear no resemblance to the last four.

Jack B. ReVelle is a technical specialist in production research and development for McDonnell Douglas Astronautics Co. in Huntington Beach, Calif. He is author of the recently published book "Safety Training Methods."



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## Retro plan regulation

Continued from page 2

law, the premium must be paid upfront but may be in the form of a premium note.

The April bulletin set down the rule that all premium notes must bear the current money market interest rate. In response to insurer complaints that the guideline was vague, the department is clarifying its position in this Dec. 30 bulletin, explains Marcus Ramsey, chief of the rate regulation bureau.

The interest rate charged should be the rate reflecting the value of money to the policyholder at the time the transaction takes place, Mr. Ramsey explains. That figure varies among employers, he noted.

"While this high-low spread fluctuates somewhat over time, it generally will range two or three points on either side of the current prime interest rate," the bulletin says. As of last week, the prime stood at 20% at most banks.

"We have heard reports that some companies are charging rates as low as 6%," Mr. Ramsey said. "This is clearly in violation of the state's rebate law—it amounts to giving something of value to the employer without charging anything."

"The principle of equity in rating tends to be lost as those policyholders able to negotiate more favorable treatment are granted pricing discounts by some insurers at the expense of those policyholders holding a less favorable negotiating position," the bulletin points out.

In order to meet the interest rate requirements outlined in the new bulletin, many insurers will have to increase their charges significantly, industry sources say. Outside of California, premium notes typically do not carry any interest charge at all.

Fireman's Fund has been writing paid-loss retrospectively rated plans in California with premium notes charging about 10% interest, reports Creighton White, senior vp of the national accounts and risk management services department. "These plans clearly become a lot less attractive at 20%," he said.

"It depends on the internal rate

of return of the individual company," he added. If a company can earn 30% on investment, then a plan carrying a 20% note might still be acceptable. But if the plans do not look attractive to buyers, they will turn elsewhere.

"A client has other alternatives including self-insurance and captives," Mr. White said.

"It's probably too soon to say what impact higher interest rates might have on the appeal of these plans," observed Bill Lachner, vp of INA Special Risk Facilities in Los Angeles. He does not anticipate a dramatic change.

The interest rate charged by INA fluctuates daily and is tied to the rate paid by U.S. Treasury bonds, said Mr. Lachner. Since maturity on a typical California retro plan occurs 42 months after issue, the interest rate charged on an accompanying premium note would be 1% more than for a treasury bond maturing at the same time. Currently, that would generate a rate of more than 13%.

"The interest issue has not been of paramount importance to buyers because insurers have indicated an intent to return all or part of the interest through the dividend declaration at the end of the policy term," Mr. Lachner said.

Under California law, however, dividends cannot be guaranteed, Mr. Lachner stressed. This means a buyer is contractually obligated to pay the interest on the premium note.

Consequently, a higher interest charge could dampen buyer enthusiasm for paid-loss retros.

In some plans, the interest must be paid upfront; in others, that payment may be deferred until the dividend is declared. This is a negotiating point between buyer and seller, industry sources say.

The department also is concerned that some insurers are collecting premium notes without any significant collateral, Mr. Lachner says. Although the bulletin stops short of requiring insurers to obtain letters of credit to back up premium notes, it strongly urges insurers to protect themselves with some kind of financial security.

## Workers warned about risk

Continued from page 3

Collins, Colo., went bankrupt in December 1979.

Hewlett-Packard has filed suit to bar health care providers from collecting the bills from its employees (BI, Nov. 17, 1980).

The company considered paying the employees' bills, but rejected that action because it did not want to set a precedent of making the firm liable if other HMOs failed, Mr. Young said.

Mr. Young criticized the lack of a federal or state statute to protect employees when an HMO collapses. "It is not acceptable to have plans that can leave an employee with \$80,000 in bills," he said.

Ted Weinberg, director of compliance for the federal HMO office,

said the government is concerned.

One solution might be a termination insurance pool modeled after the Pension Benefit Guaranty Corp. insurance program for multiemployer pension plans. Under the PBGC program, employers pay \$2.60 per year per participant to a fund that guarantees the vested pension benefits of workers if a plan terminates.

But Mr. Weinberg said the cost of a PBGC-type guarantee plan for HMOs might be too costly. There simply may be too few HMOs to make such a plan possible, he said.

Another possible solution would be to require HMOs to maintain reserves that only could be tagged to pay outstanding medical claims in the event of bankruptcy, he said.

## Fire codes questioned

Continued from page 3

man. "An inspection in July showed it to be in excellent condition. It met all requirements."

The requirements for almost 300 similarly licensed facilities in the state that house more than 5,000 persons are "adequate" smoke detectors, fire alarms, fire escapes, exits and sprinklers in buildings with three or more floors.

"What's needed is a major renovation of these codes," said John Fay, state ombudsman for the institutionalized elderly. "If these

(Brinley and Beachview) were two of the better-than-average boarding homes and they went up, what's going to happen when one of the bad ones goes up?"

His office suggested requiring sprinkler systems for all facilities after the July disaster, but the proposition was shot down as too expensive, he explained.

The watchdog group is also considering recommending all fire alarms in these facilities be connected directly to the fire and police departments.

# Firms fear worker suits

*Continued from page 1*  
 sation insurer, IPC acted in a dual capacity as employer and insurer. As such, the employer "intentionally harmed Mr. Williams," Mr. Arbuthnot said.  
 "By intent, we mean that the employer, as compensation carrier, knew or should have known that Mr. Williams was substantially certain to be injured in a dust explosion," he said.  
 "The jury believed the employer acted with malice and conscious disregard for the plaintiff's safety."  
 IPC's attorney, Michael Lowe of San Francisco, said he plans to take the case to the California Supreme Court if necessary. IPC was self-insured for \$50,000 and holds an excess workers compensation insurance policy with the American Motorists Insurance Co. of the Kemper Group.

The California Self-Insurance Assn. and the state's 8,000-member Chamber of Commerce are working with IPC's attorney on the appeal.  
 The Williams case could have "devastating" effects not only to employers that self-insure their workers compensation risk, but also to insurance companies, says Susan Cavazos, employee benefits manager of the California Chamber of Commerce.  
 "This suit was based on suing the employer as insurer and its failure to provide a safe work environment," she said. "It opens the gate to not only suing employers who self-insure, but also insurance carriers."  
 In California, the workers compensation statute states that if the employer is found to cause an

employee's injury, the employee is entitled to a 50% increase in workers compensation benefits.  
 "What's happening here is an attempt to class the employer as a third party and take the benefits out of workers compensation and into the general liability," said Alan Tebb, executive director of the California Workers Compensation Board.  
 One U.S. Department of Labor workers compensation source, who asked not to be identified, said he had no doubt the award to Mr. Williams would be overturned by a higher court.  
 "What we have here are judges and juries who don't understand workers compensation and what it means. If they tear apart the exclusive remedy clause, there will be no such thing as workers compensation," he said.

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It may be a month or more before the company's appeal is filed with the state's appellate court, Mr. Lowe said. The defense will stick to the company's previous stand that the employer was not acting in a dual capacity, he said.  
 "The trial court allowed loss-control efforts to be used as a basis for avoiding the exclusive remedy provision," Mr. Lowe said.  
 Under California's labor code, as in all states, the exclusive source of damage benefits open to an injured employee is workers compensation.  
 The only exception is if an employee proves the employer intentionally injured him.  
 Because Mr. Arbuthnot was able to convince the jury that IPC served in a dual capacity and admitted it "may have been negligent," the Siskiyou County Court jury returned a sizable award to Mr. Williams.

What worries California employers, insurers and workers compensation and self-insurance associations, though, is that if the ruling is not overturned by a higher court, the ruling could set a "dangerous precedent."

The manager of the California Self-Insurance Assn. said he is "terribly unhappy" with the verdict.  
 "It's bizarre," said Joseph Markey of the association, which represents the interests of about 23% of California employers that are self-insured.

"The decision implies that insurance companies can be sued as well as self-insured employers. It's wild," he added. The association plans to file a friend of the court brief to tell the appellate court just how unhappy it is about the decision.

The National Council of Self-Insurers' manager, MaryAnn DeSanto, said she hadn't heard of the California ruling, but added she would bring it to the attention of the council's members immediately. The New York-based council represents self-insured employers and state self-insurance associations.

A few sources said the verdict didn't stand a chance of winning on appeal, but many more said they were worried about the workers compensation system being further eroded.

"This case has the potential to be extremely disruptive to workers compensation," said Eric Oxfield, employee benefits attorney for the U.S. Chamber of Commerce in Washington.

"The courts are misconstruing the exception to the exclusive remedy clause and there are ramifications for every state," Mr. Oxfield said.

"If taken literally, this case would allow any employee to sue his employer."

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9.	MAR 2	Feb 18
10.	MAR 9	Feb 25
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# Cost of law

*Continued from page 2*

"Landlords are worried they could be sued for negligence in case of a quake that caused serious accidents in their building," pointed out a local broker. "They now they have a substandard building, and they haven't taken steps to remedy the situation."

"I think the current softness in the marketplace should mitigate any lack of availability," said Horst Lechler, senior vp for Anderson & Furison, a surplus lines brokerage agency in Pasadena.

"Most of these buildings are insured through the E/S markets, anyway," he said. "If some markets drop out, others will come in to write the coverage."

The situation is not really unprecedented, Mr. Lechler added. We had a similar situation when the city outlawed unvented gas heaters and when it required fire doors at each landing of a building to eliminate open stairways. Neither created a lack of insurance availability.

"If the coverage was available yesterday, it will be available tomorrow," said another surplus lines broker with Western Specialists in Los Angeles. "Underwriters always look at the construction, anyway."

**In Long Beach**, which enacted its first law to require strengthening of earthquake-hazardous buildings 10 years ago, there have been no complaints from owners about insurance, says Vito Romans, executive vp of Downtown Long Beach Associates, a civic group with 1,400 business members.

The Los Angeles ordinance creates four risk categories of buildings. The first category contains about 50 public buildings that will get repair notices first. Compliance orders for the other three categories will be phased in over the next four years.

Building owners have two options once they are notified to comply with the new regulation. To comply fully, the owner must reinforce the entire building within three years, using steel bolts to tie together the walls, ceilings and floors.

To buy some extra time—up to 10 additional years, depending on the building classifications—the owner may use a stopgap measure. Another provision allows additional time for owners with special hardships.

The ordinance applies to all buildings constructed before October 1933, when the city enacted a tougher earthquake safety standard. Residential buildings with fewer than five units are exempt.

# Earthquake predicted

WASHINGTON—There is a greater than 50% possibility that a major earthquake will strike California in the next three decades, causing unparalleled disaster, a Federal Emergency Management Agency study says.

Although California has adequate means of coping with moderate earthquakes, government officials agree preparations are "woefully" inadequate for coping with a major disaster.

The estimate of casualties resulting from the earthquake depends on the time of occurrence.

At about 2:30 a.m., when most people are at home, the safest place to be during a seismic emergency, an earthquake would cause approximately 3,000 to 4,000 deaths and 12,000 to 18,000 injuries.

Around 2:00 p.m., when most people are at work, the collapse of office buildings could cause 10,000 to 21,000 deaths and 37,000 to 83,000 injuries.

Most deaths would occur around 4:30 p.m., when most people are on the streets. Deaths at this time would reach 11,000 to 23,000 and injuries 44,000 to 91,000.

About 8.5% of the nation's population and industrial resources are in areas most likely to be damaged by a major earthquake. Property losses could range from \$38 billion to \$69 billion.



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# Low price wins account

Continued from page 1

cause most U.S. primary casualty risks already are placed with Insurance Co. of North America.

Most international risks are insured by American International Group. Domestic and interna-

tional primary casualty policies, which have limits of about \$1 million, are reinsured with Texaco's insurance subsidiary Heddington Insurance Co. of Bermuda on a quota-share basis.

"I told the bidding brokers that

they don't have to be New York-based, but must have a substantial New York office to serve us," Mr. Kreiling added. "In addition, the firm had to have branch offices compatible with our geographical locations."

Specifically, Emmett & Chandler will help prepare a builders wrap-up program, adding to the insurance and bonding guidelines Texaco already gives contractors. The broker also will audit claims and monitor Heddington's reserves for incurred-but-not-reported claims.

"The consolidated wrap-up program for contractors is particularly important for us as we prepare new construction projects," Mr. Kreiling noted. "What we provide is construction bonding requirements right down to actual contract wording."

Claims audits are likewise valuable because the oil firm has had problems with claims confusion.

"It's not unusual for someone to file a claim against an independent Texaco gasoline dealer directly with us," Mr. Kreiling said. "The independent dealers are not covered under our program, so without proper auditing, we could be paying other people's claims."

Since the Heddington subsidiary participates in most casualty coverages except directors and officers liability insurance and corporate fleet aviation coverage, the insurer's IBNR claims reserves also are part of the broker's overall claims monitoring.

Auditors are particularly wary of proper reserving practices and can turn an insurance subsidiary examination of reserves into a qualified audit if not satisfied.

"Our previous broker has been able to provide these services, and in some ways we'll miss Corroon & Black on the account," said Mr. Kreiling. "But since 1974, we have been committed to competitive bidding on our insurance and we go with the best price."

Emmett & Chandler will receive a combination of commissions and service fees for its work on the program, which excludes marine and offshore pollution insurance.

Texaco's excess casualty insurance is placed by broker Alexander & Alexander and is not yet open to bids.

## Chrysler wins round

Continued from page 3

the firm. "We haven't made a decision yet and we have no date set for ruling," explained Georganne Riley, counsel to the Illinois Industrial Commission. "We're waiting to see the results of Chrysler's latest request to its loan board."

Chrysler last week received an additional \$400 million in federal loan guarantees.

The automaker's financial woes, expected to reach about \$1.7 billion in 1980 losses, have reportedly generated the interest of other workers compensation boards. A Chrysler spokesman, however, could not confirm action in states other than Illinois and Michigan.

It was reported that Delaware had scheduled a hearing into Chrysler's ability to self-insure workers compensation, but Kathryn Ribynski, administrator of the state's workers compensation board, denies any probe.

"We are now reviewing annual applications and changes from all firms that self-insure in Delaware," she explained. "We have a new set of board members, and they are very interested in self-insurance and firms' ability to pay benefits, but the interest and review are not aimed at Chrysler." ■

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## Seatrain owes claims

Continued from page 2

ery Clifford Beach.

If Seatrain files for bankruptcy, cargo insurers probably would not rank high among creditors, adds MOAC assistant recovery manager Gerard Asmus. As general creditors, they probably would get "10 cents on the dollar," he said.

Cargo insurers, however, could press action against firms acquiring Seatrain vessels. When a ship is sold, claims against it are included and usually deducted from the purchase price.

Another insurance company official says his firm sent files on Seatrain to its attorneys, he does not expect to end up in court. "No one is panicking. I expect to see them back on their feet," he said.

Seatrain's protection and indemnity insurance has not been affected by its debts, although a freeze on Seatrain bank accounts in early December delayed a premium payment, the Seatrain spokesman said. Coverage did not lapse, he said.

The P&I insurer, London Steamship-Owners Mutual Insurance Assn. Ltd., repays Seatrain for claims it has paid that exceed Seatrain's \$25,000 deductible, said John Hawkes, a claims director with A. Bilbrough & Co., manager of the London P&I club.

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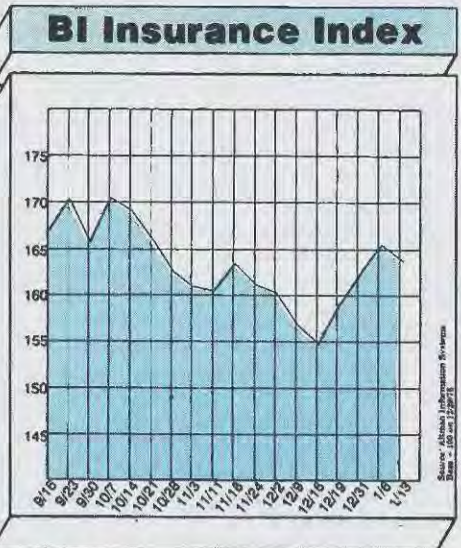
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# Investment income drop foreshadows rate hikes



The Business Insurance stock market index dipped for the first time in 1981, decreasing by 1.8 to 163.9 from 165.7. Forty-one stocks dropped, 19 rose and 13 remained the same. The largest declines were by: Carolina Casualty Co., 7.5%; Ryan Insurance Group Inc., 7.4%; Crum & Forster, 7.3%; Crown Life Insurance Co., 5.8%, and USLIFE Corp., 5.7%. Biggest gainers were: Pinehurst Corp., 5.9%; American Indemnity Financial Corp., 5.1%; American States Life Insurance Co., 5%; First Colony Life Insurance Co., 4.4%, and Northwestern National Life Insurance Co., 4.2%. The 1.1% index drop was less than the three major market indicators, which dropped over 3%.

### British Issues

1/13 Companies	Price pence	P/E	Div. pence	Yield %	High-Low
Comm Union	136	7.2	14.47	10.7	141-136
Eagle Star	230	7.9	14.28	6.2	236-230
Genl Accident	290	7.4	18.24	6.3	298-290
Gdn Royal Exch	290	7.6	20.71	7.1	302-290
Phoenix	242	7.6	20.00	8.3	254-242
Royal	330	7.5	32.17	9.7	338-330
Sun Alliance	694	8.4	42.14	6.1	702-694

Brokers	Price	P/E	Div.	Yield %	High-Low
CE Heath	173	8.4	13.87	6.0	183-173
Hogg Robinson	103	8.2	8.14	7.9	112-103
Alex Howden	91	7.8	10.00	11.0	97-91
JH Minet	87	10.9	6.45	7.4	95-87
Sedg Grp	109	10.0	7.14	8.5	117-109
Stenhouse Hldg	82	7.8	6.64	8.1	85-82
Stew Wrightson	183	7.6	17.14	9.4	195-183
Wills Faber	257	11.4	16.14	6.3	270-257

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

Continued from page 1  
derwriting losses mount, they say.

"We think that some individual companies will have their eyes opened up. Some are going to be faced with a serious financial squeeze," Mr. Bryan said.

Crum & Forster's Mr. Morrissey agrees the "rapid deceleration of after-tax investment income" will cause problems for some insurers, "but I doubt if it will be enough of one to turn things around on its own," he said.

"Long-tail writers such as Crum & Forster won't be hurt as much. We haven't seen the kind of impact on our cash flow that those that are heavily into the property side of the business have."

It has been in large part the drift in underwriting toward the casualty side of the business that has led to the boom in investment income. The long-tail business gives insurers more money to juggle.

Oppenheimer & Co. analyst Myron Picoult says the companies most likely to be hurt by the drop in investment income increases are those that have for the past couple of years seen the income as a panacea for all underwriting ills and have been depending heavily on it to compensate for high combined loss and expense ratios.

"That is dangerous," Mr. Picoult said. "If you don't attempt to develop an underwriting profit, you are going to be in trouble. Some companies have had their underwriting vision blurred by investment successes and have put business on their books that burns them in years to come."

"Do these companies really understand what they are doing? Some do and some don't," he said. The generally accepted wisdom that insurers now can operate at a profit with a combined ratio of 105% is causing them to write at even higher loss ratios with no thought of the potential impact, he added.

Still, investment income will save insurers' 1980 earnings from the beating underwriting losses alone would inflict.

"Earnings will be down in 1980, but not as far as they would have been had it not been

## BI ticker

for investment income. Clearly, it provides an important cushion," Mr. Picoult said.

As insurers have become more dependent on investment income, they also have become a bit more savvy in the investment marketplace.

Insurers say they have learned from past mistakes and analysts agree the companies are more flexible and somewhat wiser investors than they were in the mid-1970s, when many were badly burned by a downturn in the stock market.

"Five years ago we were heavily into common stocks. But the trauma of the last cycle, plus the downturn in the stock market at the same time, caused a double whammy that we don't want to expose ourselves to again," Mr. Morrissey said.

Insurers now prefer the bond market, but even that market has undergone some changes in the past few months.

Fears earlier this year about an alarming drop in bond prices led many insurers to pull out of the 20- to 40-year bonds and invest their money instead in bonds with maturities of five to 10 or 10 to 20 years, said analyst David Seifer of First Boston Corp.

Insurers also are beginning to cautiously inch their way back into the stock market instead of maintaining a hard and fast rule against it, he said.

"They are becoming more flexible." Some insurers are getting a reputation for being more aggressive investors and are more willing to try newer forms of investment, added Mr. Picoult.

He sees developing interest in the coming year in energy and gas stocks and in real estate.

The St. Paul Cos., for example, is being cited as pioneering in alternative investments, such as natural resources.

Northwestern Mutual Life Insurance Co. of Milwaukee also is a leader in this trend. Officials say they have developed several energy-related investments, ranging from

coal rights in Wyoming to solar projects in Maryland.

Other industry experts say insurers are getting away from a reputation of being stodgy sources of stable, long-term funds and are going to start demanding such things as short-term credit vehicles and commercial mortgages.

They are also investing more heavily in tax-exempt municipal bonds.

At Crum & Forster, Mr. Morrissey said sinking fund preferred stocks are becoming attractive. These are stock funds set up by an issuing company that retire the issues after a given period of time rather than continuing them in perpetuity. One advantage is investors can spread the return of their investment over a period of time.

Crum & Forster also has started selling options against its common stock portfolios, in effect hedging its bets and trying to limit potential losses.

## Financial briefs

### CIC Financial

Directors of CIC Financial Corp. have declared a quarterly cash dividend of 15 cents per share, payable Feb. 16 to shareholders of record Jan. 26.

The dividend is a 25% increase over that of the last quarter.

CIC, whose subsidiaries specialize in property and workers compensation insurance, paid a 25% stock dividend on Dec. 30.

### The Travelers

The directors of The Travelers Corp. have increased the quarterly common stock dividend to 72 cents per share from 62 cents. The board also declared the regular quarterly dividend of 50 cents for the company's preferred stock.

Both dividends will be paid March 10 to shareholders of record Jan. 29.

"The increase is in accord with The Travelers' policy of making regular and significant increases in dividends," said Morrison H. Beach, The Travelers' chairman of the board.

"The dividend brings the annual indicated rate to \$2.88. This is an increase of 16% over the 1980 dividend, and amounts to more than 2½ times the 1976 dividend of \$1.08."

### Nationwide

Nationwide Corp. increased its first-quarter dividend to 17.5 cents per share, an increase of 6% over the 16.5 cents paid a year ago.

The dividend will be paid March 23 to shareholders of record March 2.

### N-N U.S.

Revenues of Nationale-Nederlanden U.S. Corp. increased about 16% in 1980 to about 8 billion guilders. The contribution of international business to total premium income rose to about 50% from 44.5%, partly because of favorable exchange rates.

The N-N board expects the increase in 1980 profits will at least keep pace with the increase in total revenues.

The company's international interests include six U.S. insurers: Peerless Insurance Co. and The Netherlands Insurance Co. in Keene, N.H.; Wisconsin National Life Insurance Co. in Oshkosh, Wis.; Midwestern United Life Insurance Co. in Fort Wayne, Ind.; Security Life & Accident Co. in Denver, and Life Insurance Co. of Georgia in Atlanta.

### Foremost Corp.

Foremost Corp. of America, parent of Foremost Insurance Co., has increased its anticipated annual dividend rate for 1981 by 33% to 80 cents per share.

## BI Industry Stock Report

Insurance Cos.	JAN. 13, 1981					1/7/81 THRU 1/13/81					JAN. 13, 1981					1/7/81 THRU 1/13/81										
	Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol. (000)	Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol. (000)	Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol. (000)		
Aetna Life & Cas Co	NYSE	35.13	-4.4	5.3	2.12	6.0	35.50	33.88	370.1	Tokio Marine & Fire Ins Co	OTC	164.50	2.8	18.2	1.03	0.6	167.00*	163.75	16.1							
American Bankers Ins Group	OTC	7.00	0.0	4.7	0.11	1.6	7.00	6.63	137.4	Travelers Corp	NYSE	40.88	0.9	4.6	2.88	7.0	40.88	39.75	300.8							
American Finl Corp Ohio	OTC	25.00	0.5	4.7	0.50	2.0	25.00	24.75	38.8	United Fire & Cas Co	OTC	28.75	-2.5	7.9	0.90	3.1	29.00	28.75	1.4							
American Gen Ins Co	NYSE	38.25	-1.6	6.0	1.00	2.6	38.25	37.25	126.6	United States Fld & Gty Co	NYSE	41.13	-3.2	4.6	2.80	6.8	42.63	41.13	73.3							
American Indby Finl Corp	OTC	15.50	5.1	5.1	1.12	7.2	15.50	14.38	13.7	United Svcs Life Ins Co	OTC	15.00	0.0	5.4	0.96	6.4	15.00	15.00	18.2							
American Intl Group Inc	OTC	73.00	-3.6	10.3	3.50	0.7	74.75	73.00	154.7	USlife Corp	NYSE	24.88	-5.7	6.2	0.72	2.9	25.75	24.75	278.2							
American Natl Ins Co	OTC	12.88	-1.0	5.4	3.68	5.3	13.00	12.75	70.7	Washington Natl Corp	NYSE	37.63	0.7	7.7	1.50	4.0	37.63	36.00	58.7							
American Svs Life Ins Co	OTC	21.00	5.0	8.7	3.72	3.4	21.00*	19.50	5.3	Zenith Natl Ins Corp	OTC	19.00	-3.8	10.1	0.63	3.3	19.00	18.75	32.5							
Aneco Reins Ltd	OTC	4.75	0.0	0.0	3.00	0.0	4.75	4.63	42.1																	
Appalachian Natl Corp	OTC	2.13	0.0	6.1	0.05	2.4	2.13	2.13	0.0																	
Avenco Corp	AMEX	9.50	0.0	8.2	0.50	5.3	9.50	8.75	10.9																	
Banks Iowa Inc	OTC	27.25	0.9	5.2	1.32	4.8	27.25	27.00	2.2																	
Bitco Corp	OTC	35.75	3.6	5.7	1.68	4.7	36.50	35.00	10.9																	
Caroline Cas Ins Co	OTC	9.25	-7.5	3.9	0.32	3.5	10.00	9.25	2.4																	
Central Natl Finl Corp	OTC	10.63	0.0	3.9	0.50	4.7	10.63	10.63	0.6																	
Chubb Corp	OTC	40.88	3.2	5.2	2.68	6.6	40.88	39.50	221.1																	
Combined Intl Corp	NYSE	17.88	-2.7	5.2	1.60	9.0	18.38	17.88	120.2																	
Connecticut Gen Ins Corp	NYSE	47.13	-2.6	6.4	1.52	3.2	48.00	47.00	121.5																	
Continental Corp	NYSE	24.63	-2.5	5.3	2.20	8.9	25.50	24.63	114.5																	
Crawford & Co	OTC	17.75	-1.4	13.9	0.48	2.7	17.75	17.50	15.3																	
Crown Life Ins Co	OTC	90.00	-5.8	65.2	2.40	2.7	95.50	89.50	2.1																	
Crum & Foxster	NYSE	25.25	-7.3	4.7	1.44	5.7	27.00	25.25	188.2																	
Employers Cas Co	OTC	39.25	-1.3	6.4	1.20	3.1	39.75	39.25	4.5																	
Equifax Inc	NYSE	20.88	-0.6	6.8	2.40	11.5	21.00	20.63	3.8																	
Farmers Group Inc	OTC	30.25	-0.4	9.5	1.00	3.3	30.25	29.88	201.1																	
First Colony Life Ins Co	OTC	35.50	4.4	13.1	0.80	2.3	35.50*	32.50	9.9																	
Foremost Corp Amer	OTC	20.25	0.6	7.3	0.60	3.0	20.25	20.13	13.1																	
Great West Life Assurn Co	OTC	195.00	0.0	9.7	8.00	4.1	195.00	195.00	0.5																	
Hanover Ins Co	OTC	44.00	-1.7	4.0	0.72	1.6	44.75	42.25	20.1																	
Hartford Steam Boiler Insnptn	OTC	34.00	0.0	7.1	2.40	7.1	34.00	33.50	17.0																	
Integon Corp	NYSE	38.50	2.3	13.7	0.52	1.4	38.50	37.38	79.9																	
Jefferson Natl Life Ins Co	OTC	39.50	0.0	14.5	0.64	1.6	40.50	39.50	4.3																	
Kemper Corp	OTC	33.63	0.0	4.9	1.60	4.8	33.63	33.25	35.3																	
Lincoln Natl Corp Ind	NYSE	40.00	-4.2	5.6	3.00	7.5	40.25	39.75	89.8																	
Mgic Invst Corp	NYSE	31.00	-5.0	8.7	1.12	3.6	31.50	31.00	425.7																	
Mission Ins Group Inc	NYSE	34.88	0.0	7.1	0.80	2.3	35.13	34.63	26.4																	
Nationwide Corp Ohio	OTC	19.75	0.0	5.0	0.70	3.5	1																			

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