

Business Insurance

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Accident involving Eastern jet may cost insurers \$16.5 million

PENSACOLA, Fla.—Damages from last week's hard landing of an Eastern Air Lines Inc. DC-9 probably will cost insurers about \$16.5 million, a London aviation underwriter predicts.

If the aircraft, whose fuselage cracked during a landing on Dec. 28, is considered a total loss, insurers would pay the full value of the \$6.5 million aircraft, according to the underwriter.

In addition, liability claims are not likely to total more than \$10 million, he

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Limits grow, rates dip in competitive market

By LINDA J. COLLINS

Competition remains the name of the game in the commercial property/casualty insurance market, brokers agree, despite pressure on insurers' bottom lines from uncollectible reinsurance, tax law changes and the recent stock market plunge.

Insurers' have increased capacity for both property and casualty risks, brokers said shortly before year-end. Record profits are increasing their appetite for business (see story, page 2).

Insurers are offering up to \$150 million in excess liability insurance outside of the alternative facilities formed during the tight market, brokers observe. And, insurers are interested in writing

both property and casualty risks they largely shunned during the past several years, including earthquake, errors and omissions and directors and officers liability risks.

Brokers also report that rate cutting is virtually universal for commercial property/casualty accounts, despite concerns by many insurer executives that unchecked competition could lead to another rash of insurer insolvencies.

Brokers report rate reductions averaging from 15% to 40% for property risks and 10% to 30% for general liability risks, though several brokers cited smaller liability rate reductions.

And, unlike the past several years, brokers anticipated no problems completing virtually all renewals by Jan. 1.

Insurers "are seeking business in general and classes of business they weren't interested in looking at last year or before," said Arnold Bergson, chairman of Republic Hogg Robinson Inc. and president of its New York office. "We aren't having any problems with completing renewals; it's just a question of pricing."

"Availability has returned to the marketplace. Except for very tough products, there is capacity available and most companies are saying: 'We want to see your profitable business,'" said James Styer, executive vp of Mesirow Insurance Services in Chicago.

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Brokers say

Insurers say

Tax act, stock plunge could cap competition

By MARK A. HOFMANN and STACY ADLER

Although insurance company executives admit the commercial property/casualty insurance market is softening, they say that year-end renewals generally reflect insurer caution and healthy—not cutthroat—competition.

Insurers concede that rates for property insurance and, to a lesser extent, liability insurance are declining, but they report much smaller rate cuts than described by brokers (see related story).

According to the consensus of insurers, property insurance rates generally are dropping 5% to 20% on renewal, while liability insurance rate cuts are even more modest.

Insurers say the Tax Reform Act of 1986 and the October stock market crash, among other factors, are causing them to keep a lid on price competition.

"The stock market crash, the new tax act and industry concerns about reserve adequacy are all working to keep prices firm," said Jim Rabenstine, vp and manager of intercompany and governmental relations at Liberty Mutual Insurance Co. in Boston.

"We're hoping the new tax code and the stock market situation will bring some sense into the marketplace as far as pricing is concerned," said Lowell H. Tornow, executive vp-field operations for Wausau Insurance Cos. in Wausau, Wis., an affiliate of Nationwide Corp.

The tax act has caused Chubb & Son Inc. in Warren, N.J., to hold the line on prices, especially on long-tail business, said Senior Vp Terry Van Gilder.

"We have to pay the piper," summed up Joseph Smetana, president of AIG Risk Management Inc. in New York, a unit of American International Group Inc. He added that AIG has adjusted its renewal prices as needed to reflect increased operating costs.

The new tax law "has caused us to recalculate the pricing adequacy in certain lines," said Caleb Fowler, president of CIGNA Corp.'s property/casualty division in Philadelphia.

"We think increasingly as we get into 1988 and those tax-affected results appear it will cause insurers to take a little harder line on pricing," said

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1988 renewal report

Risk managers hail happier New Year

By LAURA MAZZUCA

Better than the last several years, but not the halcyon days of the early 1980s, is how risk managers generally characterize the year-end insurance renewal season.

While capacity for most types of insurance is adequate and rates generally are declining, risk managers still aren't totally happy with the terms of year-end renewals.

But few risk managers are complaining too vociferously, remembering the nightmare renewal seasons of the mid-1980s.

"We're looking at one of the most non-exciting renewals in my career," said Linda Ruthardt, director of risk management for Barry Wright Corp., a filing systems manufacturer in Newton Lower Falls, Mass. "We seem to have hit on an intelligent, adult relationship with our carrier."

Even outside forces like the stock market plunge, the aftereffects of tax reform and a volley of natural disasters in the second half of 1987 failed to slow what one risk manager called "a return to rationality" in the marketplace.

Risk managers of corporations nationwide of all sizes

Risk managers say

cited a new willingness on the part of insurers to offer stable or lower rates, increase capacity and remove some policy restrictions.

"Bids are much more timely, and insurers aren't coming in with bids at the 11th hour," said John Pinner, assistant treasurer at Mattel Inc. in Hawthorne, Calif.

Some risk managers even said the outlook is brightening for traditionally hard-to-place coverages like directors and officers liability insurance.

"The underwriters are really underwriting" by offering fairer pricing and terms, said Barbara Fein, vp of risk management at Nu-Med Inc., a for-profit health care organization in Encino, Calif. "We're looking forward to some better renewals."

Lower pricing and extensive capacity for property insurance, continuing a trend begun last year, are making for a happier new year for many risk managers.

"I was very pleasantly surprised," said Arthur Bostwick,

risk manager for Stone Container Corp., a paper products manufacturer based in Chicago. "Both the domestic and London markets came through and evidenced sizable renewals in risk."

Mr. Bostwick reported property insurance rate reductions "in excess of 20%," adding that "double-digit percentage reductions" also apply to liability insurance rates.

The risk manager for a Midwest manufacturing company with \$96 million in annual sales said that liability rates dropped 10% for both primary and excess layers compared with last year's rates.

Property insurance rates dropped 15% to 20% on renewal, the risk manager noted. She added that rates and capacity for California earthquake coverage have particularly improved, with insurers now offering the company up to \$10 million in limits, compared with limits of \$2 million two years ago.

While liability insurance rates generally did not fall as dramatically as property rates, most risk managers indicated that liability insurance capacity had improved substantially. Several risk managers stated they were able to

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Update

Crash costs under \$16.5 million

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speculated. Many passengers may submit claims for pain and suffering, but only two of the 100 people on board suffered minor injuries, he said.

Eastern Airlines is owned by Texas Air Corp. Texas Air's hull and liability insurance, which was renewed Dec. 1, is 27.5% insured in London, led by Lloyd's of London's Ariel syndicate. Other insurers on the risk include U.S. Aircraft Insurance Group, Aviation Office of America Inc. and Insurance Co. of North America in the United States and La Reunion Aerieenne and CAMAT in France. The brokers were Frank B. Hall & Co. Inc. in the United States and Hall unit Leslie & Godwin P.L.C. in London.

Cargo, hull war risk rates hiked

LONDON—London cargo and hull war risk underwriters once again are hiking rates in the Persian Gulf following recent attacks by Iran and Iraq on neutral vessels.

The minimum rate for cargo shipped to the southwest coast of the Gulf, including the coasts of Saudi Arabia, Bahrain, Qatar and the United Arab Emirates, is being raised to 0.75% from 0.3% of the insured cargo value. Also, the minimum rate for cargo shipped to and from Sirri Island and the Iranian coast, where Iraq has been attacking tankers, is increasing to a minimum of 0.75% from 0.5%.

The revised schedule was published Dec. 21 by the London Insurance Market Cargo War Risks Rating Committee, which issues minimum cargo rates on behalf of Lloyd's of London syndicates and member companies of the Institute of London Underwriters.

The cargo committee reduced rates for cargo shipped along a small section of the Iranian coast that has not been attacked by Iraq. The rate was reduced to 0.1% from 0.5%.

Hull war risk underwriters also have agreed to double war risk hull rates for voyages outside the main area of hostilities, including Bahrain, Saudi Arabia, Qatar and the United Arab Emirates.

London court OKs intervention

LONDON—In an unprecedented move, London's highest court will allow the London insurance market to intervene in a case involving unauthorized insurance contracts.

The House of Lords granted an April 1987 petition filed by Lloyd's of London Underwriters' Assn., the Assn. of British Insurers and the Institute of London Underwriters. They oppose a landmark decision by Lord Justice Kerr that insurance contracts entered into by insurers not authorized by Britain are void and therefore unenforceable (*BI*, May 11, 1987; Dec. 8, 1986).

The London market fears that if the lower court opinion stands, reinsurers will refuse to pay claims on contracts with ceding companies not authorized in the United Kingdom at the time. Furthermore, unauthorized foreign insurers might refuse to pay claims.

This is the first time in English law that a group not party to a case has used an amicus curiae brief, though the British government has intervened in cases.

The appeal of the case is scheduled for late February.

Three firms court Robins

RICHMOND, Va.—A.H. Robins Co. is considering additional offers to acquire the company following a judge's estimate that Robins faces \$2.5 billion in product liability claims from women injured by its Dalkon Shield intrauterine device (*BI*, Dec. 14, 1987).

New York-based American Home Products Corp. last week offered common stock valued at \$550 million to acquire the assets of Robins. American Home would provide cash over a maximum of seven years to fund a \$2.5 billion trust.

Also last week, Rorer Group Inc. of Fort Washington, Pa., amended its offer to provide for a \$2.3 billion contribution to the trust over seven years. As part of the Rorer offer, Robins' long-time liability insurer, Aetna Casualty & Surety Co., would provide \$200 million in excess insurance to meet the \$2.5 billion figure.

French pharmaceutical manufacturer Sanofi has bid \$500 million to acquire a controlling interest in Robins and promises to provide additional funding for the trust (*BI*, Dec. 21, 1987).

A Robins spokesman said the company is considering all offers.

Also last week, a U.S. District Court judge extended Robins' deadline to file an amended reorganization plan until Jan. 6.

Briefly noted

Dick Drain, chairman of the North American property/casualty division of Lloyd's broker Alexander Howden Ltd., who has been "on vacation" for the last few weeks, will not return to Howden due to "irreconcilable management differences." . . . **Morton Thiokol Inc.**'s insurers will not pay property damages resulting from a fire that killed five workers last week at its Brigham City, Utah, facility because the Air Force owns the destroyed building. A company spokesman could not confirm who owned equipment in the building. Morton Thiokol's workers compensation and liability insurance is underwritten by various insurers. . . . **American Centennial Insurance Co. and Walton Insurance Ltd.** of Bermuda are settling disputes over Walton's participation on several quota-share reinsurance treaties covering business produced by Dar Allen Reinsurance Agency, an ACIC managing general agent (*BI*, Jan. 12, 1987). Settlement details were not released.

Errors & omissions

• All employers with defined benefit pension plans will pay a variable-rate premium—based on how well their plans are funded—to the Pension Benefit Guaranty Corp. An exemption for plans with fewer than 100 participants was knocked out of budget reconciliation legislation at the last minute and federal officials interviewed for an article in the Dec. 28 issue were unaware of this.

Transit policyholders suing for reinsurance

By DOUGLAS McLEOD

KANSAS CITY, Mo.—Two policyholders of the defunct Transit Casualty Co. are pressing lawsuits to recover losses directly from Transit's reinsurers.

One policyholder, Seattle-based Sellen Construction Co., filed an amended complaint against numerous Transit reinsurers and others in a Washington state court last month to recover \$5.6 million in losses related to a 1985 construction crane collapse.

However, 14 of the reinsurers named in the complaint have since sued Sellen, Transit's receiver, Missouri Insurance Director Lewis R. Crist, and others. The reinsurers' interpleader action, filed in U.S. District Court for the Western District of Missouri in Kansas City, asks that Sellen be enjoined from suing the reinsurers and that the Missouri court decide whether Sellen or Transit's receiver is entitled to reinsurance proceeds.

In a Dec. 21 court hearing, U.S. District Judge D. Brook Bartlett in Kansas City said he would issue preliminary injunctions barring Sellen from proceeding against any reinsurer that posts a bond to cover its potential liabilities and files a statement supporting the bond's adequacy, lawyers in the case say.

Judge Bartlett has not yet ruled on a summary judgment motion by Sellen to dismiss the interpleader action.

However, lawyers for Sellen and the reinsurers agree that the federal court probably will proceed with hearings on the issue of who is entitled to Transit reinsurance proceeds.

Meanwhile, a separate lawsuit was filed in Cook

County Circuit Court in Chicago in October by Pfizer Inc., a New York-based pharmaceutical and chemical company that placed all or part of the first layer of its liability insurance excess of a \$10 million self-insured retention with Transit between 1979 and 1985.

Pfizer's complaint names National Underwriting Agency Inc., a Chicago-based Transit managing general agent; Munich Reinsurance Co., as a representative of a class of Transit's treaty reinsurers; and H.S. Weavers (Underwriting) Agencies Ltd., H.S. Weavers (Holdings) Ltd. and their parent company, London United Investments P.L.C. Companies on Weavers underwriting slip also were among Transit's reinsurers.

The complaint asks that the defendants be held jointly and severally liable for an unspecified amount of losses and defense costs that Pfizer alleges should have been covered by Transit.

None of the defendants has yet filed an answer to the complaint.

Missouri-domiciled Transit was ordered into conservatorship in November 1985 and ordered liquidated on Dec. 3, 1985. With estimated liabilities of more than \$500 million, the Transit insolvency is one of the largest in U.S. history (*BI*, Nov. 16, 1987).

In May 1984, Transit issued an all-risk property insurance policy with a \$15 million per occurrence limit to Sellen and other corporations involved in a Seattle construction project, court papers say.

On April 20, 1985, a tower crane fell from the 25th floor of the project. The crane was destroyed, work already performed was damaged, further construction was delayed and Sellen and others involved in the

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Insurers' operating profit rose 72% in 1987: Best

OLDWICK, N.J.—The U.S. property/casualty insurance industry's statutory after-tax operating income grew 72% last year to \$11.7 billion from \$6.8 billion in 1986, according to preliminary data compiled by A.M. Best Co.

However, the year-end estimates by Best show that premium volume growth slowed rapidly in 1987, an indicator that the property/casualty market is becoming more competitive (see stories, page 1).

The industry's 1987 net income, which includes realized capital gains, stood at \$13.7 billion, up only 7% from \$12.8 billion in 1986, according to Best's estimates.

Sean F. Mooney, senior vp and economist at the Insurance Information Institute in New York, attributed the increase in operating income to basic economics: The insurance industry's revenues increased more rapidly than claims costs. Net written premiums increased 8.7% in 1987, while pure losses incurred grew by only 7.7%, according to Best.

However, the 8.7% increase in net written premiums was less than half of the 22% premium growth reported by the industry in both 1986 and 1985, reflecting the softening rate environment.

Investment income, which is also included in operating earnings, increased 7.3% in 1987 to \$23.5 billion, compared with \$21.9 billion in 1986.

Overall, the industrywide combined ratio, after policyholder dividends, dropped to 104.7% in 1987, Best says, compared with 107.9% in 1986. The industry's aggregate statutory underwriting loss was trimmed to

\$9.8 billion, a 37.7% improvement from a \$15.7 billion underwriting loss in 1986.

Despite the huge increase in operating earnings, the October stock market crash limited the industry's surplus growth. The industry's estimated surplus stood at \$97.5 billion at the end of 1987, only a 4.2% increase from \$93.6 billion in 1986.

Best estimates that insurers' stock market investments depreciated by \$15 billion during October.

Based on estimated 1987 year-end surplus, the industry is now writing at a net premium-to-surplus ratio of 1.96-to-1, slightly higher than the 1.88-to-1 ratio at year-end 1986.

The biggest underwriting improvement among the various lines of commercial insurance monitored by Best was in medical malpractice, where the combined ratio improved almost 20 percentage points to 119.5% in 1987 from 139.2% in 1986.

Other underwriting results by line include:

• Commercial multiperil. The combined ratio improved 7.1 percentage points to 89.2% last year compared with 96.3% in 1986.

• Workers compensation. The combined ratio improved 5.2 points to 115.7% in 1987 from 120.9% the previous year.

• General liability. The combined ratio improved 0.6 points to 115.5% last year from 116.1% in 1986.

• Inland marine. The combined ratio rose slightly to 81.3% in 1987 from 81.1% the previous year.

• Fire insurance. The combined ratio rose 1.5 points to 87.9% in 1987 from 86.4% in 1986. ■

Inside

✓ Stumped for a New Year's resolution or two? *BI*'s editors offer a list of worthy and admirable goals for readers in 1988. **PAGE 8**

✓ For the first time in several years, employers sponsoring benefit plans won more than they lost in Congress last year, according to an editorial. **PAGE 8**

✓ Employers and individuals could receive an annual 50% tax credit—up to a specified maximum—on contributions to a health care savings account under legislation introduced by Rep. Don Ritter, R-Pa. **PAGE 12**

✓ In Ask A Casualty Actuary, Richard E. Sherman, a principal with Coopers & Lybrand, examines several obstacles to the formation of a risk retention group and the possible effects of the October stock market crash on the insurance market. **PAGE 25**

✓ A.R.M. Exercises, provided by the Insurance Institute of America, reviews a procedure for estimating the likelihood of a major fire loss at a hotel chain. **PAGE 26**

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Tuition, legal benefits are taxable

By JERRY GEISEL

WASHINGTON—The clock has run out on the tax-favored status of two employee benefit programs, but employers do not have much guidance on whether they should now begin to withhold taxes on them.

Tuition reimbursement benefits and group legal benefits became taxable benefits after sections of the tax code governing their tax-favorable status expired on Dec. 31.

And benefit experts are unsure whether Congress will retroactively extend the tax-favored status of the benefits as it has several times in recent years.

Under Section 127, employees were allowed to collect up to \$5,475 annually in reimbursements for tuition and related expenses without paying federal and Social Security taxes on the funds.

And, under Section 120, employees could receive up to \$5,000 in annual group legal benefits without the benefit being subject to taxes.

While tuition reimbursement and group

legal benefits are now taxable benefits, the Internal Revenue Service as of last week had not issued an official announcement directing employers offering those benefits to begin withholding taxes.

However, an IRS spokesman said: "These are taxable benefits, and we expect employers to comply with the law."

However, reimbursement benefits for educational courses that relate to an employee's current duties remain tax free.

Some employers, such as Kemper Corp. of Long Grove, Ill., said they would not be affected by the elimination of the benefits' tax-favored status because they only reimburse their employees for courses related to their current duties.

However, many other employers still find themselves in a difficult situation. If em-

ployers do not withhold taxes for the benefits and Congress does not extend their tax-favored status, employees could object when they learn they owe additional taxes but have not set aside money to pay them, consultants say.

However, if employers do withhold taxes on the benefits and Congress retroactively extends 127 and 120, employers will have to make adjustments in their withholding rates so employees do not pay too much in taxes.

Of the two benefits, tuition reimbursement benefits are more popular.

About 5 million people may participate in employer-provided tuition reimbursement programs, estimated Frank McArdle, educational director for the Employee Benefit Research Institute, a Washington-based benefits think tank.

'These are taxable benefits, and we expect employers to comply with the law,' said a spokesman from the Internal Revenue Service.

Pollution

Judge says insurers downplayed exclusion

By STEPHEN TARNOFF

AUGUSTA, Ga.—The insurance industry misled the Georgia Insurance Department when it said in 1970 that the pollution exclusion clause would not have a great impact on most policyholders' pollution coverage, a federal district court judge says.

Although stopping short of saying the industry acted fraudulently in dealing with the Insurance Department, U.S. District Court Judge B. Avant Edenfield found on Dec. 7 that the insurance industry was "not straightforward" and downplayed its intention to rely on the clause to deny coverage for gradual pollution claims.

However, ruling that insurers always intended to exclude coverage for gradual pollution, Judge Edenfield refused to reverse a decision he handed down in August in *Henry H. Clausen vs. The Aetna Casualty & Surety Co.*, in which he held that the pollution exclusion clause barred coverage to a policyholder for gradual pollution at a site near Jacksonville, Fla.

The pollution exclusion clause bars coverage for bodily injury or property damage arising out of the discharge, dispersal, release or escape of various contaminants and pollutants. The clause does not exclude coverage if the discharge or dispersal is "sudden and accidental."

The clause has been the center of disputes for several years between insurers and policyholders over whether pollution damages are covered under comprehensive general liability policies.

Policyholders suing their insurers for coverage are beginning to use as evidence recently discovered documents used by the insurance industry in the early 1970s to gain regulatory approval of the pollution exclusion clause. The descriptions of the pollution exclusion clause in these documents differ from what insurers now are arguing in court about its meaning and in fact support policyholders' arguments as to what the clause means, policyholders contend.

Based on this evidence, which Mr. Clausen became aware of following the court's August decision, he sought to have Judge Edenfield reconsider his decision.

Judge Edenfield's August decision denied coverage to Mr. Clausen, who was the principal stockholder in Properties & Securities Inc., the owner of a 52-acre site on the outskirts of Jacksonville, Fla., which is listed by the Environmental Protection Agency as the nation's 26th most hazardous site.

The city of Jacksonville used the site as a landfill from 1968 until 1977, during which time it dumped a substantial amount of hazardous waste.

In 1982, the EPA notified Mr. Clausen that it was investigating the landfill and informed him that he was potentially responsible to clean up the site under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, better known as the Superfund Act.

Mr. Clausen spent thousands of dollars in an effort to comply with the EPA. Insurers denied coverage for the costs, citing the pollution exclusion clause.

Mr. Clausen is one of about a dozen potentially responsible parties—including the city of Jacksonville—that were cited by the EPA, according to his attorney

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Two courts bar cover for gradual pollution

By STEPHEN TARNOFF

In a setback for policyholders seeking coverage for pollution damages under general liability policies, two federal courts say the pollution exclusion clause clearly bars coverage for gradual pollution.

However, a third federal court says the clause is ambiguous.

The U.S. District Court in Columbus, Ohio, rejecting a state appellate court's finding, held in November that the pollution exclusion clause was not ambiguous. Therefore, the court said, New York-based Borden Inc. is not entitled to coverage for defense and indemnification costs that arose from a lawsuit in Texas. Affiliated FM Insurance Co. of Johnston, R.I., a unit of Factory Mutual System insurer Allendale Mutual Insurance Co., was the insurer.

And, the U.S. District Court in Ann Arbor, Mich., ruled in the same month that the clause barred coverage for Anderson Development Co., which faces litigation stemming from its continuous discharge of waste while producing the chemical Curen 442 for several years.

However, the U.S. District Court in Wilmington, Del., ruled that New Castle County in Delaware is entitled to a defense and indemnification of claims resulting from the contamination of the local water supply when pollutants the county dumped at two landfills over several years leached into the water supply.

The decisions are among the latest in the ongoing dispute between policyholders and their insurers over who will pay potentially billions of dollars in cleanup costs and damages caused by pollution and environmental contamination.

Insurers are contesting coverage on many grounds, but the major one is that the pollution exclusion clause that was inserted into comprehensive general liability insurance policies in the early 1970s bars coverage when pollution takes place over a period of years.

The clause states that there is no coverage for bodily injury or property damage arising out of the discharge, dispersal, release or escape of various pollutants and contaminants unless the pollution is "sudden and accidental."

The Borden case involved a lawsuit brought by Amoco Oil Co. against Borden in 1982 in which Amoco alleged that Borden fraudulently concealed the presence of hazardous wastes on a parcel of land in Texas that Borden had sold to Amoco.

Borden dumped phosphogypsum, a waste byproduct generated in the production of fertilizer, at the site between 1964 and 1970.

Borden notified Affiliated FM of the suit in March 1984. Affiliated FM wrote two excess liability policies for Borden covering 1974-1978. The policies were written excess of a \$500,000 self-insured retention.

The insurer refused to defend Borden for several reasons, including that coverage was barred by the pollution exclusion clause.

Borden sued Affiliated FM for defense and indemnification. Defense costs in the Amoco litigation, which is ongoing, already have reached approximately \$3 million, and Borden's potential liability could amount to more than \$100 million.

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Trucking safety goes national with new plan

By GLENN HUNTLEY

A task force of primarily truck manufacturers and parts suppliers is marketing a new program billed as the trucking industry's first national safety plan.

The new safety tool, MEGASafe, was developed to help the trucking industry, which has long suffered from an image of unsafe practices, find and keep competent drivers, as well as polish its public image.

MEGASafe emphasizes developing safety consciousness among everyone in a trucking company, from the president down to the garage mechanic and dispatchers. The program stresses that taking safety precautions are not obstacles to performing a job, said Larry Miller, president of Ruan Transportation Management Systems in Des Moines, Iowa, a key sponsor of the program.

"We believe that to a great degree safety is an attitude," Mr. Miller said. "Without that, the rest of it can go right down the tubes."

The MEGASafe goals are to raise safety awareness to a new level, reduce accidents and eventually save money through reduced or at least stable liability insurance rates.

The trucking industry's reaction so far has been positive, but insurers are taking a wait-and-see attitude, according to Mr. Miller.

Ruan established the task force of 34 truck and parts manufacturers in 1981 initially to develop efficient hauling equipment. "We came up with a truck that works," Mr. Miller said.

Among the task force members were: Caterpillar Tractor Co. in Peoria, Ill., manufacturer of engines and heavy equipment; Thermo King Corp. in Minneapolis, a subsidiary of Westinghouse Electric Corp. that manufactures commercial refrigeration equipment; Minnesota Mining & Manufacturing Co. in St. Paul, Minn.; Cummins Engine Co. Inc. in Columbus, Ind.; Navistar Inc. in Chicago, a major truck manufacturer; and Rockwell International Corp. in Pittsburgh, which manufactures components for trucks.

The group of industry representatives eventually turned its attention in 1985 to employee and management training for

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Photo: Mary Herlehy

A new national safety program for truckers could help improve truckers' public image.

Transit Casualty

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work encountered numerous additional expenses in going forward with the job, according to the complaint filed by Sellen and a limited partnership involved in the project.

Transit reinsurers had paid a total of \$1.1 million in claims related to the loss before Nov. 11, 1985, when Transit entered receivership, court papers say.

After that date, however, the reinsurers failed to pay claims or receive or approve proofs of loss, Sellen charges.

Sellen and the limited partnership filed an original complaint May 14, 1986, in King County Superior Court in Seattle against the

Washington Insurance Guaranty Assn., which allegedly has refused to cover Sellen's claims; Western Bridge Co. of Seattle, whose Mobil Crane subsidiary operated the crane; and a handful of reinsurers and others involved with Transit's reinsurance program.

Sellen filed an amended complaint on Dec. 7, 1987, naming 135 defendants, most of which were Transit reinsurers, according to Mark Weiss, an attorney with the Seattle firm of Ferguson & Burdell, which represents Sellen.

The Sellen complaint contends that the reinsurers' agreements with Transit provide that they will continue to pay claims directly to Transit policyholders in the event of Transit's insolvency.

The reinsurers recognized this

obligation and paid claims to Sellen until Transit entered conservatorship, the complaint alleges.

The lawsuit demands that the defendants be found liable for \$5.6 million in damages incurred as of April 2, 1987.

However, in the interpleader action that 14 of the reinsurers named in the Sellen complaint filed in U.S. District Court in Kansas City on Oct. 2, the reinsurers maintain that "some or all" of the reinsurance agreements contained an insolvency clause requiring all reinsurance proceeds to be paid to the receiver in case of Transit's insolvency.

The court papers also cite a Sept. 3, 1987, letter to representatives of the reinsurers from lawyers representing Transit's receiver in which

John C. Cozad, an attorney with the Kansas City firm of Morrison, Hecker, Curtis, Kuder & Parrish, reported: "The receiver's position (is) that he is entitled to recover on behalf of the receivership the proceeds of any and all reinsurance agreements."

"In the event that the reinsurers you represent should pay such reinsurance proceeds to Sellen Construction Co., or any other person or entity other than the receiver... your clients will make such payments at their own risk," the letter concludes.

Conflicting claims to the reinsurance proceeds threaten reinsurers with multiple liability to different parties on the same loss, the interpleader says.

Judge Bartlett agreed on Dec. 21

to enjoin Sellen from proceeding against any reinsurers that post bonds to cover potential liabilities and file statements attesting to their adequacy.

Other reinsurers named by Sellen in addition to the 14 interpleader plaintiffs also may obtain injunctions if they post bonds and file statements with the court, lawyers involved in the case say.

After allowing time for these filings and possible challenges to the bonds' adequacy, Judge Bartlett is expected to hear arguments on who should receive the reinsurance proceeds.

Sellen is considering a motion for a change of venue to federal court in Seattle, said Mr. Weiss, the company's attorney.

Meanwhile, defendants in Pfizer's complaint, filed Oct. 21, are expected to file responses in Cook County Circuit Court shortly.

In its complaint, Pfizer alleges that London United, Weavers, National Underwriting Agency, Munich and other Transit reinsurers acted as an "enterprise" and a "partnership" to gain premium and commission income generated by the Transit policies written for Pfizer and others.

According to the complaint, Pfizer began in 1979 shifting its first layer excess coverage to Transit from Northbrook Excess & Surplus Insurance Co. That was after Richard E. Foss, previously Northbrook's vp in charge of casualty underwriting, formed NUA to act as managing general agent for Transit.

Between 1979 and 1982, Northbrook and Transit evenly split a \$10 million layer excess of Pfizer's \$10 million retention, court papers say. In 1982-83, Transit alone wrote a layer of \$10 million excess of the retention and from 1983 through 1985 wrote a layer of \$5 million excess of the retention.

Pfizer, whose broker on the placements was Fred S. James & Co. Inc., paid a total of \$1.7 million in premiums over the six policy years, the complaint says.

In mid-1978, Peter Wilson, managing director of Weavers, approached Mr. Foss with the idea of forming an "enterprise" involving London United, Weavers, Transit and others, the complaint alleges.

NUA was formed in late 1978 and 37.5% of it was initially owned by London United and Weavers, 37.5% by Transit and 25% by Mr. Foss and others, the suit says.

Treaty reinsurance for Transit was placed with companies on the Weavers line slip, Munich Re and other reinsurers before NUA wrote any business for Transit, according to the suit.

London United, Weavers and Transit were also involved in the formation of E&S Intermediaries, which handled facultative reinsurance placements for Transit, the suit says.

Cumulatively, treaty and facultative reinsurance covered almost all of Transit's risk on the Pfizer policy, the complaint alleges, noting that Transit's retentions ranged from a low of 2.3% of the risk in 1983-84 to a high of 7% in 1979-80.

Lists of Transit treaty reinsurers attached to the complaint—the class Pfizer seeks to have Munich Re represent—include dozens of companies for the years between 1979 and 1985.

Pfizer alleges that under the reinsurance treaties, the reinsurers "attempted to avoid direct liability to Pfizer, while they received a major percentage of the premiums Pfizer paid."

Claiming that the defendants represented a partnership and that Transit and NUA were merely the alter egos of the other defendants, Pfizer seeks to have all of the defendants held jointly and severally liable for losses and expenses not covered by the insolvent Transit.

Mr. Foss declined to comment. ■

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Taxable benefits

Continued from page 3

because this is the third time it has come up in the last four years thanks to congressional footdragging.

In October 1984, Congress passed legislation retroactively extending Section 127 through Dec. 31, 1985 (*BI*, Jan. 13, 1986). The section had expired on Dec. 31, 1983 (*EI*, Jan. 23, 1984).

Also in October 1984, Congress extended Section 120 through Dec. 31, 1985. Section 120 had been scheduled to expire on Dec. 31, 1984.

In August 1986, eight months after the two tax code sections providing tax-favored status for tuition reimbursement and group legal benefits had expired for the second time, Congress again retroactively extended the tax-favored status of those benefits through Dec. 31, 1987 (*BI*, Aug. 25, 1986). Those temporary extensions were part of the Tax Reform Act of 1986.

And, once again, Sections 127 and 120 have expired with no immediate prospects for congressional action to continue the tax-favored status of the benefits.

In 1984—after Sections 127 and 120 had expired the first time—employers probably were pretty evenly divided in deciding whether or not

'There generally is a reluctance to reopen substantive decisions that were made as part of the tax reform,' says Frank McArdle of EBRI.

to withhold taxes, consultants said.

For example, some companies withheld taxes and adjusted withholding rates when Congress retroactively extended the tax-favored status of Sections 127 and 120 so the proper amount of taxes was withheld.

But in 1986, after the second expiration of Sections 127 and 120, many employers recalled that Congress once before retroactively extended the sections and fewer withheld taxes.

"It seems not as many employers withheld in 1986 as compared with 1984," said Denise Georgemiller, a consultant with Hewitt Associates in Lincolnshire, Ill.

There was good reason not to withhold in 1986. The House of Representatives in December 1985 had passed tax reform legislation that

called for the extension of tuition reimbursement and group legal benefits through Dec. 31, 1987.

While the Senate had not acted, the Reagan administration also advocated the extension of tuition reimbursement and group legal benefits through Dec. 31, 1987.

This time, though, the legislative outlook is not as positive.

While bills have been introduced in the Senate and House to continue—on a permanent basis—the tax-favored status of the two benefits, none of the proposals has moved out of any congressional committee.

Some benefit experts say that Congress may be reluctant to reopen an issue that was decided by last year's tax reform law.

"There generally is a reluctance to reopen substantive decisions that were made as part of the tax reform legislation," said Mr. McArdle of EBRI.

And, a larger legislative vehicle, such as "must pass" tax legislation to which Sections 127 and 120 extensions could be attached do not appear in sight yet, experts say.

Still, 1988 is an election year and lobbyists are expected to prod Congress to renew Sections 127 and 120, Mr. McArdle said. ■

Borden

Continued from page 3

At issue in the litigation was whether the release of contaminants by Borden on the property was "sudden and accidental" and thus not excluded by the pollution exclusion clause.

Borden contended that the words "sudden and accidental" are ambiguous and must be construed in its favor. It argued that both the discharge of the material and the resulting harm were unexpected and unintended and thus, sudden and accidental.

Borden cited several cases, including *Buckeye Union Insurance Co. vs. Liberty Solvents & Chemicals Co. Inc.* In that 1984 Ohio appeals court decision the court ruled that the release of pollutants could be considered "sudden and accidental" if a policyholder did not intend to cause damage by releasing the hazardous wastes.

However, Judge James L. Graham of U.S. District Court in Columbus rejected this reasoning. "While the opinion of the Ohio Court of Appeals in *Buckeye* is entitled to some deference, it is not absolutely binding on this Court," Judge Graham said.

"This Court is convinced that the Ohio Supreme Court would not adopt the construction of the pollution exclusion set forth in *Buckeye*."

Judge Graham found that the pollution exclusion clause was not

Borden argued that the discharge and resulting harm were unexpected and unintended.

ambiguous and that the "sudden and accidental" exception applies to the discharge of pollutants rather than to just the harm that the discharge caused.

Citing dictionary definitions of the words "sudden and accidental," Judge Graham said: "The meaning of these terms is clear and should not be twisted simply to provide insurance coverage when the courts deem it desirable."

The court noted that a Borden officer said the company deposited phosphogypsum on the property from 1964 to 1970 and that the pits of phosphogypsum are 35 feet deep and cover 30 to 40 acres.

"Clearly, this is not an allegation of a 'sudden and accidental' event," Judge Graham said. "Rather, it is precisely the type of activity which the pollution exclusion was drafted to preclude."

"Accordingly, the court holds that the allegations in the Amoco complaint are within the pollution exclusion and, therefore, Affiliated has no contractual obligation to defend or indemnify Borden."

With the rejection of the *Buckeye* decision, Judge Graham's decision apparently throws into confusion the law of Ohio on the pollution exclusion clause.

"It would be in a state of flux," said Donald B. Hilliker of the Chicago law firm of Phelan, Pope & John, who represents Affiliated FM. "It calls *Buckeye* into question."

However, Colleen Nissl, litigation counsel for Borden, disagrees, maintaining that the law of Ohio remains *Buckeye*. The decision is being appealed to the 6th U.S. Circuit Court of Appeals in Cincinnati, she added.

The decision by U.S. District Judge George Le Plata in Ann Arbor, Mich., parallels the Ohio district court ruling.

Judge Le Plata ruled that Anderson Development Co. was not owed coverage by International Surplus

Continued on next page

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Continued from previous page
Lines Insurance Co.

Anderson, a chemical manufacturer, operates a chemical processing plant in Adrian, Mich. From 1967 to 1979, it produced Curene 442, a known carcinogen that was released into the environment in waste discharges, contaminating the Adrian municipal wastewater treatment plant and the Raisin River.

The EPA designated the facility a remedial cleanup site under the Comprehensive Environmental Response Compensation and Liability Act, better known as Superfund.

Under a 1986 consent order between Anderson and the EPA, Anderson agreed to conduct a remedial investigation to determine the nature and extent of any contamination and its health risk. The company also agreed to conduct a feasibility study focusing on the development and evaluation of cleanup alternatives.

Anderson was covered between

'The court holds that the plain meaning of the word "sudden" is ambiguous,' Judge James Latchum said.

Sept. 30, 1984, and Sept. 30, 1985, under a comprehensive general liability policy written by ISLIC, a Crum & Forster Inc. unit. ISLIC refused to defend Anderson, contending, in part, that coverage for the damages was barred by the pollution exclusion clause.

Judge Le Plata agreed with ISLIC, ruling that the pollution exclusion was intended to eliminate any doubt over whether there was coverage for damages caused by the emission of pollutants as a regular or continuous part of the policyholder's business.

"In the instant case, it is clear that the damage in question was caused by the discharge of contaminating waste, which resulted from the ongoing production of Curene 442 on a continuous basis for a period of several years," Judge Le Plata said.

"The court cannot possibly... conclude that the damage was caused by "sudden" discharge of contaminants into the environment."

An attorney for Anderson said the company is appealing to the 6th U.S. Circuit Court of Appeals in Cincinnati. "We're disappointed. We hope to reverse the matter on appeal," said Charles Barbieri of the Lansing, Mich., firm of Foster, Swift, Collings & Coey.

However, unlike the district courts in Ohio and Michigan, the U.S. District Court in Wilmington, Del., ruled the term "sudden" in the pollution exclusion is ambiguous.

The court therefore ruled that New Castle County in Delaware is entitled to a defense and indemnification of claims that the county polluted the local water supply when pollutants the county allegedly dumped at two landfills over several years leached into the water supply.

New Castle County brought a declaratory judgment action against its 12 liability insurers when five lawsuits were filed against the county over contamination at the two landfills.

The county settled with four of the insurers, and three other insurers' policies did not contain pollution exclusion clauses.

The five insurers that wrote coverage for the county that included a pollution exclusion are Aetna Casualty & Surety Co.; National Union Fire Insurance Co., an American International Group Inc. unit; United States Liability Insur-

ance Co.; Home Insurance Co.; and Continental Casualty Co. of Chicago, a CNA Financial Corp. unit. The insurers denied coverage, contending it was barred by the pollution exclusion clause.

The insurers argued that the contamination at the site was due to a long process of leaching and that the county's policy bars coverage for pollution that is not "sudden."

However, New Castle contended

that the word "sudden" was ambiguous and therefore should be construed in its favor.

The court agreed with those cases that have found the word "sudden" to be ambiguous and ruled in favor of the county.

"In summary, the court holds that the plain meaning of the word 'sudden' as used in the pollution exclusion is ambiguous," Judge James Latchum said.

"Resolving the ambiguity in favor of the insured, the court rules that the term 'sudden' means a discharge, dispersal, release or escape of pollutants that is unexpected."

On a separate issue, the court held that claims against the county for injunctive relief and cleanup costs were "damages" covered by the policies.

An attorney for New Castle County said the decision by Judge

Latchum is the only decision on the pollution exclusion so far in Delaware. "We're very pleased with it," said Susan C. Del Pesco of the Wilmington law firm of Prickett, Jones, Elliott, Kristol & Schnee.

Ms. Del Pesco added that the case involved "multimillions in coverage sought and multimillions in claims asserted."

Insurers have sought to appeal the decision.

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Opinions

Thoughts for the New Year

FOR THOSE WHO never got around to writing down their New Year's resolutions or would consider adding to theirs, we offer the following, but by no means exhaustive, list of worthy and admirable goals.

As risk manager, I resolve to:

- Spend more time visiting our operations, observing how we can develop new measures to prevent injuries to people and damage to property.
- Improve (or, heaven forbid, write my first) annual risk management report to top management.
- Take a critical look at our claims handling procedures, focusing not only on efficiency and cost control but also on fairness to claimants.

As benefit manager, I resolve to:

- Lobby Congress early and often to maintain the tax advantages of flexible benefit plans.
- Take a critical look at our employee benefits communications program to improve employee understanding and appreciation of our benefits.
- Spend a day observing first-hand the operation of our utilization review service to determine how our employees are treated.
- Implement an AIDS education program for employees.

As broker, I resolve to:

- Assist clients in achieving their goals.
- Sell quality of services and security offered by an insurance company in addition to price.
- Compete fairly for new business.
- Not take any client for granted.

- Seek out talented and qualified women in the organization for management positions.

As an insurer, I resolve to:

- Assist clients and brokers in achieving their goals.
- Price insurance based on our experts' risk assessment and not what price the competition is offering.
- Get a handle on the impact of the Tax Reform Act of 1986 on our pricing practices.
- Improve our claims handling services, both in speed of service and fairness.
- Seek out talented and qualified women in the organization for management positions.
- Upgrade salaries where needed to attract more talented people to the organization and improve overall service.

As consultant, I resolve to:

- Take a firm stand on an issue and resist the temptation to only give my clients pros and cons without the benefit of my expert advice.
- Consider every client's unique circumstances when recommending a course of action.
- Avoid creating another acronym for our newest concept and to try to reduce the jargon of the profession.

As a professional, I resolve to:

- Participate in the debates on issues important to my profession by speaking at seminars and conferences and contributing my opinions and expertise to professional publications.

Benefit plans win in Congress

FOR THE FIRST time in several years, employers sponsoring employee benefit plans won more than they lost in Congress during 1987.

Perhaps most importantly, employers won a variable-rate pension termination premium. Beginning last week, the premium employers with defined benefit pension plans pay to the Pension Benefit Guaranty Corp. will be based on the plan's funding.

At first glance, this new law appears to be a blow to employers. Employers with fully funded pension plans will pay a \$16 annual premium per plan participant to the PBGC, almost double the \$8.50 paid last year. And, companies with underfunded plans will pay up to a \$50 annual premium.

But for employers that have lived up to their pension funding promises, the new system is indeed a victory. Everyone realized that the premium would have to be increased to bail out the deficit-ridden PBGC. Now, however, the amount a company must pay will be based on the financial condition of its own pension plans, and not the massive unfunded liabilities owed by some employers.

Both the House and the Senate in 1987 also passed bills that would extend Medicare coverage for catastrophic illnesses, which will help control employers' rapidly burgeoning post-employment health care costs. While final legislation must be worked out by House-Senate conferees, the Medicare legislation still must be counted among the congressional highlights of 1987.

However, when the conferees do meet, we hope they discard an amendment in the Senate version of the legislation that would force employers to return to retirees any first-year savings they reap from the Medicare expansion. As we've said before, this idea is plainly unworkable.

Congress killed a provision passed by the House

that would have allowed states to establish employer-subsidized health care pools to provide coverage to high-risk uninsured individuals. This provision would have forced employers to pay twice for health care: once for their employees and once for the uninsured. We hope that is the last we see of the proposal, which we have seen defeated twice.

And, congressional conferees killed another House-passed proposal that would have placed a \$500 cap on the maximum annual pretax contribution an employee could make to a flexible benefit plan. Observers say such a provision would have crippled most flexible benefit plans.

One of employers' biggest benefit victories last year resulted from what Congress sometimes does best: nothing.

For example, not even a congressional committee voted on Sen. Edward Kennedy's proposal that would mandate employer-provided health care benefits for all full-time and many part-time employees. But Sen. Kennedy's proposal is still pending in Congress and, like assaults on flexible plans, will be discussed in 1988.

But, benefit managers' biggest setback in Congress last year also came through inaction: Congress failed to establish new, more reasonable penalties for companies that violate the health care continuation provisions of the Consolidated Omnibus Budget Reconciliation Act of 1985. However, benefit experts say they are sure that COBRA changes, which faced no congressional opposition last year, will be on the 1988 congressional agenda.

All in all, when Congress' actions last year are compared with COBRA and the onerous benefit provisions in the Tax Reform Act of 1986, benefit managers had a reason to toast 1987.

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Pollution clause

Continued from page 3
David Hudson, who is with the Augusta, Ga., firm of Hull, Towill, Norman & Barrett.

The city of Jacksonville is paying for half of the investigation costs with the other potentially responsible parties picking up the remainder, Mr. Hudson said.

So far, Mr. Claussen has spent about \$20,000 in investigation costs and faces approximately \$15,000 more. He also has spent about \$20,000 in defense costs in the EPA action, Mr. Hudson said.

However, efforts to clean up the site probably will cost millions of dollars, Mr. Hudson noted.

Mr. Claussen has about \$12 million in insurance coverage, he said.

Aetna, as primary insurer, wrote approximately \$2 million in coverage under several comprehensive general liability policies for Mr. Claussen, Mr. Hudson said.

In addition, Federal Insurance Co. wrote several personal umbrella liability policies, according to court papers.

Mr. Claussen's excess liability insurers include American Home Assurance Co.; Harbor Insurance Co.; Highlands Insurance Co.; Continental Casualty Co.; Cincinnati Insurance Co.; Mission Insurance Co.; and Mission National Insurance Co.

In his December decision on the motion for reconsideration, Judge Edenfield said the documents show that when the Insurance Rating Board, which spoke for the industry, sought approval of the clause, it told the Insurance Department that the clause would have no impact on the vast majority of risks.

The IRB said the clause clarified existing language in the policies that barred coverage for expected or intended pollution.

"This statement clearly understates the substantial change in coverage worked by the pollution exclusion clause," Judge Edenfield said.

"The court does not wish to condone the conduct of the insurance industry that plaintiff has exposed," Judge Edenfield said in his decision. "The statements made by the Insurance Rating Board to the Georgia Insurance Department, if not fraudulent, certainly were not straightforward."

"The Rating Board downplayed the substantial effect the pollution exclusion clause would have on existing coverage in an effort to obtain approval for the clause's insertion into insurance policies."

Despite these findings, Judge Edenfield refused to overturn his earlier decision denying coverage to Mr. Claussen, commenting that Georgia law requires the court to look to the language of the contract to determine if its meaning is clear and unambiguous.

Since the word "sudden" connotes abruptness, the gradual leaching of hazardous wastes into the groundwater and soil surrounding the site near Jacksonville, Fla., cannot be characterized as sudden, Judge Edenfield said.

Judge Edenfield found that viewed in historical perspective, the IRB's representations to the department, "are not as devious as they appear at first glance."

The insurance industry anticipated that courts would preclude coverage for all pollution incidents that were intended and expected, which the industry believed would involve most gradual pollution cases, Judge Edenfield said.

However, the industry miscalculated. Courts interpreted occurrence broadly, holding that even when a policyholder knowingly discharged pollutants into the environment, it was covered as long as the specific damage giving rise to liability was unintended.

Also, public awareness of environmental contamination grew and was accompanied by a sharp

'The statements made by the Insurance Rating Board to the Georgia Insurance Department, (regarding the pollution exclusion clause) if not fraudulent, certainly were not straightforward,' says U.S. District Court Judge B. Avant Edenfield.

increase in pollution liability litigation, Judge Edenfield noted.

"In this context, the representations made by the Insurance Rating Board were, to a degree, accurate; the insurance industry was merely trying, through the pollution exclusion clause, to prevent courts

from extending coverage to risks

that were not calculated into premiums under occurrence-based policies, and were not anticipated when the definition of occurrence was drafted.

"Thus, in 1970, the Insurance Rating Board's representation that the pollution exclusion clause was designed to maintain the status

quo was, from the standpoint of insurance companies, true," Judge Edenfield said.

"Thus, the hands of the insurance companies, while not immaculate, are not as dirty as plaintiff contends. The insurance companies have not, as plaintiff suggests, perpetrated a fraud on the court by arguing in favor of a construction, which enforces the clear and unambiguous language of their policies."

Mr. Hudson, Mr. Claussen's attorney, says he will appeal the decision and ask that the case be sent to the Georgia Supreme Court.

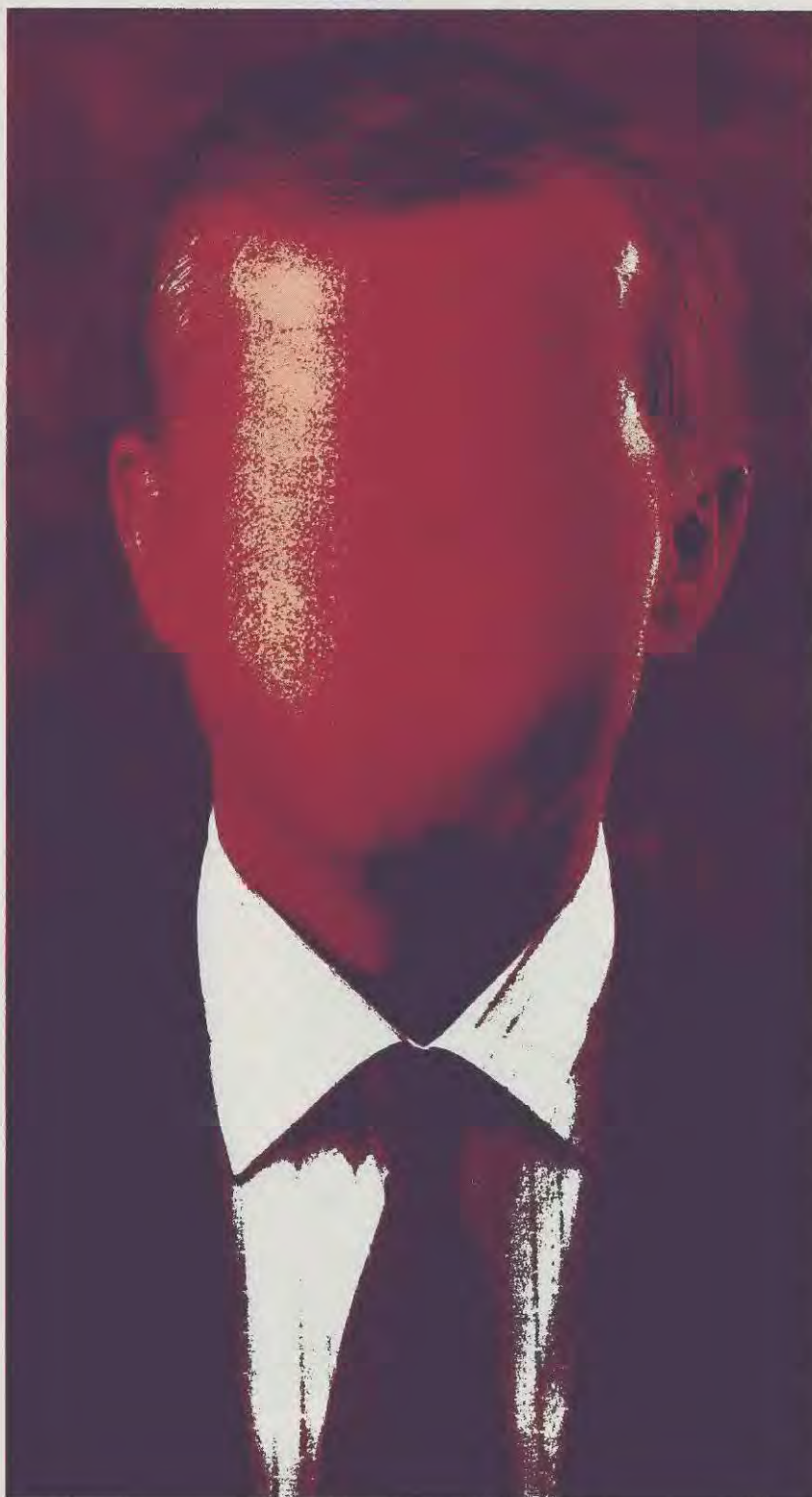
"I think it is absolutely unconscionable that the insurance industry would represent policy lan-

guage to mean one thing to state regulators and then change its intended language when claims are subsequently made," Mr. Hudson said.

However, the documents submitted by policyholders are of no real significance and the language in the policies is very clear that the pollution must be sudden and accidental to be covered, said James A. Eichelberger of the Atlanta law firm of Neely & Player, who represents Aetna.

Mr. Eichelberger said there is no discrepancy between what the insurance industry presented to Georgia insurance regulators in 1970 and what they are arguing the clause means now.

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Trucking safety

Continued from page 3

Ruan's truck fleet, which operates in the 48 contiguous states.

The program's value to the trucking industry was readily apparent, Mr. Miller said.

"We'll sell it to our competition—and some of them have bought it," Mr. Miller said.

The task force found that safety training for the industry that hauls most of the country's freight was "primitive, to say the least," said Jay Deragon, president of MEGASafe Training in Portland, Maine, which markets the safety product.

The industry group took its preliminary findings and turned it into a program that at first had only a limited audience of those directly involved in the effort.

"They developed something so wise it didn't make any sense to put it on the shelf," Mr. Deragon said.

MEGASafe Training began mar-

keting the program nationally last June, primarily through state and national trucking associations.

MEGASafe has been endorsed by 21 state and national trucking associations, including the National Private Trucking Assn. in Alexandria, Va., through which the program is available nationwide. And, the programs' supporters say it soon will pick up endorsements from trucking groups in all 50 states.

The program, when fully developed in a few months, will include 10 multi-media modules:

- Vehicle inspection.
- Driver selection, which involves a rating system to determine current and new drivers' strengths and weaknesses. It also is designed to motivate drivers to become more safety conscious.
- Drug screening.
- Driver health.
- Management's role in safety.
- Over-the-road or long-haul driving.
- City driving.

- Hazardous materials hauling.
- Controlling claims cost through accurate record keeping and implementation of adequate safety practices.
- Security, including preventing theft and vandalism.

The driver selection and vehicle inspection modules were introduced in the fall of 1986, and the next four modules currently are available. The remaining four modules are scheduled to be made available within a few months.

Each training module uses videotapes, printed materials and other media to present points in dramatic ways. For instance, a video in the drug screening training module shows a re-enactment of a car-truck accident that kills a mother and her child.

"It will draw a tear from any guy," Mr. Miller said.

Another key feature of the program is involvement of management in the safety initiative, said Alan Schriebman of Integrated Risk Management in Culver City, Calif., which is the California sales representative for MEGASafe.

For instance, one module allows managers and supervisors to evaluate their effectiveness and management style.

"It comes down to the only way to improve safety is from the top down," Mr. Schriebman said.

In addition to reducing losses, MEGASafe may help its users save money by identifying and training the most stable, dependable current drivers and applicants, which leads to a reduction in driver turnover, Mr. Schriebman said. Driver turnover averages 80% annually throughout the industry with some companies losing all of their drivers and even some or most of their replacements, he said.

A company incurs costs of \$1,000 or more each time it must hire a replacement driver, he said.

In some cases, the safety program has helped companies reduce their turnover rate to about 20%, according to Mr. Schriebman.

Beyond helping trucking companies operate more safely, MEGASafe may eventually have an impact on the public's perception of trucking, Mr. Schriebman said. The industry has a particular stake in how it is perceived, because a continued poor reputation impairs its ability to attract employees.

Mr. Schriebman said the industry currently projects it will lose 30% to 50% of its drivers by 1992.

"Unless the image of the industry is changed, you won't have people wanting to be drivers," he said.

In addition to the safety modules, MEGASafe Training will conduct a safety audit for trucking companies. The audit looks at how well a trucking company complies with federal Department of Transportation requirements and insurance underwriting criteria.

And, for small companies that do not have safety departments, MEGASafe Training will instruct managers, dispatchers and executives on how to train drivers.

Trucking companies can buy all or part of the MEGASafe program, depending on their particular needs. The first module costs \$500 and each additional module costs \$280, Mr. Miller said.

Implementing MEGASafe as an ongoing program will cost a company about \$250 per driver annually, Mr. Schriebman noted.

The trucking industry reaction so far has been positive, said Mr. Miller of Ruan. "Most of the reaction is, 'It's stunning.'"

Trucking companies' interest in MEGASafe may be heightened by the Transportation Department crackdown on unsafe trucking practices, Mr. Miller said, pointing out that the DOT has greatly increased its roadside inspection and safety audit programs this year.

"It's a negative incentive. It's too bad we couldn't get a program started on a more positive note," Mr. Miller said.

Response from the insurance industry has been "enthusiastic," though it is not yet certain what impact the program will have on insurance rates, Mr. Miller said.

The uncertainty is due in part to insurers' lack of research about necessary trucking industry safety measures, Mr. Miller said.

One major trucking risk insurer, National Continental Insurance Co. of Beechwood, Ohio, a unit of Progressive Corp., is interested in the potential risk management benefits of the program, according to President Gary Kusumi.

In 1986, NCI reported net written premiums of \$9.6 million for auto liability, auto physical damage, allied lines and inland marine risks.

"MEGASafe is a product that we believe needs more consideration," he said.

The program is impressive enough that the insurer's services operation, NCI Transportation Services, plans to join the MEGASafe task force and create a separate unit to help promote it, Mr. Kusumi said.

While MEGASafe could help raise awareness of safety issues among truckers, Mr. Kusumi cautioned that insurance rates are based on actual experience, not promised results.

"Whether MEGASafe is successful or not is dependent on whether the industry is ready to embrace this and the changes" required to implement it, he said.

But it appears, at least on the surface, that trucking companies are ready, Mr. Kusumi said. "The industry wants to move on this issue."

For example, General Transportation Co., a trucking firm based in Oakland, Calif., has used the driver analysis program for the last year to help select new drivers, said Vp Patrick McGuire. General Transportation, which hauls coast to coast, employs 30 drivers who operate 40 tractors and 120 trailers.

The company self-insures physical damage risks and buys \$5 million in umbrella liability insurance excess of unspecified limits.

"I really feel it's beneficial," Mr. McGuire said of MEGASafe. "It's one more thing to add to your gut reaction, your feeling about whether this guy will work out."

Managers do what they can to make sure they run a clean shop with mechanically safe trucks, but all that effort is wasted unless drivers keep the trucks "wheels down and running," he said.

"We don't need our picture in the newspaper with the wheels up," Mr. McGuire said.

MEGASafe Training Co. can be contacted at P.O. Box 898, Portland, Maine 04104; or 1-800-522-MEGA.

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Bill promotes health care saving accounts

By DEBORAH SHALOWITZ

WASHINGTON—Employers and individuals could receive an annual 50% tax credit—up to a specified maximum—on contributions to a health care savings account under one provision of comprehensive long-term health care legislation introduced by Rep. Don Ritter, R-Pa.

The maximum amount that could be contributed annually to a health savings account equals the total Medicare payroll tax for an individual. The Medicare payroll tax is 2.9% of gross annual income up to \$45,000, paid half by the employer and half by the employee.

Thus, the maximum amount that could be contributed this year to a health care savings account would be \$1,305. It could be contributed by an employer or an individual or split by them.

Other provisions of the bill, H.R. 3754, would:

- Create a federal long-term care reinsurance corporation to provide reinsurance to insurance companies writing long-term health care policies.

The reinsurer, to be called the Federal National Long-Term Care Reinsurance Corp., would be capitalized through the sale of common stock. It would be run by a board of governors, some of whom would be appointed by the president and some of whom would be elected by stockholders.

The reinsurance corporation would not be subject to state, county or local taxes, except on real estate. Also, it would not be subject to state insurance regulation.

- Exempt from taxation interest earned on a qualified health care savings account.

- Allow individuals age 59½ or older to withdraw funds from an individual retirement account to pay premiums for long-term health care insurance without paying taxes on the withdrawals.

- Allow individuals an income tax credit of up to \$100 per month for expenses related to maintaining a household for dependents 65 years of age and older.

Co-sponsors of the legislation include Rep. Edward Madigan, R-Ill., Rep. William Clinger Jr., R-Pa., Rep. Sherwood Boehlert, R-N.Y., Rep. Ralph Hall, D-Texas, and Rep. Bill Richardson, D-N.M.

FTC probes

The Federal Trade Commission would be allowed to analyze the insurance industry under a bill introduced last month by House Small Business Committee Chairman John LaFalce, D-N.Y.

The bill, H.R. 3833, would repeal a restriction barring the FTC from studying the insurance industry unless a House or Senate committee specifically requests it to do so. The restriction is in the FTC Improvements Act of 1980.

"The federal government has abdicated its responsibility to help protect the rights of consumers," stated Rep. LaFalce. Furthermore, "the FTC's current lack of knowledge about insurance industry conditions and operations greatly hinders Congress' ability to understand the causes of the (recent) liability insurance crisis and, even more importantly, to develop appropriate legislative solutions to ensure that such a crisis does not occur in the future."

Rep. LaFalce noted that the legislation would leave to the states regulatory authority over the insurance industry.

"The bill does not create any federal regulatory apparatus over the insurance industry," he said. "However, it does give the FTC the

Washington

ability to carry out a federal oversight function to ensure the adequate protection of all American consumers."

FTC Chairman Daniel Oliver has called for the agency to study the repeal of the McCarran-Ferguson Act, which gives the insurers limited exemption from federal antitrust laws (*BI*, Dec. 21, 1987; Dec. 15, 1986).

Medical malpractice

Health care providers' liability for medical malpractice claims would be limited under model legislation proposed to state officials last month by Health and Human

Services Secretary Otis R. Bowen.

The model legislation includes a \$200,000 cap on non-economic damage awards, the elimination of joint and several liability and a requirement to arbitrate before a medical malpractice case could be tried in court.

Dr. Bowen sent the model legislation to each governor and the leaders of state legislatures to be used as an example by states reforming their laws governing medical practitioners' liability, according to the Department of Health and Human Services.

The model law would cover claims against all state-licensed health care providers, including

physicians, pharmacists, dentists, nurses, hospitals and health maintenance organizations. It reflects recommendations of an HHS task force on medical liability and malpractice (*BI*, Aug. 17).

Provisions of the model legislation include:

- Capping non-economic damages, including awards for pain and suffering, mental anguish and punitive damages, at \$200,000.

- Eliminating the doctrine of joint and several liability, except where defendants actually acted in concert to cause the injury.

- Requiring litigants to appear before a single arbitrator before bringing the dispute to a court. If either party is not satisfied with the arbitrator's decision, the case could be brought to trial. However, the party not accepting the arbi-

trator's decision would have to pay all legal fees incurred if the court decision were not more favorable to his or her case than the arbitrator's decision.

- Limiting attorneys' contingency fees to a sliding scale corresponding to the amount of the award. The scale would allow attorneys to be paid 25% of the first \$100,000 of an award, 20% of the next \$100,000, 15% of the next \$100,000 plus 10% of any amount in excess of \$300,000.

- Requiring damages for future economic loss exceeding \$100,000 to be paid in periodic installments instead of a lump sum.

- Requiring legal action to begin within two years after a relationship between a medical event and an injury was discovered or could have been discovered. ■



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Software aids employers with IRS rules

A new software program from Western & Pacific Services Corp. helps employers comply with both Internal Revenue Code sections governing discrimination testing for employee benefit plans.

"Discrimination Testing/State of the Art," a software package for personal computers, is now ready after months of conference with government and tax specialists who have studied the impact of the Tax Reform Act of 1986 on employee benefit plans regulated by Internal Revenue Code Sections 89 and 125.

Section 89 sets non-discrimination standards for welfare plans and Section 125 governs flexible benefit plans.

Products & services

The IRS expects full compliance with the act even though IRS regulations were not expected to be published by the Jan. 1 compliance date.

The system will be updated and forwarded to users when the regulations are published.

The package can be purchased on a stand-alone basis for \$1,950 or as a part of the Flexible Benefit Manager Package for a total price of \$5,850.

A demo disk is available for \$35 from Ashley/Nichols Division, Western and Pacific Services Corp., 9229 Ward Parkway, Suite 320, Kansas City, Mo. 64114; 913-642-5011.

MetLife HealthCare

MetLife HealthCare Management Corp. is offering a new package of prepaid managed health care benefits designed for businesses with two to 35 employees.

Called the Small Business Plan, this new program offers comprehensive major medical benefits to small employers through MetLife HealthCare Network of 23 managed health care plans across the country.

"The new Small Business Plan allows small employers to participate in the same cost management programs that are now utilized by larger employers," explained Ken-

neth M. Hansen, vp-marketing for St. Louis-based MHMC.

"Our existing managed care resources give us the flexibility to bring employers of all sizes together in order to purchase and manage their health care services. For the smaller employer, this means that higher levels of benefits can now be made available to employees without the higher costs," Mr. Hansen added.

The plan covers a full range of comprehensive health care services including hospital, physician office, emergency room, ancillary and mental health services.

Members receive all their health care services through the primary care physician they select from within the network.

A \$10 copayment is required for doctors' office and outpatient fa-

cility visits, while hospital services require moderate deductibles and copayments. The Small Business Plan offers age and sex rating and is marketed through brokers as well as through the local MetLife HealthCare Network sales staff.

MHMC has successfully test marketed the Small Business Plan in the Los Angeles area and is in the process of introducing it nationally. It is now available through MetLife HealthCare Networks in Cleveland, Ohio; Denver; Dallas; Houston; Louisville, Ky.; Los Angeles; Kansas City, Mo.; Phoenix; Rhode Island; Boston; St. Louis; and San Francisco. By the end of the first quarter of 1988, it will be available in six Florida markets; New York; New Jersey; Cincinnati and Columbus, Ohio; Milwaukee; and Chicago.

For more information, contact Mr. Hansen at MetLife HealthCare Management Corp., Lakeview Center, Suite 210, 14500 South Outer Forty Road, St. Louis, Mo. 63017; 314-469-9900.

Cholesterol screening

U.S. Healthcare Inc. now offers free cholesterol tests to all employees of corporations and institutions with which the Blue Bell, Pa.-based company has contracts.

"We are providing the cholesterol tests to employees to demonstrate our interest in their health care," explained Jay Rosan, senior vp for medical delivery at U.S. Healthcare, a health maintenance organization operator.

U.S. Healthcare has purchased computerized cholesterol testing machines, called Reflotrons, that can determine a person's cholesterol count in minutes by examining a drop of blood.

The tests are being offered in Pittsburgh and southeastern Pennsylvania, New Jersey, Delaware, the New York metropolitan area and Connecticut.

Testing for high levels of cholesterol ties in with U.S. Healthcare's preventive health care programs, according to Mr. Rosan.

"With our new screening program, people will become more aware of their cholesterol level. If their level is high, hopefully they will seek treatment from their doctor," Mr. Rosan said.

For more information, contact U.S. Healthcare Inc., 980 Jolly Road, P.O. Box 1109, Blue Bell, Pa. 19422; 215-628-4800.

Fire extinguisher use

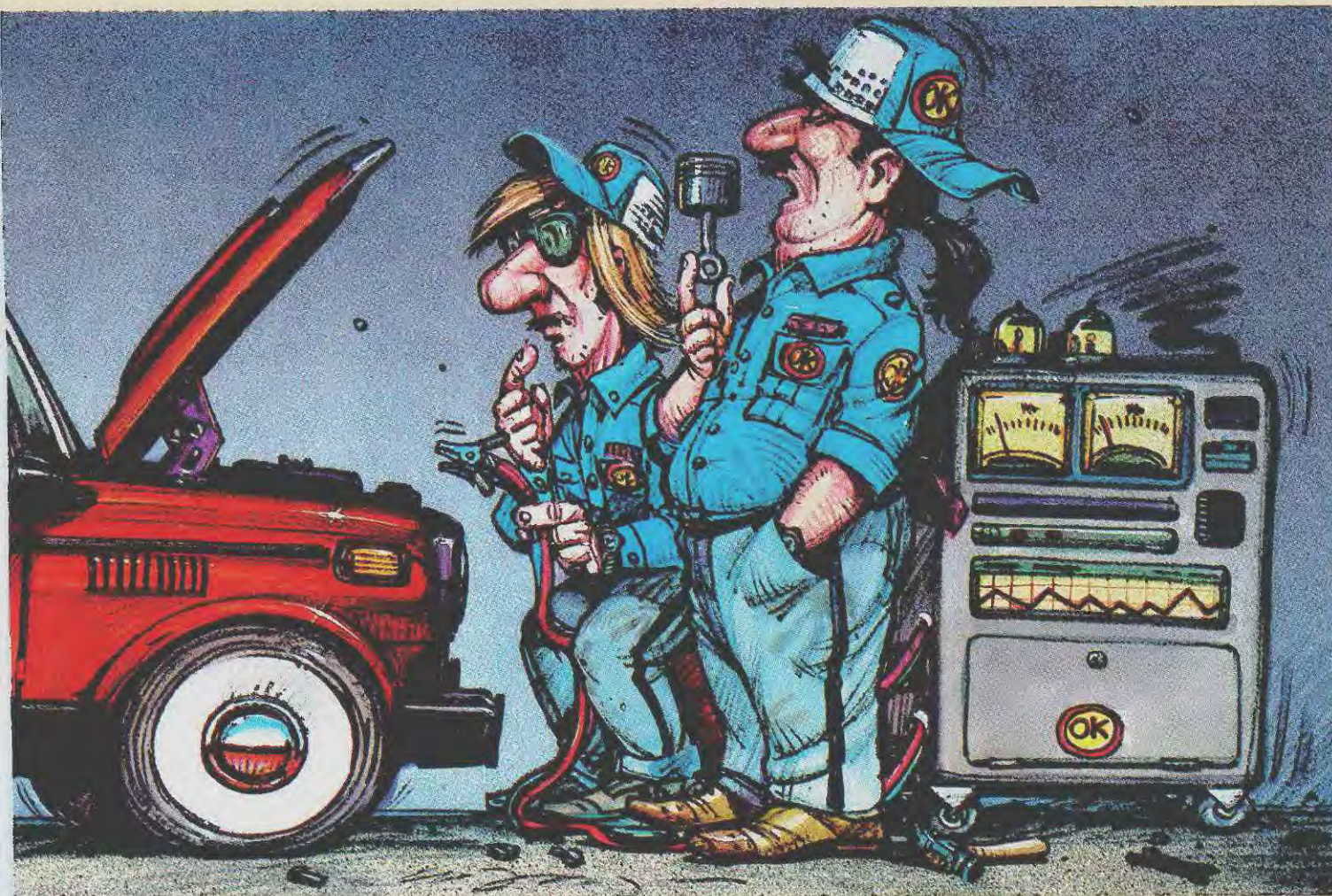
A new fire safety video from Industrial Training Systems Corp. provides employees with an understanding of the nature of fire, explains the four classes of fire extinguishers and explains the importance of performing proper size evaluation procedures.

"Fire Extinguishers: First Line of Defense" opens with a discussion of fire and a description of its four classes and then proceeds with a detailed discussion on size up procedures.

Six major types of fire extinguishers are reviewed in detail including pressurized water, aqueous film forming foam, dry chemical/multipurpose dry chemical, halon, carbon dioxide and dry powder extinguishers.

"Fire Extinguishers: First Line of Defense" comes with a comprehensive leader's guide that contains review topics and a reproducible quiz. The program is available in any video format for \$460.

For more information, contact Angela Loundes, Industrial Training Systems Corp., 20 W. Stow Road, Marlton, N.J. 08053; 609-983-7300 or 800-727-2487; in Canada, call 416-259-6195.



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HJF International/HJF Management is located at 7 Reid St., Suite 402, Hamilton, Bermuda. HM11; 809-292-8411.

E/S brokerage

Leland Puryear and Allen Spangenberg have formed A&L Insurance Services Inc., an excess/surplus lines brokerage in San Francisco.

A&L places primary and excess property/casualty insurance, specializing in hard-to-place risks such as asbestos abatement contractors, trade contractors, manufacturing, and earthquake difference in conditions.

Previously, Mr. Puryear was branch manager of Black/White Associates and Mr. Spangenberg was vp at Pacific Western Inc., both in San Francisco.

For more information, contact

A&L Insurance Services, 300 Montgomery St., Suite 315, San Francisco, Calif. 94104; 415-781-3377.

Managed care firm

Four Washington-based health care organizations have formed the Good Health Plan of Washington, a new managed care company that began marketing a health maintenance organization in November.

The HMO is available to employers with a minimum of 10 employees in King, Pierce, Snohomish, Spokane and Thurston counties. The plan's rates vary depending on the specific characteristics of each employer group.

The HMO is owned and operated by four Washington hospitals: Sisters of Providence in Seattle and Spokane; Franciscan Health Systems in Tacoma; and Dominican Health Services in Spokane.

For more information, contact Morrie Elmer, marketing director,

Good Health Plan of Washington, P.O. Box 21329, Seattle, Wash. 98111; 206-343-5931.

Ranger joins PLIA

Ranger Insurance Co. of Houston is rejoining the Pollution Liability Insurance Assn. effective Jan. 1.

Ranger becomes the 20th member of PLIA, a pool providing pollution reinsurance to members.

Three companies joined PLIA in 1987: American Agricultural Insurance Co. of Park Ridge, Ill.; Modern Service Insurance Co. of Arden Hills, Minn.; and Central Mutual Insurance Co. of Van Wert, Ohio.

"We're delighted Ranger has rejoined the association," said PLIA President Thomas E. Knowlton. "Its membership gives PLIA even greater capacity to provide vital pollution coverage."

Ranger had left the pool in 1985, a PLIA spokesman said.

PLIA is located at 1333 Butterfield Road, Suite 100, Downers Grove, Ill. 60515; 312-969-5300.

HMO group expands

Ochsner Health Plan in New Orleans and Baton Rouge, La., has joined The HMO Group, a national alliance of independent group practice health maintenance organizations.

The Ochsner Health Plan, a federally qualified plan that began operating in May 1985, has 50,000 enrollees. The plan is affiliated with the Ochsner Clinic in New Orleans.

Established in 1984, The HMO Group has 13 members that can take advantage of shared purchasing and marketing opportunities. In addition, The HMO Group allows enrollees of one HMO to use the services of other member HMOs at no cost when traveling.

Other activities of The HMO Group include creation of an off-

shore captive reinsurer for catastrophic health care costs, and sponsorship of the clinically oriented medical journal HMC Practice.

Other members of The HMO Group are: ANCHOR Organization for Health Maintenance in Chicago; Community Health Care Plan in New Haven, Conn.; Community Health Plan in Albany, N.Y.; Group Health Assn. in Washington, D.C.; Group Health Cooperative of Puget Sound, Seattle; Group Health Inc. in Minneapolis; Health Care Plan in Buffalo, N.Y.; Health Services Medical Cooperation in Syracuse, N.Y.; Matthew Thornton Health Plan in Nashua, N.H.; Prime Health in Kansas City, Mo.; Rhode Island Group Health Assn. in Providence, R.I.; and Rutgers Community Health Plan in Somerset, N.J.

The HMO Group is located at 1 World's Fair Drive, Somerset, N.J. 08873; 201-469-0860.

American General

Houston-based American General Corp. is consolidating the Nashville, Tenn., operations of Equitable Life Insurance Co. with those of American General Life & Accident Insurance Co.

Equitable Life was acquired by American General in 1984 and recently relocated to Nashville from McLean, Va.

The newly realigned management team will be: Carroll D. Shanks, chairman, president and chief executive officer; James R. Tuerff, vice chairman; Leo Lebos Jr., executive vp-finance; Robert S. Marcotte, executive vp and chief marketing officer; and William B. Pardue, executive vp-administration.

Transamerica offices

Los Angeles-based Transamerica Insurance Group, which purchased Burbank, Calif.-based Fairmont Insurance Co. in May 1986, has begun consolidating offices.

In San Diego, Sacramento and Fresno, Calif., San Antonio, Texas, and Denver, where there are both Transamerica and Fairmont offices, the two companies will share office space, although they will remain operationally distinct.

Fairmont will continue to act as the workers compensation specialist arm of Transamerica.

Mergers/acquisitions

Marsh & McLennan Cos. Inc. has completed its acquisition of Temple, Barker & Sloane Inc., the Lexington, Mass.-based management consulting firm.

Transamerica Insurance Group of Los Angeles has completed its acquisition of Commercial Risk Underwriters Insurance Co., a specialty treaty reinsurer in Stamford, Conn.

Regency Equities Corp. in Omaha, Neb., and KCP Holding Co. in Rancho Dominguez, Calif., have signed a letter of intent to merge. KCP is a holding company whose principal subsidiary is the National American Insurance Co. of California, a workers compensation and commercial property/casualty insurer. Regency is a holding company of mortgage investments and the Equities Reinsurance Co. in Omaha.

Security Trust Life Insurance Co. of Macon, Ga., a subsidiary of Southlife Holding Co. of Nashville, Tenn., has entered into a reinsurance agreement to sell a block of funeral plan insurance to Champion Life Insurance Co. of Dallas for \$7.6 million.

New offices

Adams, Clay Insurance has moved its office to 601 S. Glenoaks Blvd., Suite 300, Burbank, Calif. 91512; 818-840-8292. ■

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The Case of the Overturned Crane

The operator hoisted the load and began to swing the boom. Suddenly, one of the outriggers lifted up, and the crane overturned. The operator was killed attempting to exit the unit during the overturn.

But was the crane at fault?

Countrywide was called in. Our investigation included weighing the load and questioning witnesses to discover the true cause of the accident: The operator had not determined the weight of the load, which contributed to the overturn. And, instead of dropping the unwieldy load when the crane began to tip, he swung the boom even faster, causing the overturn. Litigation against the crane manufacturer — our client — was dropped.

Investigations are only the beginning of our services to major self-insured manufacturers. We also recommend defense attorneys and expert witnesses to assist counsel and support your case. Computerized claim statistical data is also provided.

Unlike some insurance investigators, we're not settlement oriented. Our concern is to help you defend the integrity of your product.

Please write down our phone number. We'll follow every clue to help solve your most complex cases.



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Datebook

JAN. 7-8. Seventh Annual Occupational Health Nursing Principles and Certification Review Course in New Orleans, sponsored by the Occupational Health Consulting division of Fireman's Fund Risk Management Services Inc.; \$275. **Also Feb. 4-5** in Torrance, Calif.; **Feb. 18-19** in Schaumburg, Ill.; **March 3-4** in Arlington, Va.; and **March 17-18** in Cambridge, Mass. Annette B. Haag, Director, Occupational Health Consulting, Fireman's Fund Risk Management Services Inc., 4040 Civic Center Drive, Rafael, Calif. 94912; 415-492-4708.

JAN. 12-15. The Second Annual National Conference on Industrial Loss Prevention and Control in Orlando, Fla., sponsored by the International Society of Fire Service Instructors; \$785 for ISFSI members and sponsors; \$875 for all others, International Society of Fire Service Instructors, 20 Main St., Ashland, Mass. 01721; 617-881-5800.

JAN. 13. New ISO Commercial Property and Commercial General Liability Forms seminar in Briarcliff Manor, N.Y., sponsored by the Westchester Chapter of the Society of Chartered Property & Casualty Underwriters; \$25. Jerome Trupin, 170 Hamilton Ave., White Plains, N.Y. 10601; 914-949-4810.

JAN. 13. Customer Service for Insurance course in New York City, sponsored by The College of Insurance; \$195 for college sponsors; \$245 for non-sponsors. Professional Development Programs, The College of Insurance, 1 Insurance Plaza, 101 Murray St., New York, N.Y. 10007; 212-962-4111.

JAN. 14-15. Insurance, Excess and Reinsurance Coverage Disputes seminar in New York City, sponsored by Practising Law Institute; \$450; \$45 for course handbook only. **Also Jan. 28-29** in San Francisco. Practising Law Institute, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700.

JAN. 20. Managing and Controlling Asbestos Contamination/Exposure course in Los Angeles, sponsored by the University of Southern California's Institute of Safety and Systems Management; \$160. University of California, Institute of Safety and Systems Management, Of-

fice of Extension and In-service Programs, 3500 S. Figueroa St., Suite 202, Los Angeles, Calif. 90007; 213-743-6523.

JAN. 20. Health Care in the '80 and '90s: What Employers Want workshop in New York City, sponsored by Health Research Institute; \$495. **Also March 21** in Atlanta and **May 18** in Chicago. Workshop coordinator, Health Research Institute, 1600 S. Main Plaza, Suite 170, Walnut Creek, Calif. 94596; 415-676-2320.

JAN. 20-21. Second Annual Legislative Conference in Washington, D.C., sponsored by the Self-Insurance Institute of America Inc.; \$125 for SIIA members; \$175 for non-members. Kevin Shein, Self-Insurance Institute, P.O. Box 15466, Santa Ana, Calif. 92705; 714-261-2553.

JAN. 21-22. Transportation of Hazardous Materials/Waste course in Los Angeles, sponsored by the University of Southern California's Institute of Safety and Systems Management; \$265. University of California, Institute of Safety and Systems Management, Office of Extension and In-service Programs, 3500 S. Figueroa St., Suite 202, Los Angeles, Calif. 90007; 213-743-6523.

JAN. 20-21. Pension and Welfare Benefits in Bankruptcy seminar in New York City, sponsored by the Practising Law Institute; \$425; \$45 for course handbook only. Practising Law Institute, Department 8A-105, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700, extension 271.

JAN. 25-26. Hawaii-The U.S. Offshore Alternative conference, sponsored by the state of Hawaii, organized by Tillinghast, a division of Towers, Perrin, Forster & Crosby; \$50 for Jan. 25 captives briefing; \$300 for conference. Conference Director, Tillinghast, 722 Post Road, Darien, Conn. 06820; 714-553-1277.

JAN. 25-29. Hazardous Materials: Handling and Disposal course in Los Angeles, sponsored by the University of Southern California's Institute of Safety and Systems Management; \$735. University of Southern California, Institute of Safety and Systems Management, Office of Extension and In-service Programs, 3500 S. Fi-

gueroa St., Suite 202, Los Angeles, Calif. 90007; 213-743-6523.

JAN. 27. Health in the 100th Congress: The Second Session conference in Washington, co-sponsored by the Washington Business Group on Health and the National Assn. of Manufacturers in conjunction with the Women in Government Relations Health Task Force; \$40 for WBGH, NAM or WGR members; \$50 for non-members. Sherri Farris, Washington Business Group on Health, 229 1/2 Pennsylvania Ave. S.E., Washington, D.C. 20003; 202-547-6644.

JAN. 27-28. The Risk Retention Act of 1986: Opportunity or Anarchy? symposium in Rosemont, Ill., co-sponsored by the Society of Chartered Property & Casualty Underwriters Excess/Surplus/Specialty Lines Section and the National Assn. of Professional Surplus Line Offices; \$200 for Society of CPCU members; \$250 for non-members. Mari Jennings, Professional Services Coordinator, Society of Chartered Property & Casualty Underwriters, Kahler Hall, 720 Providence Road, CB#9, Malvern, Pa. 19355; 215-251-2741.

JAN. 27-28. Persuasive Selling Skills for New Agents and Brokers course in New York City, sponsored by the College of Insurance; \$395 for college sponsors; \$445 for non-sponsors. Professional Development Programs, The College of Insurance, 1 Insurance Plaza, 101 Murray St., New York, N.Y. 10007; 212-962-4111.

JAN. 27-29. Fifth Annual Atlanta Risk Management Educational Conference sponsored by the Atlanta Chapter of the Risk & Insurance Management Society; before Jan. 13: \$100 for RIMS members, \$115 for non-members, \$25 for students; after Jan. 13: \$125 for RIMS members, \$140 for non-members, \$25 for students. George Netherton, The Coca-Cola Co., P.O. Drawer 1734, Atlanta, Ga. 30301; 404-676-7032.

JAN. 27-29. Health Agenda 1988 conference in Washington, D.C., co-sponsored by the Washington Business Group on Health and the National Assn. of Manufacturers; \$475 for WBGH/NAM members; \$575 for non-members. Ellen Menton, Washington Business Group on Health, 229 1/2 Pennsylvania Ave. S.E., Washington, D.C. 20003; 202-547-6644.

Continued on next page

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Continued from previous page
JAN. 28-29. 'Preventive Defense' and the Product Liability Case seminar in Phoenix, Ariz., sponsored by the Defense Research Institute Inc.; \$395 for DBI members; \$415 for non-members. Defense Research Institute Inc., 750 N. Lake Shore Drive, Suite 500, Chicago, Ill. 60611; 312-944-0575.

FEB. 1. Human Factors in Loss Control course in New York City, sponsored by The College of Insurance; \$195 for college sponsors; \$245 for non-sponsors. Professional Development Programs, The College of Insurance, 1 Insurance Plaza, 101 Murray St., New York, N.Y. 10007; 212-962-4111.

FEB. 1-2. Hazardous Waste Management of Small Generators course in Los Angeles, sponsored by the Institute of Safety and Systems Management, University of Southern California; \$160. Institute of Safety and Systems Management, University of Southern California, 3500 S. Figueroa St., Suite 202, Los Angeles, Calif. 90007; 213-743-6523.

FEB. 1-2. Consolidation in Managed Care conference in St. Petersburg, Fla., co-sponsored by the American Medical Care & Review Assn., Ernst & Whinney and Epstein, Becker & Green P.C.; \$550 for members; \$650 for non-members. American Medical Care & Review Assn., 5410 Grosvenor Lane, Suite 210, Bethesda, Md. 20814; 301-493-9552.

FEB. 1-3. 16th Annual Professional Development Course in College Station, Texas, co-sponsored by Region III of the American Society of Safety Engineers and the Texas sections of the American Industrial Hygiene Assn.; \$100. Ken Coughran, 512-853-0171.

FEB. 4. Brief Reinsurance course in Chicago, sponsored by The College of Insurance; \$195 for college sponsors; \$245 for non-sponsors. Professional Development Programs, The College of Insurance, 1 Insurance Plaza, 101 Murray St., New York, N.Y. 10007; 212-962-4111.

FEB. 4. Risk Management: Managing for Long-Term Goals in a Short-Term Environment seminar, sponsored by the Minnesota chapter of the Risk & Insurance Management Society; \$55. Mary Freathy, 612-540-5350.

FEB. 4-5. Negotiating, Pricing and Structuring Casualty Insurance and Reinsurance conference in New York City, sponsored by Executive Enterprises Inc.; \$895; \$795 for additional registrants from same organization. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-223-0787; 800-831-8333 within New York.

FEB. 11-12. Back Injury Prevention course in Los Angeles, sponsored by the Institute of Safety and Systems Management, University of Southern California; \$280. Institute of Safety and Systems Management, University of Southern California, 3500 S. Figueroa St., Suite 202, Los Angeles, Calif. 90007; 213-743-6523.

FEB. 15. Communications/Education Workshop in Los Angeles, sponsored by Health Research Institute; \$250. Health Research Institute, 1600 S. Main Plaza, Suite 170, Walnut Creek, Calif. 94596; 415-676-2320.

FEB. 16-17. Health Care Cost Containment Workshop in Los Angeles, sponsored by Health Research Institute; \$495. Also **March 22-23** in Atlanta, **April 7-8** in San Francisco, **April 18-19** in New York City, **May 19-20** in Chicago, **June 15-16** in Dallas and **June 21-22** in San Antonio, Texas. Workshop coordinator, Health Research Institute, 1600 S. Main Plaza, Suite 170, Walnut Creek, Calif. 94596; 415-676-2320.

FEB. 17-18. The Fourth Annual London Market Conference in London, sponsored by the Insurance & Reinsurance Research Group Ltd.; 360 pounds plus 15% VAT (approximately \$646); 320 pounds plus 15% VAT (approximately \$574) for additional registrants from same company. Insurance & Reinsurance Research Group Ltd., Bridge House, 181 Queen Victoria St., London EC4V 4DD; 01-236-2175.

FEB. 17-19. Captive Insurance Companies workshop in London, sponsored by the Risk & Insurance Research Group Ltd.; 494.50 pounds (approximately \$888). Risk & Insurance Research Group Ltd., 4 Henrietta St., Covent Garden, London WC2E 8PS; 01-846-0614.

FEB. 18. Pollution Update-Insurance, Liability & Regulations workshop in New York City sponsored by the Society of Chartered Property & Casualty Underwriters; \$145 for members; \$165 for non-members. Mari Jennings, Professional Services Coordinator, Society of CPCU, Kahler Hall, 720 Providence Road, CB#9, Malvern, Pa. 19355; 215-251-2741.

FEB. 18. Pollution Update: Insurance Liability and Regulations workshop in New York City, sponsored by the Society of Chartered Property & Casualty Underwriters; \$130 for Society of CPCU members; \$160 for non-members. Mari Jennings, Professional Services Coordinator, Society of Chartered Property & Casualty Underwriters, Kahler Hall, 720 Providence Road, CB#9, Malvern, Pa. 19355; 215-251-2735.

FEB. 18. Advanced Cost Containment Workshop in Los Angeles, sponsored by Health Research Institute; \$250. Workshop coordinator, Health Research Institute, 1600 S. Main Plaza, Suite 170, Walnut Creek, Calif. 94596; 415-676-2320.

FEB. 18-19. Video Display Terminal Safety course in Los Angeles, sponsored by the Institute of Safety and Systems Management, University of Southern California; \$265. Institute of Safety and Systems Management, University of Southern California, 3500 S. Figueroa St., Suite 202, Los Angeles, Calif. 90007; 213-743-6523.

FEB. 18-19. Substance Abuse and the Workplace seminar in Reno, Nev., co-sponsored by

ciety of Safety Engineers and St. Mary's Health Care Corp.; \$85 for ASSE members; \$60 for students. Randy Wasserman, American Society of Safety Engineers/Sierra Nevada Chapter, P.O. Box 21311, Reno, Nev. 89515; 702-885-4085.

FEB. 18-19. Eighth Annual Southern Securities Institute in Miami, sponsored by the American Law Institute-American Bar Assn. Committee on Continuing Professional Education; \$375; \$85 for course book only. Professional Education, Registrar, ALI-ABA, 4025 Chestnut St., Philadelphia, Pa. 19104.

FEB. 19. Assessing Vendors Workshop in Los Angeles, sponsored by Health Research Institute; \$250. Workshop coordinator, Health Research Institute, 1600 S. Main Plaza, Suite 170, Walnut Creek, Calif. 94596; 415-676-2320.

FEB. 24-26. 13th Annual Enrolled Actuaries Meeting in Washington, D.C., co-sponsored by the Conference of Actuaries in Public Practice and the American Academy of Actuaries; by Dec. 31: \$250; after Dec. 31, registration space permitting: \$350. Mildred Prioleau, Convention Manager, American Academy of Actuaries, 1720 the Sierra Nevada chapter of the American So-

1 St. N.W., Seventh Floor, Washington, D.C. 20006; 202-223-8196.

FEB. 24-26. Occupational Health Nursing: Basic Theory and Update course in Los Angeles, sponsored by the Institute of Safety and Systems Management, University of Southern California; \$405. Institute of Safety and Systems Management, University of Southern California, 3500 S. Figueroa St., Suite 202, Los Angeles, Calif. 90007; 213-743-6523.

MARCH 2-4. Captive Insurance Companies conference in Brussels, Belgium, sponsored by Management Centre Europe; 64,100 Belgian francs (\$1,833) for members; 72,000 Belgian francs (\$2,059) for non-members. Management Centre Europe, Rue Caroly 15, B-1040, Brussels, Belgium 32/2/516.19.11.

MARCH 3-5. Business Reorganizations Under the Bankruptcy Code course in Tampa, Fla., sponsored by the American Law Institute-American Bar Assn. Committee on Continuing Professional Education; \$400; \$40 for course book only. Professional Education, Registrar, ALI-ABA, 4025 Chestnut St., Philadelphia, Pa. 19104.

MARCH 7-9. Designing a Flexible Benefits Program workshop in San Francisco, sponsored by the American Management Assn. Human Resources Division; \$745 for AMA members; \$850 for non-members; \$90 discount if three or more registrants from same organization. Also **April 20-22** in Washington, D.C. American Management Assn., P.O. Box 319, Saranac Lake, N.Y. 12983; 518-891-0065.

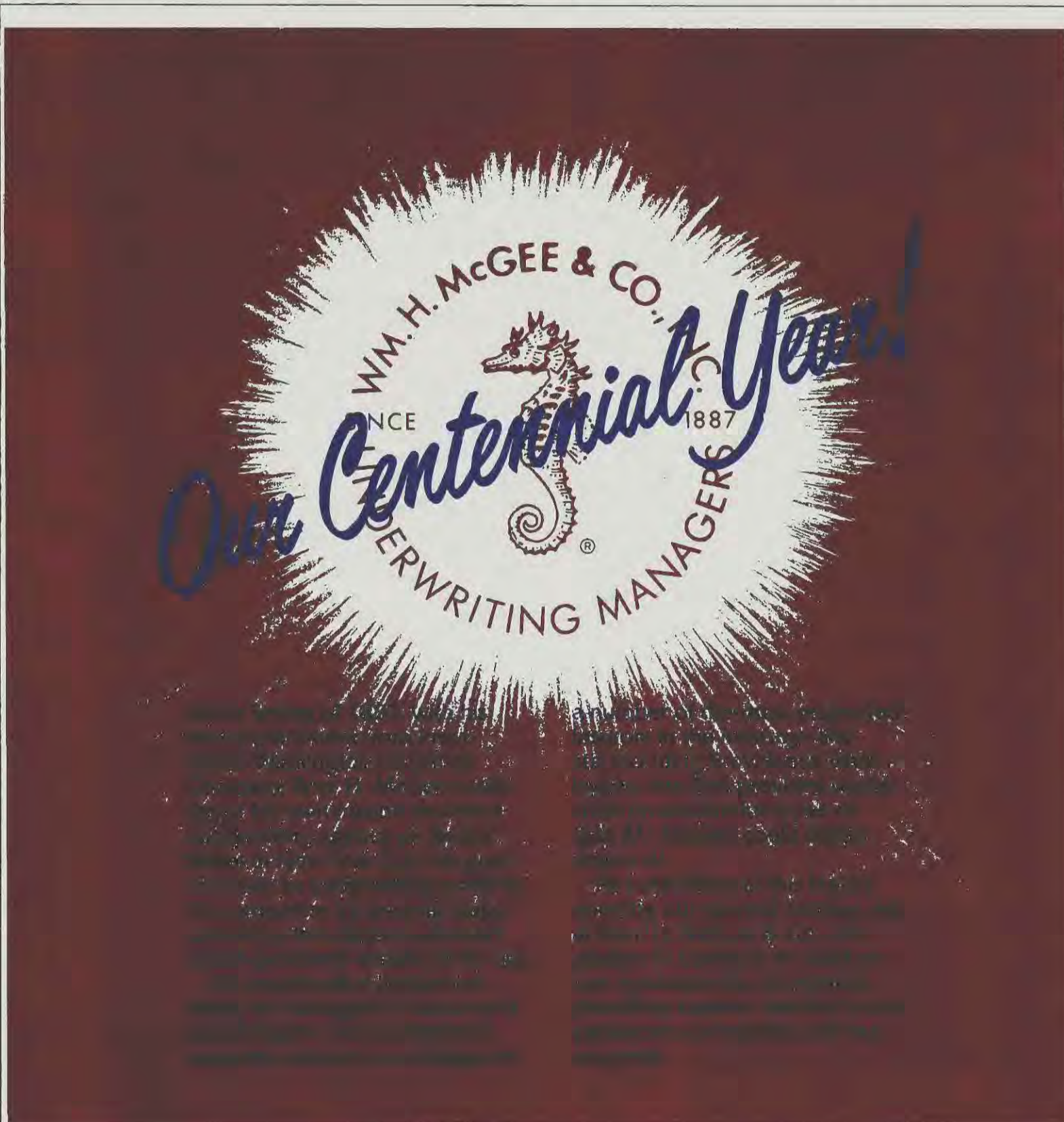
MARCH 7-9. International Benefits Conference in San Francisco, sponsored by the International Foundation of Employee Benefit Plans; before Jan. 22: \$560 for IFEBP members, \$635 for non-members; after Jan. 22: \$605 for IFEBP members, \$680 for non-members. Registration Department, International Foundation of Employee Benefit Plans, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6700.

MARCH 10-11. Ninth Annual Petroleum Insurance Conference in Dallas, co-sponsored by Self-Insurance Resource Inc. and Professional Development Institute; \$495. Professional Development Institute, North Texas State University, P.O. Box 13288, NT Station, Denton, Texas 76203-3288; 800-433-5676; 817-565-2483 within Texas.

MARCH 21. Communications/Education and Advanced Cost Containment Workshops in Atlanta, sponsored by Health Research Institute; \$250. Also **March 24** in Atlanta, **April 6** in San Francisco, **April 20** in New York City, **May 18** in Chicago, **June 17** in Dallas and **June 20** in San Antonio, Texas. Health Research Institute, 1600 S. Main Plaza, Suite 170, Walnut Creek, Calif. 94596; 415-676-2320.

APRIL 12-13. Ergonomics and Job Modifications course in Long Grove, Ill., sponsored by the National Loss Control Service Corp.; \$350. Also **May 24-25, Sept. 20-21**. National Loss Control Service Corp., K-3, Long Grove, Ill. 60049-0075.

The Datebook is compiled from notices sent to Business Insurance. Notices should be sent at least eight weeks in advance to Datebook, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611-2590. Please include the price, if any, of the meeting and information on registration for interested readers. Business Insurance reserves the right to select meetings of most interest to its readers and cannot guarantee that notices will be printed.



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M&M establishes office of the chairman

New York-based Marsh & McLennan Cos. Inc. has formed an office of the chairman consisting of **Frank J. Tasco**, chairman and chief executive officer, **A.J.C. Smith**, president, and **Robert J. Newhouse Jr.**, who is expected to be elected vice chairman at the next board meeting. Mr. Newhouse presently is chairman of Marsh & McLennan Inc., the insurance brokerage unit of M&M.

Robert Clements, president of M&M Inc., will succeed Mr. Neas as chairman of M&M Inc. **David D. Holbrook** will succeed Mr. Clements as president of M&M Inc.

In other broker changes:

Richard L. Wellner named president of United International Brokers in Braintree, Mass., a newly launched brokerage that formerly was a subsidiary of The MBA Group (BI, Dec. 14). Mr. Wellner was resident manager and vp of the Boston office of Jardine Insurance Brokers before joining MBA.

Lawrence W. Sullivan named senior vp of United International Brokers. Previously, Mr. Sullivan was president and chief executive officer of the Boston office of Corroon & Black of Massachusetts Inc.

James T. Pearson joined Greene-Hazel & Associates Inc. in Jacksonville, Fla., as vp and partner. Prior to joining Greene-Hazel, Mr. Pearson served as vp with

Comings & goings: industry

Marsh & McLennan Inc. in Jacksonville, Fla.

Kathryn R. Hines elected president of Ingham, Coates & Payne. She will succeed **Robert E. Coates Jr.**, who was elected chairman. Ms. Hines joined the company in 1968 and has held a variety of management positions. Mr. Coates has served as president since 1969.

Robert B. Phillips Jr., **Michael T. Kohlenstein** and **John W. Doetzer** elected vps of Consolidated Insurance Center Inc. in Baltimore. Previously all three men were account executives.

At the Nobel Insurance Agency in Dallas, **Ralph C. Hamm Jr.** appointed president. Mr. Hamm was president of the Ralph Hamm Insurance Group, a Dallas agency founded in 1926. Mr. Hamm's agency specialized in oil and gas risks. In 1985, The Ralph Hamm Insurance Group was merged into the Crump Cos. Mr. Hamm then became president of Crump's national energy unit, Crump Energy Risks Inc. After Crump was acquired by Fred S. James Inc. in late 1986, Mr. Hamm served as senior vp for James, prior to joining Nobel.

Thomas W. Patrick Jr. named profit center manager of the Fort

Lauderdale, Fla., office of Fred S. James & Co. Inc. Mr. Patrick, who joined James in 1984, will be responsible for directing and coordinating all sales, client service and administrative activities of the Fort Lauderdale office. Previously, Mr. Patrick was profit center manager of the West Palm Beach, Fla., office of James.

Herbert L. Decuers joined Boger & Reid, a retail and wholesale broker in Atlanta, as senior vp. For the past four months Mr. Decuers was divisional president of J. Smith Lanier Inc. in West Point, Ga. Prior to that, he was Jacksonville, Fla., branch manager of Poe & Associates Inc.

J. Ronald Ellis has been promoted to president and chief executive officer of Corroon & Black of Nashville Inc. from vp and chief operating officer.

HMOs/PPOs

Joseph D. Strahan named vp of operations at MCC Cos. Inc., a Minneapolis-based provider of mental health and substance abuse delivery systems for health maintenance organizations, preferred provider organizations and self-insured companies. Previously, Mr.

Strahan was director of development at MCC.

Insurers

William E. Thiele appointed senior executive vp of The Continental Corp. in New York. Mr. Thiele will be responsible for most of the company's property/casualty operations. He will direct the newly reorganized agency and brokerage group, the marine and international group and the special operations group. The company's reinsurance operations also will report to Mr. Thiele. Most recently, Mr. Thiele was corporate executive vp and president of the brokerage and special operations group. He joined Continental in 1963, and five years later moved to General Reinsurance Corp., where he became senior vp of casualty facultative business. He re-joined Continental in 1983.



Mr. Thiele

In addition, Continental also announced the heads of its newly reorganized operating groups are: **Fredric G. Marziano**, corporate executive vp and president of the agency and brokerage group; **George S. Zacharkow**, president

of the marine and international group; and **Wayne H. Fisher**, president of the special operations group.

In other insurer changes:

Edward K. Trowbridge will succeed **John J. (Mike) Mackowski** as chairman and chief executive officer of Atlantic Mutual Insurance Co. in New York, when Mr. Mackowski retires in June 1988. **Kenneth J. Gorman** will replace Mr. Trowbridge as president and chief operating officer.

Caleb L. Fowler elected executive vp of CIGNA Corp. in Philadelphia and president of its property/casualty group. Effective Jan. 1, Mr. Fowler will succeed **Wilson H. Taylor**, who will become CIGNA's vice chairman and chief operating officer.

Raymond F. Marine appointed president and chief operating officer of International Marine Underwriters, a New York-based division of Crum & Forster Commercial Insurance. Previously, Mr. Marine was vp-hull and marine liability underwriting. He joined IMU in 1983 as assistant vp.

William B. Wallace elected president and chief operating officer of Home Life Insurance Co. in New York, effective Jan. 4. Mr. Wallace succeeds **Kenneth C. Nichols**, the company's president and chief executive officer since 1981, who was

Continued on next page

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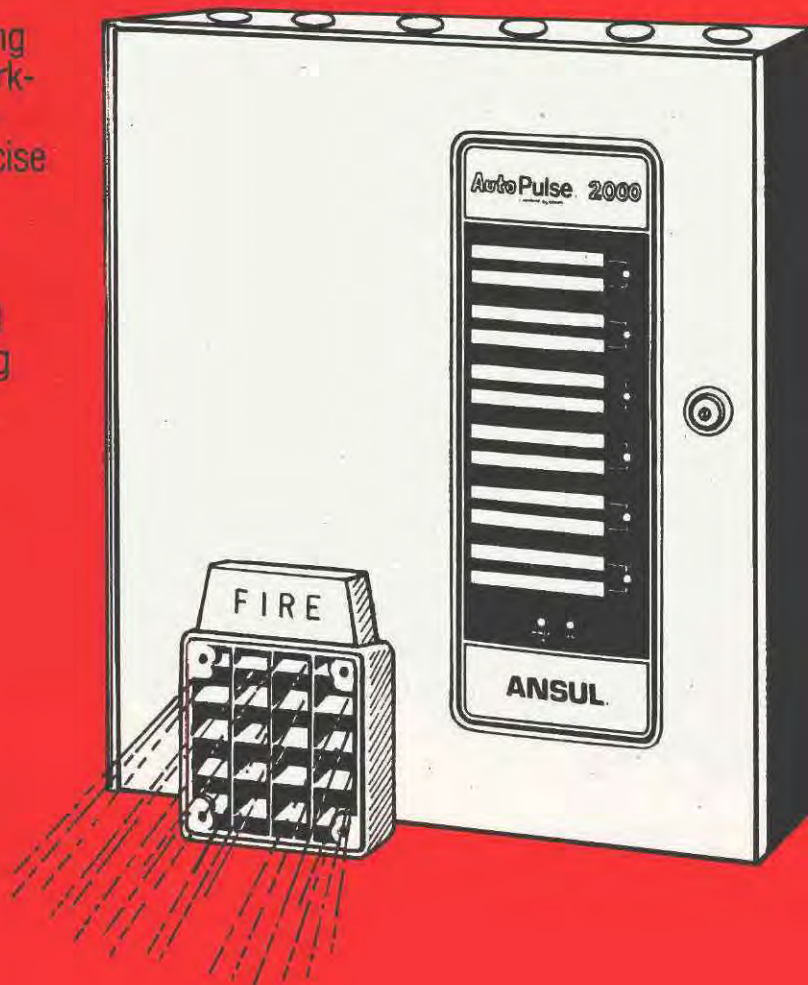
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Comings & goings: industry

Continued from previous page
elected chairman and will retain the title of CEO. Mr. Wallace previously served as manager of Home Life's Washington, D.C., sales agency since 1966.

At State Mutual Life Assurance Co. of America in Worcester, Mass., **Albert W. Buckbee II** elected vp-group pension plans, and **Phillip E. Soule** appointed vp-group life and health insurance. Previously, Mr. Buckbee was regional sales vp of the company's Northeast region while Mr. Soule was vp-group benefit plans.

Charles A. Taylor Jr. appointed vp-LP gas products in the liquified petroleum gas division of The Nobel Insurance Group in Dallas. Nobel recently raised \$8 million in capital for and has begun implementing an LP gas industry-owned risk retention group, which Mr. Taylor will head. Previously, Mr. Taylor was vp and product manager for the LP-gas division of Ranger Insurance Group in Houston.

Also at the Nobel Insurance Group in Dallas, **Kenneth D. Minter** appointed vp-underwriting. Mr. Minter will oversee all property/casualty underwriting and customer service operations for Nobel. Mr. Minter was formerly president of Ruble & Associates Inc., a property/casualty insurer in San Antonio, Texas.

Victor N. Daley recently joined

the Zurich-American Insurance Cos. in Schaumburg, Ill., as head of the corporate development division. Mr. Daley will head the company's planning, communications and human resources departments. Mr. Daley was previously senior vp-human resources at Crum & Forster Corp. in Morristown, N.J.

Daniel P. Neary elected vp and area director of group underwriting at Mutual of Omaha in Nebraska. Previously, Mr. Neary was second vp.

Roger L. Prickett named vp of The North River Insurance Co. in Basking Ridge, N.J., a Crum & Forster unit. For the past 25 years, Mr. Prickett has worked for Liberty Mutual Insurance Group, most recently as director of specialty claims in Boston.

Patrick W. Kenny appointed to the newly created position of senior vp-finance at Aetna Life & Casualty Co. in Hartford, Conn. Currently, Mr. Kenny is a partner and director of insurance professional practices at Peat Marwick Main & Co. He will join Aetna Jan. 1.

Frank Palotta appointed president and chief operating officer of New York Marine Managers Inc. Mr. Palotta replaces **Terence N. Deeks** who was named chairman and chief executive officer. Mr. Palotta joined New York Marine Managers in October 1987 as executive vp.

Donald J. Kenyon, Jeffrey F. Johnson and **John D. Ormerod** appointed vps of Zurich Insurance Co.-U.S. Branch in Schaumburg, Ill. They also were elected vps of American Guarantee & Liability Life Insurance Co. In 1985, Mr. Kenyon was named director of liability claim operations at Zurich-U.S., which is a unit of Zurich-American Insurance Cos. Mr. Johnson joined Zurich-American in 1984 as senior head office claim attorney. Mr. Ormerod joined Zurich-American in 1984 as manager of international operations

and was later appointed regional vp and manager of the Manhattan Special Risk region.

James H. Brazill appointed vp and general manager of the Brea, Calif., office of The Home Insurance Co. Mr. Brazill joined The Home in 1980 as marketing manager of the Atlanta office. Most recently he was general manager of the Birmingham, Ala., office.

Arthur N. Dickerson elected to the newly created position of vp-compensation and benefits at Provident Life & Accident Insurance Co. of America in Chatta-

nooga, Tenn. Previously, Mr. Dickerson was vp-corporate development.

David Engles promoted to vp-finance in the actuarial division of The Maryland Casualty Co. in Baltimore. Mr. Engles joined the company in 1985 as second vp-finance/actuarial, a position he held prior to his promotion.

Richard Matteo joined Tokio Marine Management Inc., the U.S. manager for The Tokio Marine & Fire Insurance Co. Ltd., as vp and manager of casualty underwriting.

Continued on page 24



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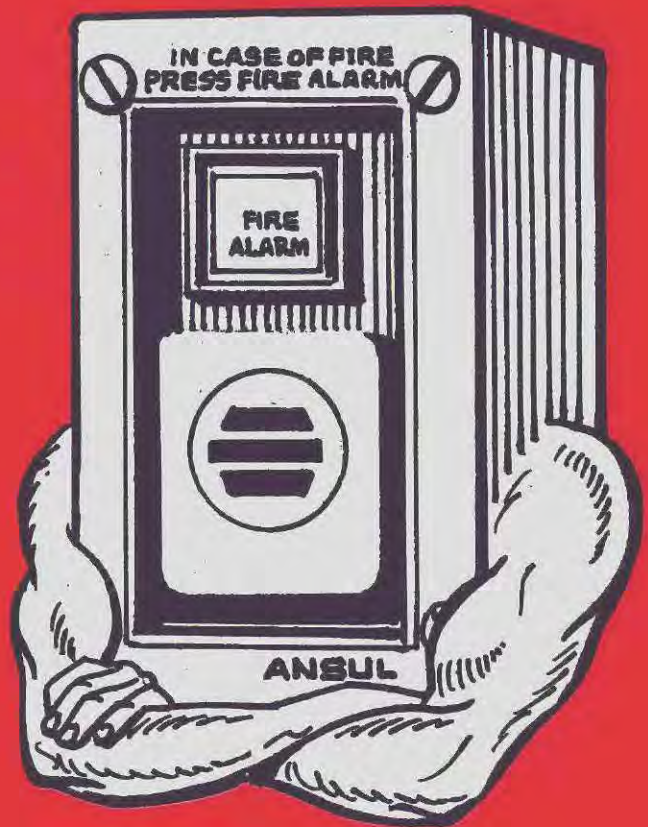
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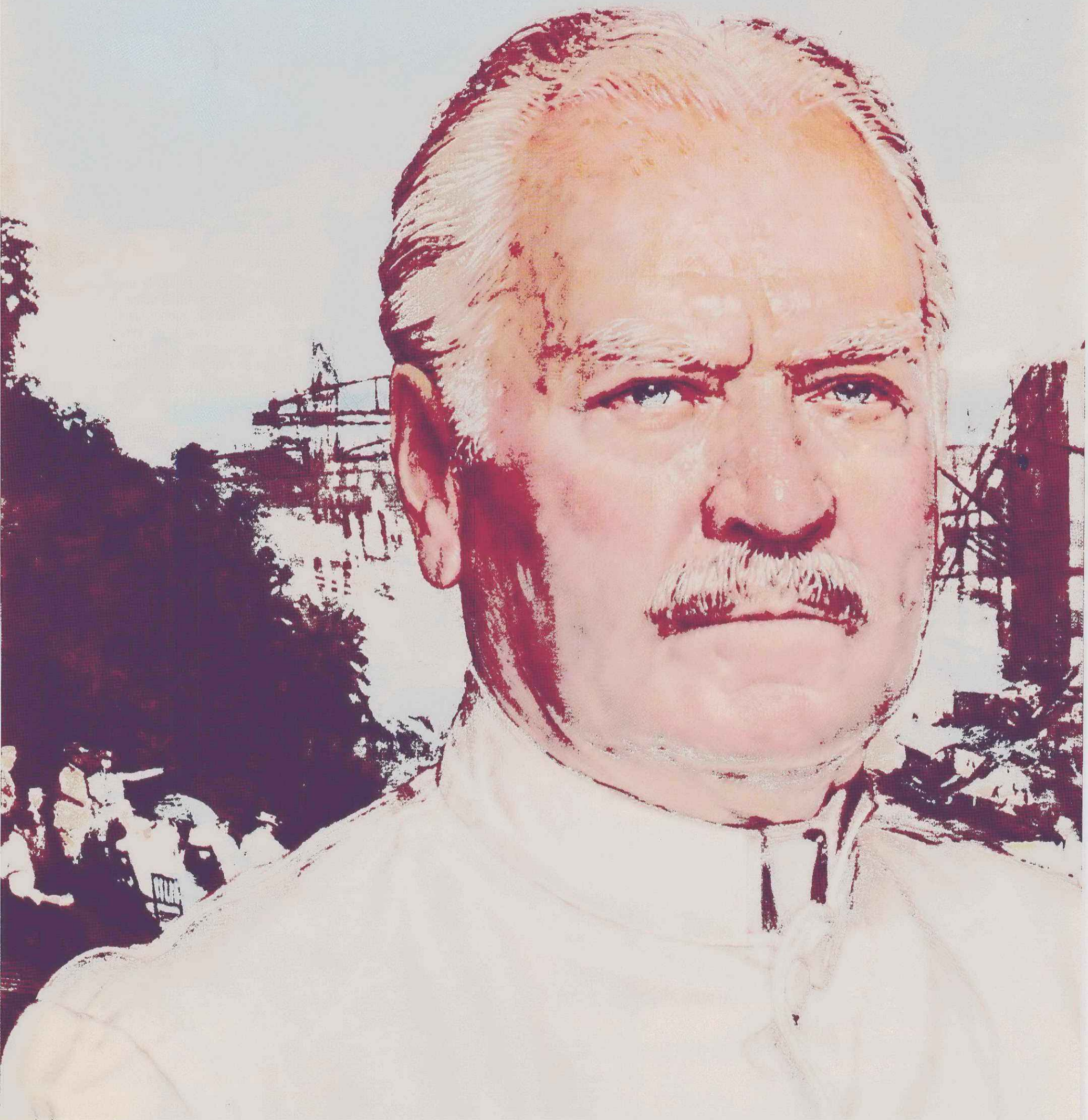
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Comings & goings: industry

Continued from page 21

Mr. Matteo succeeded **Robert A. Alpegiani Sr.** who was promoted to vp and senior product line specialist-casualty underwriting.

Donald Chapman, vp-commercial lines, promoted to senior vp at SAFECO Corp. in Seattle.

David C. Footman named vp and director of marketing at Golden State Mutual Life in Los Angeles. Mr. Footman directs a new marketing department recently formed at Golden State. Previously, Mr. Footman was marketing manager for Kal Kan Foods Inc. in Los Angeles.

Charles J. Lima named regional vp-agencies of The Manhattan Life Insurance Co. in Cincinnati. Mr. Lima joined the company after running his own insurance organization for 13 years.

At Berkshire Life Insurance Co.

in Pittsfield, Mass., **Craig V. Cusson**, vp-policyowners service, elected senior vp-customer services; and **Richard C. Levy**, vp and controller, elected senior vp-corporate services; and **David L. Kalib**, general counsel, elected vp and general counsel.

Bernie Printz appointed executive vp of Allied Management Services in Santa Clara, Calif. Previously, Ms. Printz was president of Commercial & Industrial Administration Co., a unit of Allied that provides third-party administration services.

Reinsurance

Roger J. Cunningham appointed senior vp and director of treaty operations and **Gerard A. Dugan** appointed senior vp and director of claims at Skandia

America Group in New York. Mr. Cunningham joined Skandia America's treaty department as vp in March 1986. He was formerly vp of treaty services for American Re in New York. Mr. Dugan has managed Skandia America's claim operations since 1985 when he was named vp.

Also at Skandia America Group in New York, **Steven J. Bensinger** joined as senior vp and chief financial officer. Previously Mr. Bensinger was a partner in the New York office of Coopers & Lybrand.

Frank J. Discenza joined O'Connor Associates Ltd., a Saddle Brook, N.J., reinsurance intermediary, as director and account executive. Mr. Discenza was recently vp and senior account executive at Wilcox Inc. in New York.

David Rotchadl named vp-direct facultative at NWNL Reinsurance Co. in Minneapolis. Mr. Rotchadl joined NWNL Re in 1985 as assistant secretary-facultative underwriting and was appointed as-

sistant vp-facultative underwriting in 1986.

Claude E. Nyssen named head of the European underwriting operations of Prudential Reinsurance Co. in Newark, N.J. Mr. Nyssen, who will assume the position of managing director of Prudential subsidiary Le Rocher, Compagnie de Reassurance in Brussels, will also have the title of regional vp-Europe with Prudential Re. It is also intended that Mr. Nyssen will assume the position of managing director of Prudential Re's British subsidiary, Le Rocher U.K. Ltd.

Robert P. Danner promoted to vp-litigation management from assistant vp at American Re-Insurance Co. in New York.

Also at American Re-Insurance in New York, **William W. Davis** promoted to vp-medical management from assistant vp-claims.

Excess/surplus

Katherine Pellicane joined

Crump-Northeast Risk Managers Ltd. in New York as vp. Most recently Ms. Pellicane was manager of the brokerage department of Midtown Risk Specialists, a unit of American International Group Inc.

Joseph A. Hucker recently joined Geo. F. Brown & Sons Inc. as manager of the Chicago office. Previously, Mr. Hucker was primary department head with Cooney, Rikard & Kurtin in Birmingham, Ala.

HMOs/PPOs

Richard N. Mastaler named president and chief executive officer of Preferred Health Network in Los Angeles. Previously, Mr. Mastaler was executive director and chief executive officer of Humana Hospital in Phoenix, Ariz.

Other suppliers

William D. Monday Jr., vp of Consolidated Healthcare Inc., the parent company of Yeager & Co. Inc., a Southfield, Mich.-based third-party administrator, has been named vp in charge of Yeager operations. Most recently, Mr. Monday was vp of planning and business development for Consolidated Healthcare. Mr. Monday will be based in Richmond, Va.

Also at Yeager in Richmond, **Michael P. Murawski** appointed executive vp responsible for the firm's Virginia and Tennessee operations. Previously, Mr. Murawski was vp-claims.

Kevin O'Brien joined John H. Jaques Inc. as a partner, directing the East Coast branch office in Syosset, N.Y., of the agency consultant. Previously, Mr. O'Brien was director of marketing with the Independent Insurance Agents of America.

Clive O. Dixon joined Rollins Burdick Hunter (Bermuda) Ltd. as president of the captive management firm. Previously, Mr. Dixon was a senior manager at Arthur Young & Co. in Bermuda.

John J. Middleton named chief operating officer of captive manager Vermont Insurance Management in Montpelier, Vt. Previously, Mr. Middleton served as president and chief executive officer of Hospital Underwriting Group Inc. in Nashville, Tenn.

K.H. Mao named executive vp of Hall Services Division, a unit of Frank B. Hall & Co. Inc. in Briarcliff Manor, N.Y., which provides marketing services to other Hall offices. Previously Mr. Mao was manager of the average adjusting department of HSD.

F. Victor Warren named vp-claims for Creative Risk Management Corp., a third-party administrator in Mount Clemens, Mich. Previously, Mr. Warren was senior claims manager.

Dave Elenburg, former Oklahoma state insurance fund commissioner, has joined Peat Marwick Main & Co. in Dallas as director of workers compensation consulting.

Richard M. Skidmore named to the actuarial service department at Yaffe & Co. Inc. in Baltimore, Md. Previously, Mr. Skidmore was an actuarial assistant with Herget & Co. in Baltimore.

Also at Yaffe, **Stephani L. Brafman** named a marketing and communications specialist. Previously, Ms. Brafman was an assistant account executive with Philip Willen Associates Inc. in Baltimore.

Marvin L. Stokes joined consultant Booke & Co. in Winston-Salem, N.C., as associate actuary. Prior to joining Booke, Mr. Stokes was an assistant actuary with Protective Life Insurance Co. in Birmingham, Ala.

Also at Booke & Co. in Winston-Salem, N.C., **Douglas A. Gibby** joined as vp and actuary. Previously, he was an actuary for William M. Mercer-Meidinger-Hansen Inc.



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ASK A CASUALTY ACTUARY

Rules for establishing risk retention groups

Q

What are the most common obstacles to forming a risk retention group and what is the best way to overcome each of these obstacles?

A

From our own experience in working with a wide range of clients that are trying to set up risk retention groups, the biggest obstacles to forming a group, in descending order, are:

- No (or little) data.
- No reinsurance.
- Insufficient capital.
- No commitment except getting the lowest price.

Let's consider each one in order. Usually, there are several possible solutions. Determining the best one will depend on individual circumstances.

• No data. Many risk retention groups have been proposed among groups of risks that have not previously been affiliated with one another for the purpose of buying insurance. Sometimes, the proposed groups of risks have not been associated with one another for any prior purpose. The latter situation is especially of concern because most likely nothing brings these risks together other than a desire for cheaper coverage.

Given any of the above circumstances, it is normal to expect that little or no prior loss data of a meaningful nature exists. Let's evaluate some of the possible solutions in this situation:

✓ A purchasing group could be formed as an initial step toward forming a risk retention group. This would allow time for the group to become organized, get used to working together and develop a track record of premiums, losses and exposure units. This approach may well provide an excellent short-term and possibly long-term solution. The next hard market will provide the first real test of this. At that time, the option of forming a risk retention group probably should be re-evaluated.

✓ A survey of prospective members can be conducted to gather vital information. The response rate will provide an indication of the level of interest among prospective members.

The validity of information collected from surveys is often subject to question for a number of reasons. First, concern about respondents not being representative of either the target group in general or of the final group of actual policyholders needs to be addressed. It can, however, be mitigated by a combination of such practices as tight underwriting standards, experience rating, assessable policies and/or claims-made policies. Second, there is often a level of uncertainty as to the extent of "underreporting" of prior losses and it is inherently impossible to accurately quantify this. Nevertheless, a properly conducted survey can provide a wide range of critical information on a prospective group for which no loss experience has been collected.

✓ Use of industry statistics can be a viable option if there is a full set of valid reasons as to why the experience of the proposed group ought to be similar to industry averages. To the extent that a downward deviation from industry experience is proposed, the burden of proof that this deviation is justifiable can become substantial.

Adoption of a more conservative rate level can do much to mitigate the concerns of regulators, reinsurers, actuaries and accountants. The existence of a clear-cut set of underwriting guidelines and marketing plans that preclude worse-than-average risks is often key in providing necessary assurance that industry experience should be indicative of the

losses of the prospective group.

✓ To the extent that many of the proposed members are large enough to be experience rated, adoption of experience and/or retrospective rating plans can resolve much of the concern about the adequacy of premium levels and the effectiveness of proposed underwriting standards.

As the above list shows, there are many ways to satisfactorily deal with the problem of unavailability of data.

• No reinsurance. It is unlikely that a new risk retention group can operate without reinsurance unless it is extremely well capitalized. Even then, it is doubtful that commitment of such large amounts of capital would be a prudent use of funds, both from a rate-of-return perspective as well as a common sense, limitation-of-risk viewpoint.

Most states require that the net retention of an insurance company on any given risk not exceed 10% of surplus. Thus, \$10 million in surplus is needed to offer \$1 million policy limits.

Satisfying a prospective reinsurer often depends to a large degree on resolving the data problems outlined above and on *having in place* a well-defined organization, a business plan and well-respected advisers and/or servicing organizations. Merely holding initial discussions or obtaining rough quotations for services does not constitute having such relationships in place. Obtaining formal agreements on these relationships is often needed to better define the expenses of operating a risk retention group.

Another key to obtaining reinsurance is adequate initial rates that are in sync with well-defined underwriting standards and current market rates (adjusted for the profitability or unprofitability of competing carriers).

Increased capitalization of the proposed group also may make a clear difference in the cost and availability of reinsurance. Reinsurers are also receptive to groups that have restrictions on withdrawal and/or assessable policies.

If a proposed risk retention group was put on hold in early 1987 because of the unavailability of reinsurance, it would possibly be worth now checking the market in light of improving conditions.

• Inadequate capital. The most common ways of overcoming problems with inadequate capital are:

✓ Selecting a domicile that permits "debt" or letters of credit to meet capital requirements. This can take the form of bank loans or subordinated surplus notes, which in essence are loans from prospective policyholders or other parties.

✓ Revised structuring of initial capital contributions from policyholders.

✓ Starting with a lower retention level than previously planned and/or using quota-share reinsurance for part of the working layer.

✓ Forming a purchasing group instead of a risk retention group.

• No real long-term commitment. Any prospective group that is held together solely for the purpose of short-term bargain hunting should not form a risk retention group, which is essentially a long-term solution requiring a high level of commitment. The best solutions to a lack of cohesiveness are either letting everyone fend for themselves or possibly forming a purchasing group.

Stock market crash may slow rate cuts

Q

What impact do you think the stock market crash will have on the softening market?

A

A great deal depends on the course of the stock market during 1988. If, for example, the Dow Jones industrial average stabilizes in the range of 1,800-2,300, the impact of the crash should be minimal in terms of slowing the softening of the insurance market. If the Dow moves significantly lower than 1,800, it is not unlikely that the reduced capacity of a number of major companies will forestall further softening in rate levels.

As of year-end 1986, common and preferred stocks represented 17.2% of the total assets of the 100 largest property/casualty insurance groups and 70.9% of policyholders' surplus, according to A.M. Best Co.

The current level of stock prices is not much different from that at year-end 1986, and it may be argued that much of the decline that occurred in October eliminated paper profits during 1987 and removed the excess underwriting capacity that was causing an accelerated softening of premium rates.

Stock investments as a percentage of surplus

Common and preferred stocks as a percentage of policyholder surplus (at year-end 1986)	Number of the 25 largest property/casualty insurance groups
100%—150%	3
75%—99.9%	10
50%—74.9%	6
25%—49.9%	6

Sources: A.M. Best Co.

As the chart (above) indicates, only a few companies were maintaining a high level of stock holdings relative to surplus as of year-end 1986. It would seem that few insurers have an exposure to stock market losses that could significantly impair surplus, unless there is a catastrophic collapse of stock prices. In my own opinion, other forces may well play a larger role in slowing the softening of rates than any future stock market declines. Among these are:

- Problems with uncollectible reinsurance.
- Changes in Schedule F of the annual statement, which may tend to overdramatize problems with the collectibility of reinsurance.
- Large increases in income taxes payable by property/casualty insurers in 1988 and beyond as a result of the Tax Reform Act of 1986.

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

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

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

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

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



Mr. Sherman

Estimating possibility of fire loss

By The Insurance Institute of America

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

This month's exercise, drawn from a May 1987 national examination, considers a procedure for estimating the likelihood of a major fire loss, the factors affecting the financial consequences of such a loss and some ways of preventing or reducing the loss.

Q: The risk management professional for a resort hotel chain with five hotels recognizes that a major fire may cause the chain a net income loss, especially if the fire strikes just before, or during the height of, the tourist season.

• Is there a procedure by which the chain's risk management professional could estimate with reasonable accuracy the likelihood of one of the hotels suffering a major fire during the coming tourist season? Explain.

• Identify and explain the significance of five factors that should be considered in estimating in advance

the financial consequences of such a loss.

• Without repeating any answers, describe one action the chain could take to reduce the likelihood and/or severity of its net income losses through the risk management techniques of both loss prevention and loss reduction.

A: • It is possible that the chain's risk management professional would feel forced to decide that there is too little data with which to make a reasonably accurate estimate of the likelihood of a major fire at one of the hotels just before or during the tourist season. Still, there is a procedure that could be used to make such a projection and it would probably be wise to go through that process.

The risk management professional would need to collect the history of fire losses suffered by the chain of hotels itself and, possibly, the history of fire losses suffered by the hotel industry at large in the geographical area in which the chain operates. This could provide sufficient data on which to base a projection of the likelihood of a fire at one of the chain's locations in general.

That general estimate, on its own, would not be very useful. The

projection would need to be manipulated in two ways. First, the probability of a fire loss would have to be multiplied by a factor that reflects the conditional probability that a fire, once started, would become a major fire. Second, the probability that a major fire will occur must again be multiplied by a factor that reflects the conditional probability that the fire will occur just before or during the tourist season.

Clearly the result of this procedure cannot be expected to represent a precise estimate of the likelihood of the loss contemplated. Nonetheless, going through this procedure would at least provide the chain's top management with some estimate on which to make its plans and could help the risk management professional sell top management on the idea that some risk management measures need to be implemented.

• Many factors will affect the financial consequences of a major fire loss at one of the chain's hotels just before or during the tourist season. Five of the most important factors are:

✓ The extent of the damage, thus determining how many units will be rendered unusable.

✓ The time required to resume full or partial operations.

✓ The cost of restoring the property to its former condition.

✓ The potential size and number of liability claims brought against the chain by guests, employees and others who are harmed in the fire.

✓ The chain's ability or inability to transfer business from the location that suffers the loss to other hotels operated by the chain.

• One step the chain could take to prevent a net income loss arising from arson committed by an employee using loss prevention techniques would be to pre-screen thoroughly and investigate applicants for employment. This could perhaps be accomplished by requiring applicants for employment to complete an application for a surety bond before hiring takes place.

Using loss reduction techniques, the chain could attempt to reduce the severity of a loss by installing state-of-the-art fire detection and suppression equipment in each of its five hotels and establishing a schedule for inspecting and testing this equipment.

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

Boss's harsh words caused comp claim

The Supreme Court of Tennessee awarded workers compensation benefits to an employee who had suffered a heart attack after a heated exchange with his supervisor.

At issue here was whether an employee's heart attack following an antagonistic confrontation with his supervisor resulted in an injury by accident. Richard Black was employed by the state as a supervisor of technicians in laboratories at the state school of engineering. In July 1984, Mr. Black secured the approval of the dean for vacation leave from Aug. 20 through Aug. 24. On Aug. 6, he met again with the dean to request an extension of vacation from Aug. 7 through Aug. 17. The dean refused. A discussion ensued that ended in a heated exchange. As he left the dean's office, Mr. Black became ill. He took the rest of the day off. The next day a doctor determined that Mr. Black had suffered a heart attack. Mr. Black filed for benefits but was denied by the commission.

The appellate court said that a compensable injury by accident occurs when the injury results from some acute, sudden or unexpected emotional stress directly attributable to employment. The court concluded that Mr. Black's injury met those requirements in light of the fact that his request arose out of his having accumulated annual leave time, which, if not immediately used, would, he believed, be converted to sick leave compensable at one-half the rate of the annual leave time. Since Mr. Black's previous vacation request had uniformly met with approval, the court said that he expected this request would likewise be honored. *Black vs. State*, Supreme Court of Tennessee, Dec. 8, 1986 (BI/03/Sept.—\$10).

Psychological disability

Psychological disability caused by shock, excitement or emotional disturbance unaccompanied by a physical injury and arising out

Legal briefs

of and in the course of employment is compensable under the workers compensation act, according to a ruling in a case of first impression by the Court of Appeals of New Mexico.

Robert Lee Candelaria began working for the General Electric Co. as a janitor, hoping to advance to a plating job, which was his prior work experience. He gradually advanced to a job preparing components of jet engines for plating. He performed the work on a night shift without problem. His problems began when he was transferred to a day shift and began working under the supervision of a Mr. Jewett. He soon was assigned tasks in addition to his usual duties for which he received no help. A series of hospitalizations began for psychological problems arising out of confrontations with Mr. Jewett. A psychiatrist attached critical significance to the conflict with Mr. Jewett because Mr. Candelaria had done well in other settings. Mr. Candelaria applied for and was awarded disability benefits.

GE argued on appeal that a psychological injury unaccompanied by a physical injury was not compensable. The court held here that a psychological disability caused by stress arising out of and in the course of employment was compensable. *Candelaria vs. General Electric Co.*, Court of Appeals of New Mexico, Feb. 13, 1986, certiorari quashed Dec. 17, 1986 (BI/04/Oct.—\$10).

Autoerotic asphyxiation was accidental

Death by autoerotic asphyxiation was accidental and, thus, covered under a group life insurance policy providing benefits for accidental death, according to the Court of Appeals of Wisconsin.

In October 1984, Richard Kennedy, a practicing orthopedic surgeon, engaged in an autoerotic sexual

act in the basement bathroom shower of his home. Before engaging in this act, he placed a rope around his neck to reduce the oxygen to his brain, short of reaching unconsciousness, to heighten the sexual pleasure during masturbation. As a result of his action, Dr. Kennedy died from strangulation.

Investigative authorities, at first suspecting suicide, concluded Dr. Kennedy's death was accidental. Washington National Insurance Co. insured Dr. Kennedy under a group life insurance policy that provided a life insurance benefit of \$50,000 and an accidental death benefit of \$50,000. It paid the first sum to his wife, but denied his death was accidental and refused to pay the additional \$50,000. Mrs. Kennedy sued and won in the trial court.

On appeal, the insurer argued that Dr. Kennedy, as a physician, should have foreseen his death when he participated in this autoerotic act. Thus, it argued, his death was not accidental. The court disagreed, stating that Wisconsin eliminated foreseeability as determinative of whether an injury or death was accidental. The court also rejected the insurer's argument that Dr. Kennedy's death was not accidental because he voluntarily exposed himself to a known high risk of death.

"Engaging in this autoerotic act," the court said, "although risky, does not mean that death is highly probable or likely, as it is in Russian roulette." The court observed that the intentional and unnecessary exposure to risks does not prevent the result from being accidental. *Kennedy vs. Washington National Insurance Co.*, Court of Appeals in Wisconsin, Jan. 13, 1987 (BI/05/Oct.—\$10).

These abstracts were prepared by Cases Unlimited Inc. Copies of these decisions are available by sending a \$10 check payable to Cases Unlimited to Business Insurance, 740 N. Rush St., Chicago, Ill. 60611-2590. List the number for each opinion.

Comings & goings: buyers

Kenneth Swisher named risk manager of Michigan

Kenneth R. Swisher, 42, has been named risk manager for the state of Michigan in Lansing. In the newly created position of director-risk management division of the Office of Management and Information Systems, Mr. Swisher will oversee development and implementation of a comprehensive statewide risk management program. He reports to Gerald Williams, director of the Office of Management and Information Systems. Previously, Mr. Swisher served as risk manager/purchasing agent for the city of Battle Creek, Mich. He received a bachelor's degree in management administration and a master of business administration degree in finance from Indiana University in Bloomington. Mr. Swisher is a past president of the Michigan Chapter of the Public Risk & Insurance Management Assn. and is a deputy member of the Risk & Insurance Management Society. In addition, he holds the Associate in Risk Management designation.

Kathleen G. Carangi, 33, has been promoted to senior risk manager at Scott Paper Co. in Philadelphia. In this newly created position, she oversees the placement, renewal and servicing of Scott's insurance coverages, manages the self-insured workers compensation program and coordinates management of property/casualty and workers compensation claims. She reports to C. Robert Lindahl, director of risk management. Ms. Carangi previously was risk manager for Scott Paper, which manufactures home and industrial paper products. Before joining Scott Paper, she was corporate risk manager at IU International Corp. in Philadelphia. She received a bachelor of business administration degree from Temple University in Philadelphia and a master of business administration degree from Philadelphia College of Textiles and Science. Ms. Carangi is president-elect of the Delaware Valley Chapter of the Risk & Insurance Management Society and serves on the student involvement and communications committees of the national RIMS.

W. Mark Bravard, 31, has been appointed director of risk management at Trinity Industries Inc. in Dallas. In this newly created position, Mr. Bravard will be responsible for all risk management activities and property/casualty insurance. Trinity manufactures rail freight cars, containers, components and marine products. He reports to Jack Cunningham, vp. Mr. Bravard holds a bachelor's degree in risk management from the University of Georgia in Athens and a master of business administration degree in finance from the University of Cincinnati.

Timothy J. O'Toole, 40, has been named director of operations for Oklahoma Centennial Sports Inc. in Oklahoma City. OCSI is the non-profit organizing committee for U.S. Olympic Festival '89, to be held July 21-30, 1989 in Oklahoma City. In this newly created position Mr. O'Toole will be responsible for property/casualty insurance, employee benefits and administration of the festival's risk management program. In addition, he will oversee preparation of competition venues, housing, food service, security and transportation. He reports to Clayton I. Bennett, executive vp of OCSI and executive

director of the festival. Previously, Mr. O'Toole was a senior executive with C.L. Frates & Co. in Oklahoma City. He holds a bachelor of arts degree in management from Southern Nazarene University in Bethany, Okla.

We'd like to report on staff changes in your company's risk management, safety or employee benefits department. Just drop a note to Paul Winstor, assistant copy editor, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611-2590, or call 312-649-5442. Please send a photograph, too.



Judith DeMouth promoted at American Re

Judith DeMouth has been promoted to Senior Vice President of American Re's Systems and Services Division.

Ms. DeMouth is responsible for the Systems and Services Division which includes Electronic Data Processing, Corporate Marketing and Client Consulting services offered by American Re.

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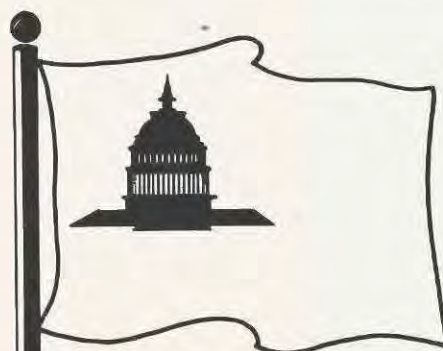
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Financial briefs

Lumbermen to raise stake in Kemper Corp.

Kemper Corp. announced last month it intends to purchase up to 500,000 additional shares of its own stock.

In addition, Long Grove, Ill.-based Kemper said its largest stockholder, Lumbermen Mutual Casualty Co., plans to buy an additional 3 million shares of Kemper Corp. stock.

If fully implemented the purchases would increase Lumbermen's stake in Kemper Corp. to about 48% ownership.

Kemper said that Lumbermen's purchase of Kemper stock would have no impact on Kemper's capital or operations. The shares to be purchased by Kemper Corp. would be held as treasury stock and reissued from time to time for general corporate purchases.

Kemper Corp. also announced that it has completed a repurchase program involving 2 million shares of its own stock.

Berkshire Hathaway

Moody's Investor Service Inc. last month assigned a (P)Aa2 rating to the proposed shelf registration of unsecured debt by Omaha, Neb.-based Berkshire Hathaway Corp.

Moody's said it based its rating on Berkshire Hathaway's history of successful investment management, its good liquidity and the strong earnings trends of its non-insurance subsidiaries.

Japanese insurers

Despite unusual volatility in the world's financial markets, Moody's Investor Service Inc. is predicting that Japan's major life insurance companies will continue to maintain a high level of financial credit and strength.

In a report distributed to institutional investors in Japan and the United States last month, the rating agency said that the recent declines in the Japanese stock market and the strengthening of the yen against the dollar "have not been favorable for the financial position of Japanese life insurers." The report adds, "at current exchange rates, the life insurers are likely to be required to recognize substantial additional write-downs in fiscal 1987."

Moody's concluded, however, that "their tremendous financial resources give insurers the power to emerge from this period relatively unscathed." The agency cites the companies' extremely high profitability, rapid growth, conservative investment practices and orderly changes in the Japanese insurance industry.

Moody's also emphasizes that insurers' financial strength is bolstered by their substantial hidden assets—unrealized capital gains on common stocks and real estate.

The report focuses on three Japanese life insurance companies: Dai-ichi Mutual Life Insurance Co., Sumitomo Life Insurance Co., and The Meiji Life Insurance Co. Each of these companies is rated by Moody's and, as a result of the study, will retain its current AAA claims paying rating.

The report cites the insurers' "diverse basket of investments" as one of the industry's key strengths. They expect that Japanese insurers will, out of necessity, continue to take full advantage of the Ministry of Finance's 1986 decision to allow them to invest up to 30% of their assets in foreign currency-denominated investments. The agency

believes, however, that insurers will increase their holdings in European currencies, thus reducing the risk that further declines in the U.S. dollar will result in large foreign exchange losses.

Insurers are also expected to be hurt somewhat by declines in domestic loan demand, as major Japanese corporates tap the Euromarkets for funds. Moody's believes, however, that insurers will successfully increase investment levels in other areas including domestic equities, trust accounts, real estate and foreign assets. Restrictions of lending to high-quality borrowers and insurers' continued focus on long-term lending gives Moody's added confidence that their financial assets will remain at high quality.

The analysts add that the Japanese life insurance industry is the fastest growing segment of the Japanese financial system. From 1981 through 1986, life insurers maintained a 16.9% compound annual growth rate, compared with a 8.9% growth rate for Japanese banks. Since 1986, the pace of change in Japan's life insurance markets has continued to quicken, according to Moody's.

For a copy of the report contact Moody's in Tokyo at 03-593-0921, or in New York at 212-553-1953.

Delta Life & Annuity

Memphis, Tenn.-based Delta Life & Annuity Co. reported net income for the first nine months of 1987 dipped 1.8% to \$1.39 million from \$1.42 million in the first nine months of 1986.

Revenues for the nine-month period increased 20.1% to \$64.4 million from \$53.6 million in 1986.

Premium income in the first three-quarters of 1987 increased 22.3% to \$48.1 million from \$39.4 million.

For the third quarter of 1987, net income rose 5.9% to \$429,000 from \$405,000 in 1986.

Third-quarter revenues jumped 40% to \$21.8 million from \$15.5 million in the year-earlier quarter.

Premium income in the third quarter of 1987 increased 48.9% to \$16.1 million from \$10.8 million in the third quarter of 1986.

Phoenix Re

Formed in July 1986, New York-based Phoenix Re Corp. reported net income rose 156.7% to \$1.4 million from \$552,594 in the third quarter.

Third-quarter revenues increased 48.0% to \$10.7 million from \$7.2 million in the third quarter of 1986.

Net income in the first nine months of 1987 reached \$3.8 million and revenues totaled \$29.7 million. There is no comparable data for the 1986 period.

Phoenix Re's combined ratio for the third quarter improved to 88.3% from 89.2%. The combined ratio for the first nine months was 89.5%.

"Our lower combined ratio thus far in 1987 has been the result of generally favorable experience with respect to catastrophic losses on domestic business," said Gerald L. Radke, president and chief executive officer. "However, this has been offset to some extent by increased losses in our international business, which we expect will be little changed in the fourth quarter due to the recent severe windstorm in the United Kingdom and Continental Europe."

Brokers

Continued from page 1
 The property/casualty marketplace has improved "significantly in terms of availability. Many more alternatives are available to our clients, and our ability to put meaningful limits together has definitely improved from a year ago," agreed Larry R. Sorensen, senior vp and director of marketing for Chicago-based Rollins Burdick Hunter Co.

"I don't think we're having any problems, as far as completions, and clients are getting the desired limits of coverage except for in very difficult (liability) classes," said Richard A. Maxwell, senior vp and director of marketing and professional standards for Corroon & Black Corp. in New York.

"Up to \$100 million in excess coverage is not difficult to assemble outside of the various pools. With a non-product liability exposure, \$150 million in excess is available in conventional markets," Mr. Maxwell added.

Other brokers with large commercial clients agreed that it is possible for most buyers to purchase excess liability limits of \$100 million to \$150 million without using pools or alternative facilities.

"The new pools created in the past two years have had a great impact on capacity," acknowledged George E. Corde, executive vp of Frank B. Hall & Co. Inc. in Briarcliff Manor, N.Y.

"If you take that capacity into the equation, purchasing limits have gone up to maybe \$250 million and, without the pools, you can get about \$100 million," Mr. Corde added.

Brokers "can assemble somewhere between \$100 million and \$200 million in excess coverage; \$100 million is fairly easy to obtain," said George W. Brown, executive vp and chief operating officer at Jardine Emmett & Chandler Inc. in San Francisco.

Brokers agreed that capacity has increased both in the United States and in London. Insurers in both countries are competing heavily for property business, brokers say, though they point out that rate competition in liability lines of insurance is more prevalent in the United States.

While "London capacity has been good, we've gotten more capacity in the U.S.," said Norman Barham, a director of Johnson & Higgins and deputy manager of its New York office.

"There is tremendous new capacity in London, but its appetite is not for U.S. liability exposures. However, the marine market in London is expansive," said John F. O'Sullivan, managing director of Marsh & McLennan Cos. Inc. in New York.

"In the excess liability market, U.S.-domiciled insurers have substantially increased their capacity," added Lawrence L. Drake, another M&M managing director in New York.

"London is a hesitant market in terms of our casualty business. In the casualty area, most capacity is in the States," said Patrick Gallagher, vp of operations for Arthur J. Gallagher & Co. Inc. in Rolling Meadows, Ill.

And London is far more insistent on writing U.S. liability risks on claims-made policy forms than are U.S. insurers, brokers say. Despite the vows made by U.S. insurers in 1985 and 1986 that by 1988 most commercial liability risks would be written on a claims-made basis, U.S. insurers still are reserving the claims-made form for professional liability or long-tail product liability risks.

"London is totally committed to claims-made," said Robert H. Hilb, president of Hilb, Rogal & Hamilton in Richmond, Va. But since ca-

capacity is readily available in the U.S., "we don't feel that claims-made is anything most of our clients have to put up with. It's a rarity for us to use it."

Brokers also report that rates for both property and liability insurance are plunging during year-end renewals.

Property rates are "really soft," with reductions ranging from 25% to 50%, said Jardine's Mr. Brown. In the liability area, "we're looking at anywhere from 10% to 30% reductions, with some differences. For difficult primary risks, some rates are not going down, but there is more capacity. There is no easy/hard distinction in excess rates; they're all going down," Mr. Brown added.

The commercial property insurance marketplace is seeing rate reductions of about 25%, said Mr. O'Sullivan of M&M. "Excess property accounts have been seeing

Continued on next page



James R. Fisher promoted at American Re

James R. Fisher, Chief Accounting Officer of American Re, has been promoted to Senior Vice President in charge of the company's Financial Services Division.

Mr. Fisher, a Certified Public Accountant, is responsible for all financial and accounting functions of the company.

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Brokers

Continued from previous page
some very significant reductions—as much as 40%," he noted.

While competition is driving liability rates down for most commercial clients, M&M's Fortune 1,000 accounts are seeing an improvement in terms, but not substantial rate reductions, added Executive VP John T. Sinnott. "Some are renewing as is and some with 10% reductions, but there is not a major change" in rating.

Because most insurers are assuming larger net retentions before ceding risk to reinsurers, "for larger corporate risks, under-

writing decisions are being centralized in the insurer home office more than ever before," explained M&M's Mr. Drake. Thus, local competitive forces are not affecting these accounts, he said.

"This reflects a healthy maturation of insurers and a better chance of stabilization of the market. I view it as a positive development," Mr. Drake added.

Rate reductions for package policies range anywhere from 15% to 35%, depending on the mix of property to casualty and on the class of business," said Mr. Gallagher.

He added that the rate reductions that clients are seeing now

are "generally warranted. Rates at the high end are probably wrong and so is the low end. We're getting back to middle ground now on our way back to the bottom" of the rate scale, Mr. Gallagher said.

Brokers say that clients that were very uncomfortable with the high deductibles or self-insured retentions forced on policyholders during the past several years are now purchasing insurance with lower retentions. But many clients that became comfortable with higher deductibles and retentions are opting to retain them.

"They're staying with the higher deductibles and pocketing their money, or they're buying higher excess limits. They've learned that they can afford those retentions and they've learned a lot more about their businesses," said Jardine's Mr. Brown.

"For the most part, clients are keeping their retention levels. They feel they have more control over their costs and they're used to living with them now," said Corroon & Black's Mr. Maxwell, adding: "With retentions, clients can really see the benefits of good loss control."

In the competitive market, insurers are paying particular attention to maintaining their current clients, brokers stressed.

"Companies are protecting their books of business on renewal. I see them giving credits to retain a good, seasoned account rather than focusing on new accounts," said Richard G. Taylor, president of Grant Hatch & Associates Inc. in Salt Lake City.

Insurers "do not want to lose their renewal books. There has always been a feeling that retention is very important, but there is more tenacity now," said Mr. Gallagher.

Brokers cited only surety business, environmental impairment liability and tricky long-tail product liability risks as still being difficult to place.

While earthquake coverage has been very difficult to purchase over the past couple of years, it is now readily available, though brokers say rates remain high. And, E&O liability, directors and officers liability and liquor liability insurance, although not cheap, also are fairly easy to place.

"Surety is the one area where, over the past year, things are more restrictive in certain classes, like contractors and miscellaneous bonds," said M&M's Mr. Sinnott.

"Surety remains very difficult. The loss experience has been disastrous and that market is seeing continued large rate increases," agreed Charles L. Ruoff, senior vp of Fred S. James & Co. Inc. in New York.

"There are still problems within the U.S. market in terms of chemical accounts, pharmaceuticals and any form of pollution liability," said RBH's Mr. Sorensen.

But even that may change, brokers say.

"More insurers every day are becoming more interested in writing product liability and errors and omissions coverages. Once capacity returns, it's only a matter of time before the rates are reduced," said Mesirov's Mr. Styer.

One interesting observation about the round of rate cutting, compared with past cycles, is that "this is the first cycle I can remember that has been initiated and fueled by the major property/casualty insurers. In the last 12 months, we have had nothing but a push by major insurers for market share," said Samuel Alcorn, senior vp-operations for Bayly, Martin & Fay International Inc. in Fort Worth, Texas.

And while most brokers contacted say they have heard a lot of talk among insurers about a need to slow rate reductions in light of the October stock market plunge

Continued on next page

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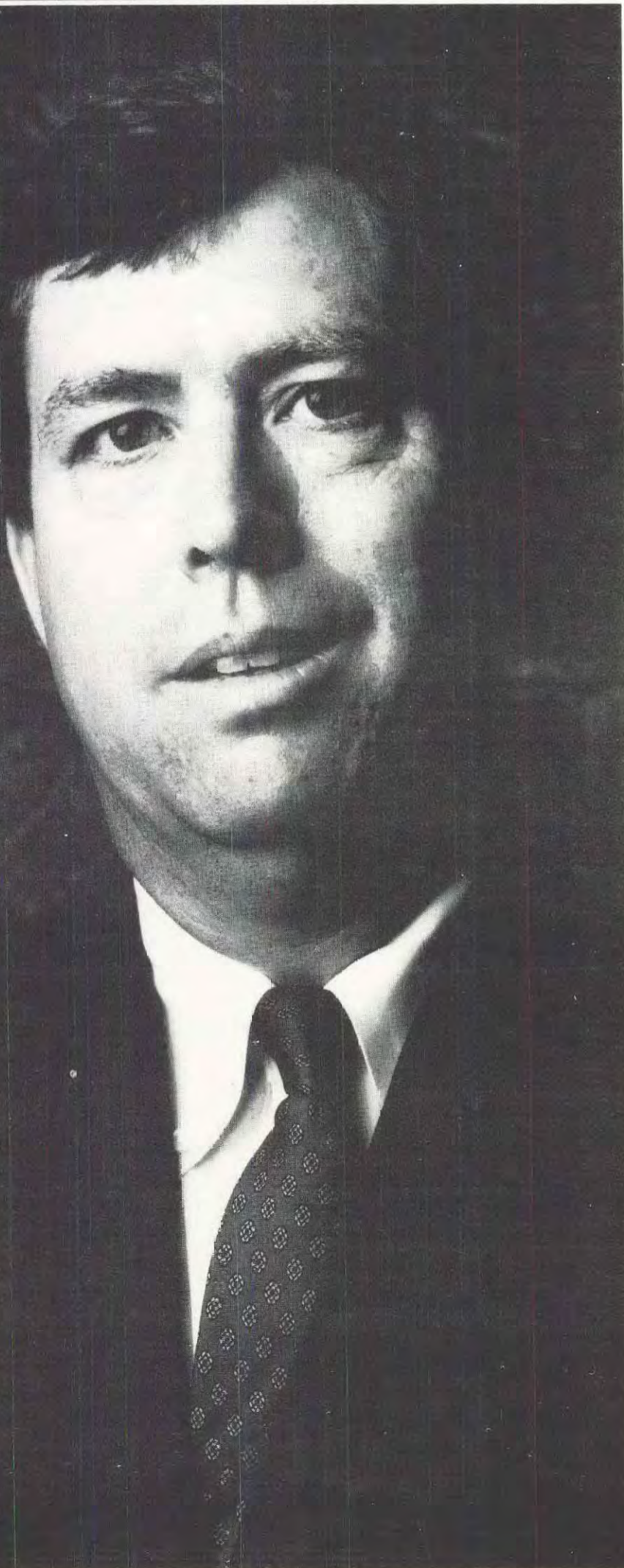
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Continued from previous page
and the impact of higher insurer tax liabilities, they add that they have seen little action.

The current premium rates charged by insurers probably have "enough fat in them that insurers aren't going to have major problems" from either the stock market or taxes, Mr. Hilb pointed out. However, the two forces "may have an impact on how soft the market will become in 1988," he added.

"They may have been contemplating these factors in their Jan. 1 renewals, but we haven't seen a major impact," said J&H's Mr. Barham.

"Everyone is hoping (the stock market plunge and the tax changes) will moderate the mad rush of competition we have been seeing," said Mr. Alcorn. "There's some midnight oil being burned in insurer home offices over this issue right now."

Mr. Alcorn said he sees some signs of moderation in the severity of rate reductions this renewal season, and he expects insurers "to take a much more hard-nosed stance on rates" after their 1987 results are released in the coming months.

But, "I haven't seen anything happening," said Fredrick J. England Jr., president of Hastings-Tapley Insurance Agency Inc. in Cambridge, Mass. However, he acknowledged that there could be an impact that "may be subtle."

Insurer branch offices are cutting rates despite top management's concerns because the branch office underwriters are receiving conflicting messages, brokers explained.

While branch offices are cautioned by top executives to maintain current pricing levels and underwriting standards, most insurers' marketing departments also push branches to maintain or increase their market share. Thus, underwriting standards sometimes may be sacrificed in pursuit of premium volume.

"What it comes down to is that, irrespective of what top management says, there is a planned written premium level that most branch offices are trying to obtain," said Thomas J. Rodell, deputy managing vp of Alexander & Alexander Services Inc.'s Chicago office.

"They're telling their branches they want more business and market share. The branches have to make concessions to get that market share," said Grant Hatch's Mr. Taylor.

"I think there are two different messages coming from the home offices. I think they get mixed signals in the branches and try to respond as best they can to what it is they think they should do," said Hastings-Tapley's Mr. England.

Most brokers say insurers have maintained careful underwriting standards and continue to request detailed loss and financial information with submissions.

However, while pre-underwriting loss control surveys and detailed underwriting information were considered mandatory for commercial submissions during the recent hard market, some of those requirements are "being relaxed," explained James' Mr. Ruoff.

"Insurers might require them on individual risks, but they're not being used to the extent they were. Producers don't have to put up with all of the mechanics we did earlier... (and) insurers are offering producers incentives with regard to new business," Mr. Ruoff observed.

"We're seeing some scattered carriers that aren't asking for loss history, although all of the insurers we place business with are still very particular. The discouraging thing is that if a few start," relaxing their standards, "how far behind are the others going to be?"

asked Mesirow's Mr. Styer.

Competition is likely to continue throughout 1988, brokers agreed.

"I think we'll see the competitiveness continue, but not to an overall price-cutting war. Underwriting has become a more professional function again," predicted RBH's Mr. Sorensen.

"We believe that competition will continue almost through 1989 and then we will see a stabilizing impact," said James' Mr. Ruoff.

"We're facing a year where we've got to produce new business to make up for rate reductions in the old business. You can't stand still, that's for sure," said Republic Hogg Robinson's Mr. Bergson.

Unfortunately, "the cycles are tighter and more extreme, which is very difficult to explain to our clients. I'm sure some of them would trade the low premiums they are seeing for more stability" in the marketplace, stressed A&A's Mr. Rodell.



Michael A. Jones promoted at American Re

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Risk managers

Continued from page 1

double the liability insurance limits they purchased last year.

"Risk managers may get more value in casualty because while prices may not be going down, they may be getting more coverage," said Joseph A. Rinaldi, assistant director of risk management for American Standard Inc. in New York.

Most risk managers are cautiously optimistic the market will continue to stabilize without plunging to the bargain-basement pricing of the early 1980s.

"There may be increased soft-

ening in various areas and lines, but not to the degree it was in the early '80s," said Terry R. Moulder, property and risk manager for Teleflex Inc. in Limerick, Pa. "I don't see anyone giving away business."

"The markets are more... competitive than a year ago, but it's hardly a wholesale return to a soft market," agreed Kenneth M. Krenicky, director of risk management/benefits investments for Certain-tyed Corp. of Valley Forge, Pa. "It's good that people are being cautious because it can turn real hard real quick."

But other risk managers are concerned that the market is softening too quickly and another hard mar-

ket may return as early as 1989.

"There are probably going to be shorter cycles; the market will be soft one year at a time rather than three years at a time," predicted the risk manager for the Midwest manufacturer.

"Prices will probably bottom out (in 1988) and then start going up," she said.

Pricing may not seem overly soft now, but "it's right at the point that maybe one or two (insurers) will panic, start pushing rates down and start the whole cycle again," said Edward A. Aiello, general manager of corporate insurance for H.J. Heinz Co. in Pittsburgh.

Heinz—which renewed its primary and excess liability, workers compensation and auto liability coverage on Jan. 1—saw liability insurance rates decrease for lower levels of coverage, though Mr. Aiello would not specify a percentage decrease.

Heinz self-insures the first \$1 million of its \$100 million in casualty coverage, Mr. Aiello said, adding that the company's substantial retention may have at least partially contributed to improvements in pricing and capacity.

Liability insurance capacity seems "better than last year," with both domestic and foreign insurers offering higher limits, said Cer-

tainted's Mr. Krenicky. "If you're a large corporation, it's a worldwide market, anyway."

"There is more competition (between insurers) than last year... Some companies can get occurrence coverage where they couldn't obtain it last year," Mr. Krenicky said.

While it's true that the 1988 renewal market is soft compared with two years ago, it's still not as soft as five years ago, when insurers "practically wrestled you to the mat with insurance," said Mattel's Mr. Pinner.

In fact, Mr. Pinner only noted "a slight downward trend" in casualty insurance rates during year-end renewals, although he did say that insurers are offering more capacity for the same price paid at last renewal.

"I don't see anything we have going up this year," Mr. Pinner noted, "and 1988 will be a slight improvement over 1987."

Liability capacity "improved dramatically," with prices down and "a modest broadening of coverage," said Charles M. Armstrong, manager of corporate risk management at Xerox Corp. in Stamford, Conn.

"I had a lot more alternatives to place the first \$50 million" in casualty coverage this year, said Mr. Armstrong. "But a year ago it was very difficult to find that \$50 million; we were really scratching."

But, rather than big, dramatic drops in rates this year, he observed that rates generally were "flat" compared with last year.

Xerox renewed on Jan. 1 its primary casualty insurance program in the United States and Canada, its umbrella liability programs for North and South America and its workers compensation policies.

Xerox purchased \$200 million in umbrella liability limits, split among seven insurers including X.L. Insurance Co. Ltd. and A.C.E. Insurance Co. Ltd., said Mr. Armstrong.

Although risk managers may be able to buy all the limits they need, Mr. Armstrong believes that pricing is not necessarily "good," but simply "less bad" than last year.

"I still think things (umbrella) are priced too high," he said.

Vicki Stephens, director of tax and budgeting for the Western Farmers Electric Cooperative, a public utility in Anadarko, Okla.,

Continued on next page

Some companies avoid Jan. 1 rush

While Jan. 1 is still the most popular renewal date, some risk managers say they no longer renew at least some of their property/casualty insurance policies at year-end because of problems in past years.

The chaos of the January 1986 renewal season was the "impetus" for many corporations to restructure their renewal periods to avoid the New Year's crunch, said Kenneth M. Krenicky, director of risk management/benefits investments for Certain-tyed Corp. of Valley Forge, Pa.

"We and other corporations decided it was better to alter the date so you're not all competing for a limited pot," he said.

Spreading renewals throughout the year is easier not only for the risk managers, but also for underwriters and brokers, he added.

"You can equate it to an accountant at tax time," he said. "If he can stagger some of his clients away from April 15, he can do a better job for them."

Certain-tyed will renew its primary and excess liability policies on Feb. 1, with the renewal of the remainder of the corporation's policies staggered throughout the year.

—By Laura Mazzuca

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Continued from previous page noted that renewal rates for the cooperative's excess general liability dropped 7%. The \$25 million in excess liability coverage is written over a \$200,000 self-insured retention.

"We renewed the policies as they're expiring, with the same limit and the same policy form," said Ms. Stephens.

Judith Tornese, director of risk management at Transamerica Corp. in San Francisco said she received only one quote for the company's fiduciary liability insurance renewal, but that quote was lower in price and higher in limits than the expiring coverage. She would not disclose the limits, though.

Overall, she said Transamerica's fiduciary liability rates are about 10% lower in 1988 than last year.

Many risk managers also report that price and capacity problems for directors and officers liability insurance are also easing.

This improvement in the D&O market is attributable to changes in state laws—especially in Delaware, where many major companies are incorporated—that allow companies to limit the liability of their directors, risk managers say (BI, June 23, 1986; April 13, 1987).

Teleflex, a diversified products manufacturer that is incorporated in Delaware, renewed its single layer of D&O coverage on Dec. 17 with a 25% rate reduction, said Mr. Moulder.

In addition, "individual retentions were cut in half and corporate (retentions) by a third," Mr. Moulder noted. "Generally speaking, while I had quotes from a half-dozen companies, we feel the incumbent (insurer) had the broadest form to begin with."

It was virtually impossible to purchase D&O coverage two years ago in California because of high jury awards in shareholder suits, said Mattel's Mr. Pinner. But since the appointment of a new conservative chief justice in the state, as well as laws limiting directors' liability, availability and pricing problems have eased, though D&O is still "a tough one," he said.

"Rates have not gone up; they peaked two years ago, went down in 1987, and will stabilize or see a slight decrease in 1988," Mr. Pinner predicted.

However, the market for professional liability insurance is still rugged, according to Nu-Med's Ms. Fein.

"I do not anticipate a reduction" in either primary or excess professional liability rates," said Ms. Fein, though she pointed out that a year ago there were "sharp increases and a contraction of coverage. . . . If it evens out now, that's an improvement."

The municipal liability insurance market is still in chaos, public entity risk managers say, adding that some municipalities are unable to purchase liability insurance at any price.

"Virginia Beach is now totally bare" of liability insurance, said Robert Esenberg, risk manager for the city of Virginia Beach, Va.

Because of the unavailability of municipal liability insurance, this city of 370,000 has been totally self-insured since March 1986, he said. Mr. Esenberg is now looking for excess liability coverage and is considering alternatives like a Georgia-based risk retention group and a municipal pool.

Mr. Esenberg says that Virginia Beach likely will retain the first \$1 million in liability, but would like to purchase \$4 million or \$9 million in coverage excess of that retention. He adds that the city has not yet received any positive responses from insurers.

"In cities with populations of more than 300,000, you have some serious problems (getting commer-

cial coverage)," he said. "We have to rely on alternative funding mechanisms. We recognize that we'll probably never get back into the primary market."

While pooling may be a viable alternative for small municipalities in a single region, "I have not yet found it to be effective for big cities," commented Celia Scott, risk manager for the city of San Jose, Calif.

San Jose, with a population of more than 715,000, has been unable to find any primary general liability insurance for the past three years.

"Perhaps a broker will say, 'We think we have a market,' but it's not feasible because retentions and premiums are so high," she said.

Ms. Scott doubts that the general softening in the liability insurance market will benefit risk managers of large cities "because of the kinds of risks we have," such as

Continued on next page



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Renewal report

Risk managers

Continued from previous page exposures arising from the use of city streets and public parks.

"Although there is some immunity for dangerous activities occurring in parks, you still get named in lawsuits; how do you underwrite those risks?" she asked.

"I don't see any end to it and neither do any of the brokers I talk to... but we're always looking."

However, Ms. Scott said the market for excess liability insurance is starting to ease for municipalities, but only above a \$10 million attachment point.

San Jose, which must also cover the liability posed by an airport, a water pollution control plant and a redevelopment agency, had no problems purchasing the property insurance limits that it had sought, said Ms. Scott.

For instance, the airport renewal rates were "very reasonable... The premium was 10% less than it was a year ago," Ms. Scott said.

Manufacturers of chemicals and pharmaceuticals are still reporting that liability insurance costs are too high, though capacity has improved.

"We can buy all the casualty we want, but we've opted not to buy" one layer of coverage, said the risk manager of a chemical manufacturer with \$2.2 million in annual sales.

He noted that last year \$25 million in liability insurance excess of

'It appears the insurers have an improved attitude and willingness to be more cooperative and responsive,' says Judith Tornese of Transamerica Corp. 'I think it's indicative of the softening market and an attempt to change the adversarial attitude.'

\$25 million was available at an "astronomical premium"; this year, the same layer is available for a "semi-astronomical premium."

The outcome: The manufacturer opted to self-insure the unaffordable layer. However, the company has \$240 million in liability limits, largely written by A.C.E. and X.L.

"Softening for chemical risks is about a year behind the rest of the marketplace," he said, adding that his broker said rates may soften by April and that he himself hoped to see rates moderate by January 1989.

Although pricing and capacity are important, some risk managers said they were shopping around less and were bolstering their relationships with insurers.

"Any large manufacturing risk can't only look at pricing, but overall servicing," said Mr. Krenicky of Certaineed. "The insurer has to get to know your process."

Certaineed has dealt with Arkwright Mutual Insurance Co. for more than 30 years, and Mr. Krenicky is "very satisfied" with the service, pricing and capacity the corporation receives.

"It appears the insurers have an improved attitude and willingness to be more cooperative and responsive," said Ms. Tornese of Transamerica. "I think it's indicative of the softening market and an attempt to change the adversarial attitude or stance that developed during the hard market between the insurer and insured."

This attitude was particularly evident in negotiating policy renewals, she said.

"There is now more of a willingness to discuss policy terms and conditions and better cooperation" on the part of insurers, she said. "I'm not sure it's resulted in any significant removal of restrictions, but the attitude seems to be improving."

"Some insurers are definitely willing to grant added coverage through endorsements or added enhancements," agreed Certaineed's Mr. Krenicky. In particular, insurers writing liability coverage on claims-made forms are re-evaluating discovery periods, he said. They also are broadening coverage to include sudden and accidental pollution incidents, he said.

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"I have never gotten better service than I'm getting now from insurers of primary casualty" coverage, said Mr. Armstrong of Xerox, who also saw improvements in policy terms. He predicts further improvements later this year and in early 1989.

"We're fairly happy" with the insurer's service levels, said Ms. Stephens of Western Farmers. "Maybe two years ago they weren't responsive at all to the insured, but this year they quoted the business; they wanted to keep us."

Risk managers also credited their brokers with improving their rapport with the insurers.

"The brokerage community has helped because they've made their plans for renewal a lot earlier than they used to; they had their ducks lined up a lot earlier this year," said Mr. Rinaldi.

But, some risk managers continued to have chronic problems with service from the insurers.

"I'm not impressed by service

levels in the industry in general," said Mr. Aiello of Heinz. "It's a segment of the industry that's been ignored."

For example, he noted that policies come in to the client "in terrible shape," with spelling and grammatical errors as well as problems with content.

"You certainly hope you don't have to litigate with these policies, but from time to time you have to," he said.

But, as 1987 ground to a close, risk managers generally felt satisfied with their renewals.

"I'm done," said Xerox's Mr. Armstrong on Dec. 22, as he closed the book on his January 1988 renewals and headed for a vacation. "I'll be out until the beginning of the year."

He compares this year's easy-going renewal market to last Dec. 22, when "I was still saying my rosary" that Xerox's renewals would be completed by the Jan. 1 deadline.

Insurers

Continued from page 1

Mr. Fowler.

Edward Laugle, senior vp and senior marketing officer of Fireman's Fund Insurance Cos. in Novato, Calif., agreed. "The new tax law, no doubt, is going to take a bite out of the industry's profits; I anticipate it will probably negate some rate reductions for some companies."

Dan R. Carmichael, president and chairman of Shelby Mutual Insurance Co. in Shelby, Ohio, says he does not think all companies "realize what the impact of the tax act will be three to five years out. That needs to be taken into account on liability pricing and reserving, which is another reason it makes no sense that liability rates went down."

The Tax Reform Act of 1986 increases the taxes property/casualty insurers will pay by requiring that loss reserves be discounted for tax purposes and by imposing a tax on a portion of the unearned premium reserve (see story, page 41).

F. David Rolwing, president of Montgomery Mutual Insurance Co. in Sandy Spring, Md., said that the stock market crash "sent a shock through the insurance community," though he also suggested the market's decline needs to be put in perspective.

At the end of trading on Oct. 19, the day the Dow Jones dropped 508 points, the market stood near where it had at the beginning of 1987, he said. And, since then, the market has recovered some of the ground it lost, Mr. Rolwing pointed out.

"If the market had continued to go up, we would have added roughly 20% to 22% to surplus," he said. "Basically, the drop cut that in half."

According to the Insurance Services Office Inc., the October crash cost insurers \$10 billion in paper gains, or about one-quarter of the \$42 billion increase in policyholder surplus amassed by the industry over the 2½-year period ending June 30, 1987.

Despite the new tax law and the stock market crash, price competition exists, insurers concede.

Montgomery Mutual's Mr. Rolwing estimates that property insurance rates will drop 5% to 10% in 1988.

"Property rates took a major drop in 1987," said Richard Wratten, president of commercial insurance division at Transamerica Insurance Co. in Los Angeles. "There isn't room for another 25% drop."

Because property insurance rates dropped throughout 1987, rates will drop by "not less than 5% and not more than 10%" for 1988, said Thomas M. Waugh, senior vp-products division for Zurich-American Insurance Cos. in Schaumburg, Ill.

Fireman's Fund's Mr. Laugle said property rates are dropping 3% to 7% on renewal.

Some insurers, however, see more competition in the property market.

For example, Chubb's Mr. Van Gilder said rates for property insurance are being sliced 10% to 20%. "Whether that's an honest assessment of rates or insurers' drive for market share is hard to tell," he said.

The drop in commercial property insurance rates disturbs Shelby's Mr. Carmichael. Prices are "almost as bad as 1983-84 pricing," he said.

Mr. Carmichael added that Shelby, a unit of Alleghany Financial Corp., had required in 1986 and 1987 that commercial clients buy property coverage along with liability insurance. "Now, because of inadequate pricing, we're willing to let the property part go."

Liability insurance rates are generally more stable, insurers report.

William H. Boornazian, senior vp of the commercial insurance division of Aetna Life & Casualty Co. in Hartford, Conn., said that casualty rates generally are stable and there may be some "selected reductions" for some clients in some areas. "Still, I don't think you'll see any significant slippage in the future."

"There is more stability in the liability area than the property area," CIGNA's Mr. Fowler said.

Chubb's Mr. Van Gilder agreed: "There is not the weakness you see in property."

Mr. Waugh says liability rates are generally dropping, but not "dramatically." He added that the steepest cuts are in general liability lines.

The price per exposure unit for liability risks has dropped 3% compared with a year ago, Fireman's Fund's Mr. Laugle said.

"People are trying to adequately price casualty lines, but there's still more competition," said Montgomery Mutual's Mr. Rolwing.

For instance, AIG's Mr. Smetana said umbrella policies are renewing at 15% to 20% off last year's rates.

Directors and officers liability rates are also softening, said Transamerica's Mr. Wratten.

Chubb's Mr. Van Gilder agrees, pointing out that rates for some D&O risks are dropping 20% to 30% on renewal.

While the casualty market is gradually softening, some lines of casualty

Continued on next page

Continued from previous page
insurance are still hard to find.

Robert A. Imse, vp-operations of the standard commercial division of Hartford Insurance Co. in Hartford, Conn., said there still is not much of a market for long-haul trucking or pollution liability risks.

Other lines of liability insurance in which rates are rising, besides workers compensation, are traditionally hard-to-place lines like medical malpractice and some types of professional liability insurance, insurers say.

Insurers say capacity for most types of commercial insurance—both property and casualty—is increasing.

Chubb recently announced it would increase its capacity for excess liability and umbrella risks to \$25 million from \$15 million.

Fireman's Fund increased its excess casualty insurance capacity to \$30 million from \$25 million in early November.

"Casualty limits are higher today than six months ago or a year ago," said Mr. Wratten. "Property capacity has never been a problem."

Yet, "there is not a lot more reliable capacity," Mr. Van Gilder said. "But there is a lot of capacity of questionable repute."

Insurers generally will not comment on how much overall excess liability capacity is available. Brokers estimate \$100 million to \$150 million in excess liability capacity is available from commercial insurers alone, not taking into account capacity offered by pools and other alternative facilities.

"My gut feeling is that is probably right," said one insurer who asked not to be named.

"A lot of capacity has moved back into the excess liability area," another insurer said. "What I am hearing is that some of the discipline to maintain pricing on excess is eroding very rapidly."

Competition is being fueled by regional insurers' increased appetite for market share, some national insurer executives say.

Liberty Mutual's Mr. Rabenstine said competition from regional insurers in some states is especially heavy for workers compensation and trucking risks.

And Transamerica's Mr. Wratten said that in Southern California some regional insurers are pricing coverage 40% lower than the national insurers.

But CIGNA's Mr. Fowler said every insurer is trying to write more business and that regional insurers should not be singled out.

Mr. Rolwing of Montgomery Mutual, which is active in six mid-Atlantic states and the District of Columbia, said that regional companies have found a niche in the marketplace that some national insurers might be disinclined to enter. For example, regionals have a better feel for certain smaller commercial accounts, he said.

Shelby's Mr. Carmichael agreed. His company, which operates in 14 states east of the Mississippi River, seeks commercial clients in rural and suburban areas.

"Main Street-type accounts" form the bulk of the company's commercial lines business, which accounts for about 30% of Shelby's premium volume, he said.

National companies do not always share Mr. Carmichael's enthusiasm for such accounts.

"We're not a Main Street market writer," Wausau's Mr. Tornow said. He added that Wausau's emphasis is on larger commercial accounts.

However, James S. Kemper III, commercial lines underwriting manager for Kemper Corp. in Long Grove, Ill., said his company intends to introduce a "Main Street business" package this year to tap a market it previously has downplayed.

Other insurers agreed that they

are now interested in writing risks they would not consider a few years ago.

"As profitability has improved, we've been willing to write more business," said Mr. Waugh of Zurich-American, which is now seeking more "industrial and wholesale kinds of insureds" to expand its book of business.

Fireman's Fund's Mr. Laugle said the insurer is taking another look at writing liability coverage for schools and day-care centers "on a selective basis."

As the market softens, the admitted insurers say they now are writing more risks that had been written by excess/surplus lines insurers.

"A lot of business in the excess market is returning to the primary market," said Mr. Fowler.

"It is an inevitable result of the market softening," Mr. Van Gilder said.

Continued on next page



Robert B. Tompkins promoted at American Re

Robert B. Tompkins has been promoted to Senior Vice President of American Re's Administration Division.

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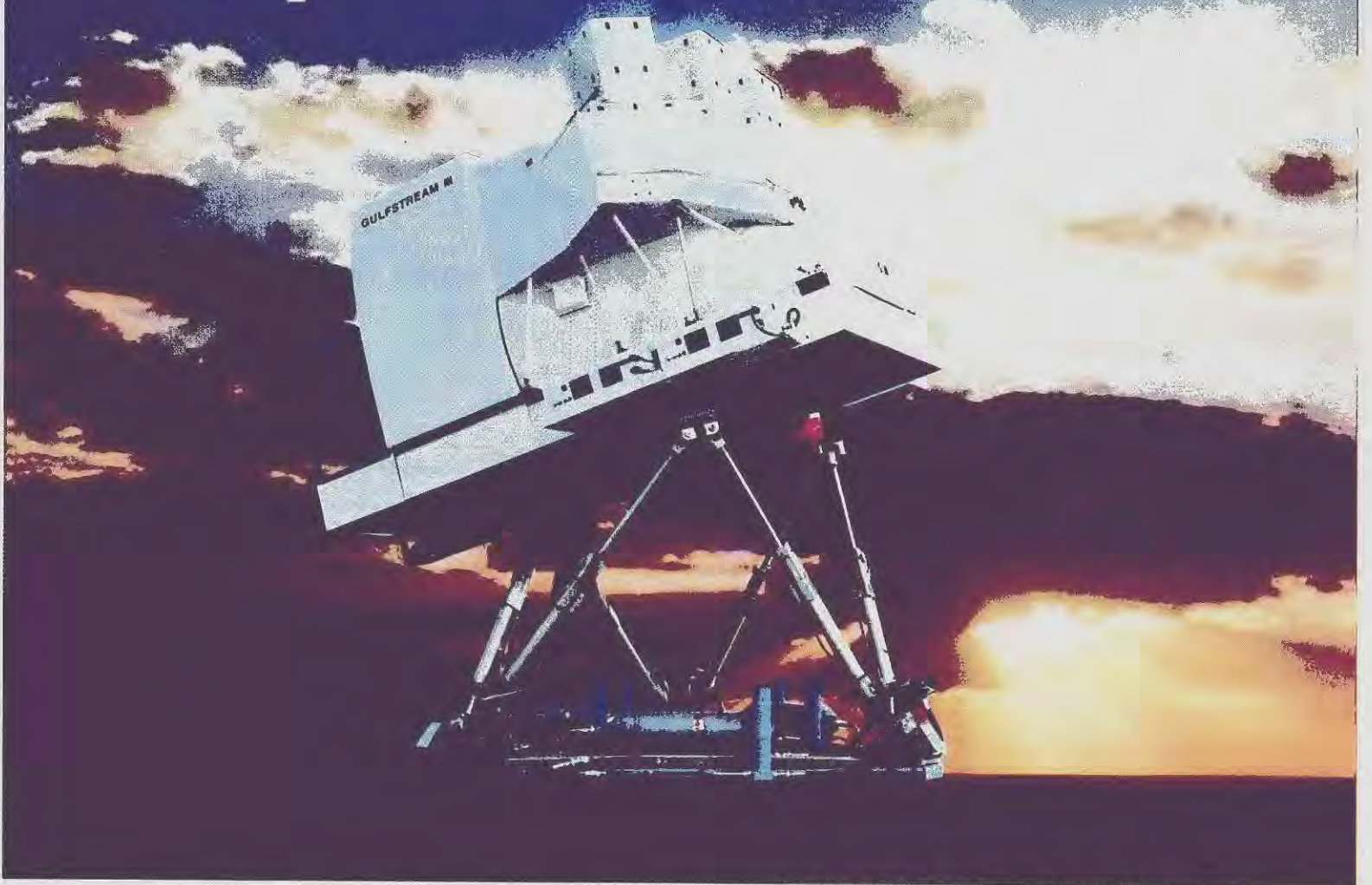
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Insurers

Continued from previous page

But nearly all the insurers stressed they will sacrifice market share if the price is not right.

"We will continue to look for quality business that is priced adequately," said Liberty Mutual's Mr. Rabenstine. "And if it isn't priced right, we will definitely walk away."

Mr. Wratten agreed. He said Transamerica will not cut rates to gain market share. "I lived through that once already."

And, Walter H. Hollowell, executive vp of Continental Corp. in New York, said: "We will not write any piece of business (for which) we do not think the price is adequate. We learned that lesson in the last underwriting cycle. We will shrink before we will lose money."

Shelby's Mr. Carmichael is even more blunt: "We will not participate in the low pricing; it got us into trouble last time. We're prepared to focus on personal lines if commercial prices fall too low."

And although brokers say field office underwriters get conflicting messages from the home office on pricing and premium volume growth, most insurers say they have taken steps to improve communication with the field.

To ensure that branch office underwriters do not write inadequately priced business in an attempt to increase market share, several insurers said they have increased the monitors and controls on field office underwriters.

"In the last cycle, the monitors and controls (on the field offices) definitely were not in place," said Mr. Wratten of Transamerica said. "We have much better communications today than three years ago. We can step in and correct problems very quickly."

Mr. Wratten said he has a computer in his home that can pick up prices from the field offices.

Mr. Fowler of CIGNA said his company has improved communication between the home office and field underwriters by streamlining the management structure. CIGNA has eliminated the number of field managers to the point that when management needs to talk to the field offices they can call all the field managers into one office.

"I don't believe there is a communication gap," he said. Mr. Van Gilder of Chubb & Son said his company "has excellent communication with the field offices."

And, as part of their strategy to write only adequately priced business, insurers also are concentrating on retaining renewal business rather than new accounts.

"We really want to keep the renewals," Fireman's Fund's Mr. Laugle said.

He added that the insurer is offering agents incentives to keep existing business on the books. He pointed out this is somewhat of a break from tradition, since insurers usually emphasize new business production.

Renewal business also is taking priority over new business at Transamerica, Mr. Wratten said.

Mr. Boornazian stressed the importance of a client establishing a long-term relationship with Aetna.

Mr. Van Gilder agreed, saying he hoped insurance buyers learned something about loyalty in the last market cycle.

Despite the more vigorous price competition in the marketplace, most insurers report that they will maintain their current net lines and not purchase additional reinsurance.

"Many insurers are taking a very heavy net line—\$15 million to \$20 million—in casualty," AIG's Mr. Smetana said.

Similarly, insurers report that policyholders generally are retaining the high deductibles and self-insured retentions forced upon them when the market hardened. "The larger corporations are still going to be moving toward larger self-insured retentions and deductibles," said Aetna's Mr. Boornazian. "They've got to have continuity in their programs."

Insurers agree that the claims-made commercial general liability policy form is not prevalent at renewals. Most insurers say they use the claims-made form on less than 2% of their business, mostly for long-tail risks.

Mr. Imse of Hartford, for example, noted that his company is using the occurrence form for all standard business.

And, Liberty Mutual's Mr. Rabenstine said some policyholders whose coverage is now written on the claims-made form are requesting occurrence quotes.

"On claims-made, I guess that's a product, a form, that was not accepted in the broad marketplace. We don't use it much," said Mr. Kemper, adding that use of the form is necessary only for a "small number of accounts."

Fireman's Fund currently requires the use of the claims-made form for 200 classes of business, but "we may reduce that number," says Mr. Laugle. He cautions, however, that the insurer will continue to insist on claims-made coverage for risks with cumulative trauma exposures.

Tort reforms, however, are not a factor in writing coverage, insurers say.

"Everybody's adopted a wait-and-see attitude" with regard to changes in state tort laws, Mr. Waugh of Zurich-American says.

Mr. Laugle says although Fireman's Fund re-entered the

municipal liability markets in four states in the first half of last year as the result of tort reforms (BI, July 13), he knows of no such moves during the second half of 1987.

And Transamerica's Mr. Wratten said California municipalities and day-care centers now can buy liability insurance because of tort reforms in the state. But, he suggests that there is little price competition for this business.

"There was a lot of talk about tort reform," says Chubb's Mr. Van Gilder. "But most tort reform measures passed will take years... to alter the behavior of trial lawyers and judges."

"A lot of tort reform measures were pointless. There were watered down" he adds.

"We have seen no dramatic changes due to tort reform," said CIGNA's Mr. Fowler.

Hartford's Mr. Imse said he thinks that changes in tort law "encouraged some companies to be more active participants in some states." At the same time, however, he said new regulations promulgated by state insurance departments and legislatures have thrust new burdens onto insurers.

"The advance notification procedures that have been put into place have been very costly," he said, referring to policy cancellation and non-renewal notice requirements. He added that state requirements on insurers for collecting and reporting data also have cost the industry time and money.

In general, insurers characterized the January renewal season as a period of cautious competition.

"We are seeing a return to normal competition," said Continental's Mr. Hollowell. "The market is returning to a balance between healthy competition and a normal concern for risky business."

"Because there was so little competition in previous years, any competition tends to be exaggerated," said Liberty Mutual's Mr. Rabenstine.

Mr. Kemper said "the big change was Jan. 1, 1987."

"I think things have leveled off and we're in a typically competitive market on the commercial side," Mr. Kemper said. "I think companies have improved their capabilities to monitor their results."

Edwin J. Rinehimer, senior vp in the property/casualty division of Travelers Corp. in Hartford, Conn., called the January renewal season "a non-event."

"I haven't seen a marked change between July and January," he says.

But, Mr. Rabenstine said that while changes in the market have been slight, current renewals will be "critical" because insurers will monitor their results very closely.

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CEO's Presidents and Owners	2,570
Vice-Presidents, General Managers and Other Administrative Personnel	3,210
Financial:	
Chief Financial Officers and Vice-presidents of Finance	2,787
Secretaries, Treasurers, controllers and other Financial Personnel	5,600
Risk/Employee Benefits:	
Vice-presidents, directors, managers, and other related department personnel of: insurance, risk, employee benefits, personnel, compensation, pension, safety, security, industrial relations, human resources and employee/labor relations	9,701
Sub-total	23,868
Associations	500
Government, Unions and Educational Institutions	914
Commercial Consumers	
Sub-total	25,282
Insurance Agents and Brokers	10,858
Insurance Companies	7,140
Financial Institutions	989
Actuaries, Attorneys, Adjusters, Appraisers and Consultants	4,617
Others Allied to the Field	1,792
TOTAL	49,689
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London may compete to maintain volume

By STACY SHAPIRO
and CAROLYN ALDRED

London market says

LONDON—A quiet renewal season in the London market coupled with a weak U.S. dollar may force London underwriters to slash rates and eliminate coverage restrictions in the next few months to maintain premium income.

However, the losses stemming from the October storm that ripped through London and parts of Europe and the October stock market crash could temper London underwriters' urge to write more business.

At year-end, London underwriters held U.S. property/casualty accounts that had been placed in London last year, but London underwriters did not see very much new business from the United States because there was ample capacity in the U.S. market, London underwriters and brokers say.

Unlike U.S. underwriters, underwriters in the London market only reduced rates marginally, with a few exceptions, and maintained some coverage restrictions, brokers and underwriters also say. However, capacity was increased for property risks and even casualty risks, when written on a claims-made basis.

Specifically, brokers and underwriters say, London underwriters during the year-end renewal season:

- Reduced property insurance rates between 10% and 15%, although some rates were reduced by as much as 40%. Property reinsurance rates did not drop as much as expected because of the windstorm losses.

- Maintained casualty insurance rates at expiring rates with an occasional 10% rate reduction.

- Only accountants and lawyers professional liability insurance continued to see rate increases in London.

- Increased excess liability insurance capacity to \$40 million without gaps from \$20 million with gaps.

- Continued to offer mainly claims-made policies for excess liability insurance, though an occurrence market started to develop.

Also, London reinsurers attempted to maintain restrictions on property and casualty reinsurance treaties, brokers and underwriters say.

Even without rate reductions, U.S. dollar premiums that flowed into London automatically decreased about 24% from last year when converted into British pounds because 1 pound now costs about \$1.84 compared with \$1.48 at Dec. 31 last year. As a result, many London underwriters are not expected to write as much in premium as they are permitted, called their premium income limits, which are calculated in British pounds.

These London underwriters will be forced to write more business to maintain their premium income, but their expenses or watch their profits decline, sources in London agree.

"We are not as busy as we had hoped," said John Wooderson, managing director of the North American division of Lloyd's broker Willis Faber P.L.C. "But, we are certainly getting our chances on all the renewals."

"But, this is all shadowed by the dollar at \$1.84," said Mr. Wooderson. The weak dollar "makes it much cheaper for us to go traveling and buy Christmas presents. (It also) allows underwriters to write more."

"Most of the London market's income is in U.S. dollars, whether

the business comes from the U.S. or not, while underwriter's expenses are in sterling," said Ron Iles, chairman of Lloyd's broker Alexander Howden Reinsurance Brokers Ltd. "Therefore, the effect of the softening dollar will mean London insurers will either have to reduce expenses dramatically or write more business to keep their sterling income up. . . Maybe that will mean there is more competition to come."

"Lloyd's and other London underwriters will have to write more to keep their sterling income up because of the falling dollar. I can see a late softening of the market," added Callum Stewart, a director of Lloyd's broker C.E. Heath P.L.C. "Next year is going to be tough for underwriters with rates coming down. However, the policyholder will come out of it very nicely."

"The weakening dollar is going to cause problems. It will put more pressure on people to write premium income," agreed Christopher Underwood, a director of Lloyd's broker Norex Insurance Brokers Ltd.

"In London, it's been one of the quietest renewal seasons we've had," said one Lloyd's of London underwriter who did not wish to be named.

With a quiet season, and rates not going up, the Lloyd's underwriter's syndicate has written 10% to 15% less this renewal season than last year in terms of dollar premium volume, he said.

Specifically on U.S. property insurance and reinsurance, the London market is seeing 15% less in premium income in pounds for small commercial property risks that come through underwriting agencies and about 30% less for the "big-ticket" commercial property programs of major corporations, he added. This is due to a combination of lost business and the weak dollar.

"Underwriters will be tremendously short of (premium) volume. . . because there is new capacity and the original pricing is going down," he said. "The issue coming into the next year is that people are going to be short of premium income and people will be interested in writing more."

The renewal season in the London market normally begins around the beginning of October and continues through January. During that time, London underwriters renew their own reinsurance treaties in the London excess-of-loss reinsurance market, U.S. ceding companies renew their reinsurance treaties and major U.S. corporations renew their property/casualty insurance programs. The year-end programs usually renew on Dec. 31 or Jan. 1.

During year-end renewals in 1984 for 1985 coverage and in 1985 for 1986 coverage, the London market was a madhouse as brokers searched in vain for capacity to complete insurance and reinsurance programs that could not be completed in the United States. Capacity was tight and rates skyrocketed, particularly for liability coverage.

In addition, for 1986 renewals Lloyd's introduced its restrictive claims-made wording for excess liability insurance and H.S. Weavers (Underwriting) Agencies Ltd. also introduced its claims-made wording for excess liability business (BI, July 14, 1986).

For those two years, some year-end renewals were not completed until summer, and some were not

completed at all.

Last year, London underwriters began losing 1987 U.S. property insurance renewals to U.S. underwriters who were undercutting London rates as well as U.S. excess liability insurance renewals, which were being written on an occurrence basis by U.S. underwriters.

Yet, despite renewed competition from U.S. underwriters, sources in the London market were optimistic because capacity had returned to the market and liability rates only increased marginally (BI, Jan. 5, 1987).

This year, brokers say they have either completed their renewals or have assurances from underwriters that they will write the coverages. Nearly all brokers say they will complete renewals by the renewal dates.

"Most Jan. 1 quotes are out now," said Ian Donaldson, director of the North American division of Alexander Howden Ltd. "More (programs) will be placed on Jan. 1 than last year as more were placed in 1986 than the year before. Because the capacity is there, you should be able to finish (programs) by Jan. 1."

London underwriters and brokers say more capacity was available this year in the London market for all classes of North American business from established underwriters in the market. In addition, new Lloyd's syndicates offer an additional 120 million pounds of premium income (\$220.8 million)—not all of which is available to U.S. risks—and a few new company underwriters opened their doors.

For example, English & American Insurance Group P.L.C. set up a new underwriting agency to write property excess-of-loss treaty reinsurance. The agency, Northgate Underwriters Ltd., began underwriting at year-end renewals for two British Department of Trade and Industry licensed insurers, which put up 7.5 million pounds (\$13.8 million) in capital each. The insurers are Polygon In-

urance Co. (U.K.) Ltd., a wholly owned subsidiary of aviation underwriter Polygon Insurance Co. Ltd. of Guernsey, which writes 70% of Northgate's slip; and Crombie Insurance Co. (U.K.) Ltd., a subsidiary of Canadian property and financial services group Empire Co. Crombie, which writes 30% of the slip. (BI, Sept. 21, 1987).

Also, a London branch of Lexington Insurance Co., a unit of American International Group Inc., increased its excess liability insurance capacity to \$18 million from \$15 million, brokers say. Lexington did not return repeated phone calls.

"There is new capacity in London, particularly from new Lloyd's syndicates and new company markets," said Hugh Prior, managing director of Lloyd's reinsurance broker Winchester Bowring Ltd.

"There is more meaningful capacity across the board and any shortfalls in last year's programs can be filled this year," added Mr. Iles from Howden Reinsurance.

New capacity in London for U.S. property risks was particularly evident, brokers and underwriters agree.

Mr. Wooderson of Willis Faber, for example, suggested property reinsurance capacity increased 30% to 40%.

One Lloyd's underwriter also pointed out that brokers who couldn't complete property insurance programs last year now find twice the capacity they need.

"There is even excess capacity in some areas, particularly property excess-of-loss reinsurance," added Mr. Iles of Howden Reinsurance.

As a result, property insurance rates are decreasing, London brokers and underwriters agree.

For instance, Mr. Wooderson says property rates are decreasing by 30% to 40%.

A Lloyd's property underwriter, however, says that original rates on property reinsurance are only decreasing 10% to 15%.

And, some property business is still being lost to the U.S. market, brokers and underwriters say.

For example, "on our insurance business on trucking, we wrote the

coverage on a 6.75% (of the insured value) rate in 1986," said one Lloyd's underwriter. "We would have gone down to 5% this year, but the boys (in the United States) took it off us at 3%."

"The property market has softened, but not as much as in the U.S.," added Mr. Iles of Howden Reinsurance. "London is still losing business to the U.S. and is not prepared to follow rates down as far as domestic companies."

More capacity also can be tapped in London for various kinds of U.S. casualty insurance and reinsurance programs, brokers and underwriters say.

For example, more London underwriters are following Weavers claims-made excess liability insurance wording than last year, allowing London brokers to place up to \$40 million on Weavers claims-made form at rates similar to last year.

Much of the additional capacity comes from members of Weavers line slip. CalFed Inc., a unit of a California savings and loan, opened Anglo-American Insurance Co. Ltd. in London in April with \$80 million of capital. Anglo-American began writing 33.4% of Weavers line slip, allowing Weavers to write 100% of a \$5 million layer excess of at least a \$2 million per claim/\$4 million aggregate self-insured retention; 87.5% of the \$15 million excess of \$5 million layer; and participation on the \$30 million excess of \$20 million layer (BI, April 20, 1987; April 13, 1987).

As a result, brokers say that they can place up to \$40 million on the Weavers claims-made form without gaps, compared with only \$20 million last year with gaps.

"We've not been asked to find more than \$40 million," said Howden's Mr. Donaldson. Generally, clients seeking high limits of coverage are the Fortune 250 corporations, which look for excess coverage above \$40 million from the new facilities like A.C.E. Insurance Co. Ltd. and X.L. Insurance Co. Ltd.

Despite the willingness of U.S. insurers to provide excess liability coverage on an occurrence form, renewals have stayed in London on

Continued on next page



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London

Continued from previous page
 Weavers claims-made form, brokers say.

"Weavers is holding the line on pricing—no increases, no reductions," said Mr. Donaldson. "We hear of a large occurrence market (in the U.S.), but orders have not moved at all to the occurrence market. . . . We have only lost three accounts in the last month to the occurrence market, so claims-made is holding up."

"Weavers is the only market here with a full program," added John Tyndall, executive director of the non-marine casualty division of C.T. Bowring & Co. Ltd. "And, clients want to stay with Weavers for the long-term relationship. . . and for continuity."

Weavers also amended its claims-made form earlier this year to provide broader coverage (BI, Oct. 19, 1987).

London, brokers also can find general liability insurance capacity on an occurrence basis in one of two ways. Mr. Tyndall says that some London underwriters will "fill in" line slips on an occurrence or claims-made basis. For example, if 70% of the coverage is placed in the U.S. on an occurrence basis, London underwriters will complete the other 30%, he said.

"But there is only about \$2.5 million to \$5 million (in capacity) available on an occurrence basis following the domestic market," he added, and the occurrence capacity is basically available for short-tail risks.

Only about 5% of Bowring's liability business is placed in "fill-in" markets, he said.

Meanwhile, as much as \$150 million to \$200 million of additional liability insurance capacity is available on an occurrence basis in London's marine market, London brokers say. However, the risks must have enough marine content to be considered by the marine market.

Also, London's marine underwriters' reinsurance is subject to exclusions introduced by excess-of-loss reinsurers to exclude seepage and pollution, product liability on an occurrence basis, directors and officers liability and errors and omissions risks.

"If you can make it look marine enough—like it is cargo—and place \$20 million with underwriters on that basis, then you can get into the marine market line slips and place up to \$150 million," said Mr. Tyndall.

The world's major oil companies are placing their property/casualty programs in London's marine market in this manner (BI, Dec. 7, 1987).

Among specialty liability insurance lines, directors and officers liability insurance rates have decreased as much as 25%, but London underwriters say they are reluctant to follow rates down any further.

The London market offers a line slip of \$10 million capacity through several Lloyd's of London brokers.

In another difficult line, bankers blanket bonds, rates are holding steady in London while capacity has increased to about \$25 million, up from \$15 million to \$20 million last year, said Stephen Burnhope, Lloyd's non-marine underwriter for a syndicate managed by Merrett Underwriting Agency Management Ltd.

The only lines for which underwriters are quoting rate increases are professional liability for accountants and lawyers, underwriters and brokers agree. "Professional liability rates still have room for upgrading—in accountants and lawyers, for instance," said Mr. Burnhope.

And, placing reinsurance in London for general liability business,

"is still very difficult," said Hady Wakefield, deputy chairman of C.T. Bowring Reinsurance Ltd., though "it is possible to get capacity in monoline areas such as professional indemnity."

There is more capacity for medical malpractice coverage, said Roger Gladwell, a director of Bowring. "We are just renewing a major program, and the major (underwriting) players are increasing their lines by an average of 20%."

London underwriters are still trying to insist on sunset clauses on casualty reinsurance treaties "despite losing business to the U.S.," said Mr. Stewart of Heath.

However, London brokers and underwriters warn that one of the largest windstorms in history on Oct. 16, coupled by the stock market crash on Oct. 19, could prevent rates from plummeting any further and prevent additional increases in capacity.

Reinsurers at the Baden-Baden reinsurance meeting in West Germany in October hoped that property rates would stop plummeting following hurricane-force winds that hit Southeast England, France and Norway in October (BI, Nov. 16, 1987). London sources now believe that claims from the hurricane-force winds could top 1 billion pounds (\$1.84 billion), making it one of the most expensive natural disasters in history.

Already underwriters expect property rates to rise in the United Kingdom and France. Then, they expect the rest of the world property markets to be affected by July when the retrocessional market will be asked to pay for the losses.

The LMX market in particular "will have to pay major chunks of money," said one Lloyd's underwriter.

"Any more widespread re-rating for catastrophe cover will become obvious when the effects of the October windstorm are known," said Mr. Prior of Winchester Bowring, who added, "It's probably going to be the largest loss there's ever been."

"There has been no upward adjustment (in reinsurance rates) yet, but any possibility of widespread reductions, which were on the horizon, have been stopped."

Mr. Iles of Howden Reinsurance agreed that the October windstorm looks to be "like being the single largest loss ever. It's bound to have an effect. Property reinsurance rates have not fallen as much as they looked like they would and many companies have review clauses in their catastrophe protections for next year which depend on the claims that come from the storm."

Review clauses allow rates and terms to be readjusted at the time of the review date, which is specified in the original coverage. Review clauses normally are used in contracts written early in the renewal season, say in September, so that a reinsurance underwriter can reassess rates and conditions in mid- to late November.

The stock market crash also will take its toll, brokers and underwriters agree. "The stock market crash has had no effect yet, but in the long term it could well be that investment income return—used to prop up results of companies, particularly U.S. companies—is just not there anymore," said one London underwriter who did not wish to be named. "It could have a significant effect on some insurers in the U.S. who haven't recovered from the last down-cycle and could signal another hardening market."

"I can't help feeling that the stock market crash is going to have an effect on companies' surpluses," added Mr. Wakefield. "Some companies have a very large proportion of their net worth in equities and people are going to have to be very careful."

Reinsurers renew at slow pace

By JUDY GREENWALD and DOUGLAS McLEOD

NEW YORK—This year's January reinsurance renewals are proceeding on a slow and steady course, with an emphasis on "slow," brokers and reinsurers report.

Despite ample capacity for property and casualty risks, reinsurance sources say that renewals are anywhere from one to three weeks behind even the delayed schedules of the last two years.

January 1986 reinsurance renewals took much longer to complete than in past years because of capacity shortages and each reinsurer seeking to dictate pricing and terms (BI, Jan. 6, 1986).

However, the situation improved significantly for 1987 renewals (BI, Jan. 5, 1987).

Although renewals are proceeding slowly this year, brokers say they will have no trouble completing both property and casualty programs and that while competition is still far from cutthroat, the reinsurance market has definitely softened.

Some reinsurers attribute the slowdown to complacency among ceding insurers because they expected few difficulties in completing programs and therefore felt no great urgency about getting into the market.

Brokers note that ceding insurers may not be seeing rate reductions of the size they expected and may be hesitating before accepting quotations.

"I don't think it was as soft as people were anticipating," observed Michael E. Rothpletz, executive vp and chief operating officer of reinsurance intermediary G.L. Hodson & Son Inc. of New Hyde Park, N.Y.

On the property side, softening has taken the form of rate reductions of up to 20% on excess-of-loss treaty business and an increase in ceding commissions on pro-rata treaties, brokers say.

The property facultative market has become particularly competitive, with "considerable" rate reductions by direct writing reinsurers, according to Mario Leo, executive vp and chief executive-reinsurance with Philadelphia-based TPF&C Reinsurance, a division of Towers, Perrin, Forster & Crosby.

Casualty pricing is generally holding steady, though sources report rate reductions on some casualty risks, particularly specialty lines—such as directors and officers liability and errors and omissions covers—for which stiff rate increases have been the rule in recent years.

Softening on the casualty side is more often taking the form of more favorable contract terms for buyers, including extension or elimination of sunset clauses—which phase out reinsurance coverage over a defined period—and increases in loss ratio caps—which limited reinsurance payments when the loss ratio on a contract hit a certain percentage—brokers say.

Ceding insurers for the most part are not reducing their retentions on property or casualty business, and some insurers are even increasing retentions for certain risks.

Brokers say that some large primary insurers are increasing their retentions to maintain net premium volume as primary rates fall, despite an increase in available reinsurance capacity.

Meanwhile, some reinsurers report a greater willingness among London reinsurers—particularly marine underwriters—to reinsure U.S. business.

Reinsurers and brokers also note that reinsurers have paid relatively little attention to the impact of the Tax Reform Act of 1986, which could severely affect the profitability of property/casualty insurance and reinsurance companies (see story, page 40).

"The market is very steady, and reinsurers are taking time to underwrite individual companies and individual treaties," said Willis T. King Jr., chairman and chief executive officer of Willcox Inc. Reinsurance Intermediaries in New York.

While terms and conditions are improving for buyers of property reinsurance, the casualty market "continues to be very tough," he said.

"Nobody is willing to do anything dramatic," Mr. King said, referring to reinsurers.

He noted that primary insurance rates seem to be changing faster than reinsurance rates. "If the primary market goes off, it's going off on its own."

N. David Thompson, president and chief executive officer of North American Reinsurance Co./Swiss Reinsurance Co. agreed, saying he does not see any dramatic changes in the reinsurance market. "I think the reinsurance industry is maturing" and exercising discipline, he said.

Robert DeMichele, president of Reinsurance Corp. of New York, said he expects 1988 to be a "pretty decent year." Reinsurers are actually trying to maintain discipline now rather than merely paying lip service to it as they did in 1982 and 1983, he said.

"I think if you look at the whole season, in many ways it's a normal market," said Dewey Clark, senior vp at Prudential Insurance Co. in Newark, N.J. The casualty business tends to be renewing "as is." While there may be modifications and adjustments, there will not be significant changes, he said.

There is a lot of pressure from ceding companies to improve reinsurance terms on top of a "fair amount" of rate reduction activity in the property and general casualty area, said Michael Pinter, executive vp-treaty underwriting for Kemper Reinsurance Co. of Long Grove, Ill.

That pressure exists because primary companies expect at volume for 1988 and hope to improve their bottom lines by reducing reinsurance costs, he explained.

Paul F. Butler, president of St. Paul Reinsurance Management Corp. in New York, characterized the market as "enigmatic. There seems to be a great deal of negotiating activity on technical aspects of the contract wordings themselves, with lesser emphasis on negotiating price."

Mr. Butler said he supposes this is because reinsurers have been "very vocal" over the last several months about their determination to hold the line on price.

"I would say there isn't the erosion, certainly not in the excess-of-loss area, that I understand some of the primary people are experiencing," Mr. Butler said.

"I think it's normal. In a normal marketplace there is competition. In a normal marketplace, you must look at your better accounts and must give them some preferred treatment," observed John B. Legener, executive vp of American Union Insurance Co. of New York, an Indianapolis-based unit of Lincoln National Corp.

Less desirable accounts are renewed either "as is" or with some modification, said Mr. Legener, whose firm writes only treaty business.

Competition is more likely on property accounts, which are very profitable for reinsurers, and there is some improvement in terms for short-tail casualty risks, according to Mr. Legener.

"We would pretty much see it as a mixed bag," agreed Charles E. Erickson, executive vp of Signet Reinsurance Co. in Convent Station, N.J. "It's really sort of a transitional period." While there has been some softening in rates and terms, especially in property, there is no consistency, Mr. Erickson said.

"We see some leveling, but certainly no evidence of what could be called a soft market," said William G. Clark, president and chief executive officer of Transamerica Reinsurance Co., based in Stamford Conn., one new reinsurer in the market, which recently received a \$185 million capital infusion from parent Transamerica Reinsurance Group (BI, Oct. 26, 1987).

Reinsurance market says

"We are inclined to think that most of the really soft underwriters aren't in the business anymore, and the market seems to bear that out," Mr. Clark said.

Transamerica Re has a \$2 million per risk capacity and will largely focus on casualty business. The reinsurer expects to post more than \$150 million in 1987 volume, Mr. Clark said.

Frank Haftl, president and chief executive officer of Metropolitan Reinsurance Co. in New York, a subsidiary of Metropolitan Life Insurance Co., said, "We feel prices are holding well."

"We don't see anything ridiculous. We were prepared to take a firm stance, and don't seem to have had to," Mr. Haftl said. However, other sources said they have seen signs of a somewhat softening market.

Mark Mosca, vp and manager of the treaty department at NAC Re Corp. in Greenwich, Conn., said "the market's difficult to characterize in a general way. It's different in different segments."

For instance, working-layer reinsurance for the standard lines business of regional companies "appears to be increasingly competitive," Mr. Mosca said. "Margins are being squeezed, and it looks to me like it's going to be a difficult place to get an adequate return."

"Casualty business in other segments appears to be a lot firmer, and there is not a great deal of erosion of prices or terms," he said.

Property business seems to be increasingly competitive for Jan. 1 renewals, he added. While there are "pockets of opportunities" for reinsurers in property, "overall, the property business is not providing adequate margins," Mr. Mosca said, noting that declines in primary price levels will have an impact on reinsurers' income.

John Engstrom, senior vp and chief underwriting officer at Skandia America Reinsurance Corp. in New York, said, "It's easier for insurers to get reinsurance this year than last year, and there is pressure on the rates."

A. Edward Gschwind, president and chief executive officer of American Overseas Reinsurance Co. in New York, agreed. "Generally, I would say that the property reinsurance market is softening," he said.

"There's slightly more pressure on property," Mr. Engstrom said. "We see it coming in casualty too, actually."

Mr. DeMichele of Reinsurance Corp. agreed that business is more competitive on the property side. "We're obviously aware of the competition on the primary level, so we're trying to basically hold our own, from the reinsurer's perspective, relative to rates."

Richard E. Cole, president of intermediary Cole, Booth, Potter Inc. in Old Bridge, N.J., said he is seeing 8% to 10% price reductions on property treaty renewals.

Hodson's Mr. Rothpletz reported that working excess property covers are seeing 15% to 20% reductions because of the "huge profits that have been made in the last couple of years."

Rate reductions for property catastrophe business have averaged 5%-10%, said Willem K. Dikland, president and chief executive officer of Philadelphia Reinsurance Corp.

Reinsurance sources also are seeing some softening in the casualty market.

Mr. Cole of Cole, Booth, Potter said that some specialized casualty reinsurance covers, including D&O and E&O covers,

are seeing rate reductions of 15% to 20%.

However, Mr. Dikland of Philadelphia Re said prices are holding for casualty clash covers, which responds when an event involves more than one policyholder.

The market also has softened in the form of easier terms and conditions, most often in the form of increased loss ratio caps and extensions or elimination of sunset clauses.

Under many casualty reinsurance contracts that formerly limited reinsurance payments when the loss ratio on a contract hit 150% or 200%, the cap in some cases is now as high as 250%, Mr. Cole reported.

Hodson's Mr. Rothpletz says loss ratio caps are going as high as 225% while sunset clauses are being extended to seven years from five years.

However, while U.S. reinsurers may agree to eliminate sunset clauses altogether, London markets are still insisting on them even for "Main Street" casualty risks, Mr. Rothpletz said.

Reinsurers are also easing payment terms, accepting lower minimum and deposit premiums and allowing quarterly rather than semi-annual payments, Mr. Cole said.

Ceding commissions on property pro-rata treaties, meanwhile, are up 20% to 25%, Mr. Rothpletz said.

However, while there are some improvements in terms on treaty business "it's not a substantial softening," reported Jim Stannard, senior vp at F&G Re in Morristown, N.J., a subsidiary of USF&G Corp.

Reinsurers are reviewing terms on a case by case basis, according to Mr. Stannard. Those ceding companies with good results are asking for some improvement in terms, "but it's not a case where everything is going down by a certain percentage."

Many reinsurance sources stress that ceding insurers are keeping high retentions.

"There hasn't been any major switch away from the large retentions of '87," said Skandia's Mr. Engstrom.

"I think that continues," NAC Re's Mr. Mosca said of recent relatively high retention levels.

"We've seen some forays by some of the primary companies in decreasing retentions," he noted. "By and large, I don't think that has worked."

Kemper Re's Mr. Pinter said that ceding companies have become used to having the larger retentions over the past two years.

"Certainly there has been no movement downward in retentions," although there have been fewer increases in retentions this year than last, said Signet Re's Mr. Erickson.

Ceding insurers are increasing their retentions, said American Union's Mr. Legener.

Mr. Cole observed that ceding insurers generally are not increasing their retentions on casualty business but about half are raising property catastrophe retentions. One insurer increased its catastrophe retention to \$3.5 million this year from \$2.5 million last year, he said, while another went to \$2 million from \$1.5 million.

Some U.S. reinsurers report more competition from the London market (see story, page 37).

"I think the marine people in London seem to be more prominent in non-marine activity than they have been in the past," said St. Paul's Mr. Butler.

NAC Re's Mr. Mosca said "the London property market has gotten significantly softer," but not the casualty market.

"I think that London is much more receptive to U.S. business this year," although there is still not a great deal of interest in casualty business, agreed Signet Re's Mr. Erickson.

London is a "little bit" more amenable to handling U.S. business on the property side, said American Union's Mr. Legener. He said the London market recognizes that the U.S. market has gone three years without catastrophic losses and that prices would normally improve after three excellent years.

"Certainly, they seem to have a greater appetite," Transamerica's Mr. Clark said of the London market. "We have seen increased participation by London on a lot of accounts that we are also on."

"I think London seems to have a growing appetite" for U.S. business although it has not reached 1983 and 1984 levels, said Kemper Re's Mr. Pinter.

Skandia's Mr. Engstrom said, "We don't see London as giving in, really," although there has been some give in the marine market because of new capacity.

Meanwhile, the London retrocessional market, is "still rather difficult," Mr. Engstrom added.

Several reinsurers commented that they believe reinsurers have not paid adequate attention to how the Tax Reform Act of 1986 will reduce profits if rates are not increased.

Under a provision of the act, insurers must discount their loss reserves for tax purposes to account for future investment income to be earned between the time the reserve is established and claims are actually paid.

NAC Re's Mr. Mosca said, "We see the industry largely ignoring it," which he characterized as "puzzling."

North American/Swiss Re's Mr. Thompson said "over time" tax reform "will likely have an effect," because long-tail casualty business will be less profitable on an after-tax basis. Ultimately, the reinsurance market will respond to this, he said.

Transamerica's Mr. Clark agreed that the industry has not focused enough on the fact that its participants will become taxpayers, "and that smarts." More premium will be needed, particularly for casualty reinsurers, because of the long-tail nature of their business, Mr. Clark said.

Tax law puts squeeze on insurer profits

By DOUGLAS McLEOD

STAMFORD, Conn.—Property/casualty insurers will have to integrate various financial disciplines and raise rates to maintain profits under provisions of the Tax Reform Act of 1986, reinsurance executives predict.

While the property/casualty industry as a whole incurred relatively light tax liabilities under previous law, under the new law "we will all, or virtually all, be taxpayers," says Ronald E. Ferguson, chairman, president and chief executive officer of General Re Corp.

Even companies with statutory operating losses may end up paying taxes under the new law, Mr. Ferguson warned at one of a series of tax planning seminars General Re has sponsored in recent months for its ceding company clients.

While the impact of tax reform will vary depending on an insurer's mix of business, the act generally will require insurers to integrate tax accounting, investment and underwriting disciplines to maximize after-tax income, General Re officials said last month at a seminar at its Stamford offices.

"If there is a silver lining in the Tax Reform Act for the industry, it is that it will cause the industry to refocus attention on underwriting skill and discipline," Mr. Ferguson observed.

Under the tax law, the previous maximum tax rate of 46% on ordinary income will be reduced to 40% for the 1987 tax year and to 34% afterwards. The tax rate on capital gains, meanwhile, will increase to 34% from 28%.

However, the ordinary income rate reduction is illusory, warned Carl Webster, second vp and tax director for General Reinsurance

Corp., a General Re unit.

Any savings from the reduction will be more than offset by four major changes in property/casualty insurers' taxation:

- The requirement that insurers discount loss reserves to reflect investment income that will be earned between the time reserves are established and the time claims are paid.

- Taxation of a portion of insurers' unearned premium reserves.

- Taxation of a portion of interest and dividends earned on tax-exempt securities purchased after Aug. 7, 1986.

- Imposition of an alternative minimum tax equal to 20% of an insurer's alternative minimum taxable income. An insurer must pay the higher of its regular tax liability or its alternative minimum tax liability.

For loss reserve discounting purposes, insurers will have to use the applicable federal interest rate on midterm government securities, Mr. Webster noted. To smooth out rate swings, the Tax Reform Act provides for the use of a five-year rolling average of the applicable federal rate, though for 1987 and earlier the assumed interest rate will be based on the last five months of 1986, or about 7.2%, Mr. Webster said.

The act assumes a payment pattern of three years for lines of insurance covered by Schedule O of the statutory financial statement, which includes property lines and group accident and health lines, and 10 to 15 years for lines covered by Schedule P, which includes auto liability, other liability, medical malpractice and workers comp.

The act also includes a "fresh start" provision, which says that the initial difference between re-

serves already existing at the end of 1986 and the newly discounted value of those reserves at the beginning of 1987—when the law took effect—will not be included in taxable income.

The fresh start provision results in a "double deduction" for insurers, allowing them to deduct full, undiscounted reserves at the end of 1986 as well as the difference between the discounted reserve and the amount of claims actually paid from these reserves after year-end 1986, Mr. Webster noted.

However, the fresh start provision excludes any additions to reserves during 1986, an exception calculated to prevent insurers from building up reserves to capitalize on the double deduction, he said.

Meanwhile, under a "revenue offset" provision, the new tax law makes 20% of any increase in unearned premium reserves taxable. This means that 20% of new unearned premium reserves will be treated as earned premiums for tax purposes, pushing a portion of an insurer's premium income into a year-earlier tax period, he said.

The revenue offset provision includes no fresh start provision, and 20% of an insurer's 1986 unearned premium reserve will be included in taxable income over six years starting in 1987, he added.

Insurers that will be hardest hit by the revenue offset will be those that are growing quickly and thus have large unearned premium reserves, Mr. Webster observed.

For example, surplus lines insurers, which grow dramatically when standard markets contract, could be significantly affected.

The tax act also includes a "proration" provision under which 15% of the interest and dividends earned on tax-exempt securities purchased after Aug. 7, 1986, will be taxable, effectively reducing the yield on these instruments.

Interest and dividends on securities bought before that date are

still 100% tax-exempt, though insurance groups will lose this grandfathered status if they transfer the securities intercompany after Aug. 7, 1986, he noted.

An insurer's regular taxable income, then, will consist of the total of its underwriting gain or loss, investment income and the new law "add-ons": reserve discount adjustments, revenue offsets and proration.

Insurers will pay the greater of their regular tax—34% of regular taxable income after 1987—or a new alternate minimum tax.

The alternate minimum tax will be equal to 20% of an insurer's alternate minimum taxable income, defined as regular taxable income plus a number of so-called "preference items."

Mr. Webster noted that even companies with large loss carryforwards may end up paying the alternate minimum tax, since carryforwards can be used to offset only 90% of alternate minimum tax liabilities.

The net result of all the changes will be to make tax, investment and underwriting planning much more complex for property/casualty insurers, General Re officials observed.

Insurers should aim to have their regular tax liabilities match their alternate minimum tax liabilities, the officials advised.

Among other things, this will prompt insurers to review the mix of their taxable and tax-exempt investments.

For example, if an insurer is likely to be an alternate minimum taxpayer, it may want to shift funds into taxable instruments to increase its regular taxable income. Conversely, if an insurer is likely to be a regular taxpayer, it may want to shift into tax-exempts to reduce taxable income.

While advance planning will limit the increase in insurers' tax bills, the impact of tax reform will

still be significant, said Christopher P. Garand, vp-corporate underwriting/finance for General Reinsurance Corp.

A computer model developed by General Re projected the act's impact in 1987 on an insurer writing net premiums of \$50 million—divided 60% casualty and 40% property—at a combined ratio of 105%.

Under old tax law, the insurer's tax bill would be zero, assuming no net operating loss credit. But under the Tax Reform Act, the insurer—with its old investment portfolio—would be hit with a \$627,000 regular tax bill, largely because of discount adjustments, revenue offset and proration.

If the portfolio were adjusted to reduce taxable investments, the bill could be reduced to \$306,000, the model projected.

By 1991, with net premiums of \$73 million and the same 105% combined ratio, the insurer would be hit with a \$1.1 million tax bill even with an optimized investment portfolio, where its tax liability under the old law would still have been zero, the model projected.

Insurers would have to impose premium increases of various magnitudes—depending on their mix of business, loss experience and investment portfolios—to offset the increased tax liabilities, Mr. Garand said.

For example, a high combined ratio would add greatly to the premium raises needed to offset the larger tax bill of an insurer that pays the alternate minimum tax.

An alternate minimum taxpayer invested in tax-exempts, for example, would need a 2.6% premium increase operating at a 100% combined ratio. If the ratio rose to 130%, though, a 16.7% increase would be needed, and if the ratio rose to 180%, a 35.7% increase would be required.

General Re is making its computer model on the Tax Reform Act available to its clients. ■

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Surplus lines insurers watch risks flee to admitted market

By MICHAEL BRADFORD

Surplus lines insurers are losing renewal business to the standard market during year-end renewals as admitted insurers gobble up business they previously had exiled to non-admitted companies.

"The surplus lines companies are back to writing true surplus lines," says Michael Snead, president of Admiral Insurance Co. in Cherry Hill, N.J.

The "extremely difficult risks" like heavy product liability, chemical and pharmaceutical risks have renewed with surplus lines insurers, he adds.

Policyholders that do renew property and casualty policies with surplus lines insurers are seeing premium discounts, but in most cases not drastic ones.

However, the price cuts come at a time when surplus lines insurers need higher rates to offset anticipated new tax liabilities from the Tax Reform Act of 1986.

"The excess and surplus lines market has fallen off considerably," said Rollie Wieggers, president of Scottsdale Insurance Co. in Scottsdale, Ariz. "A lot of business is being renewed in the standard market at lower rates."

Joseph Walsh, president of American Empire Surplus Lines Co. in Cincinnati, agreed. "Not as much will flow to the surplus lines side" during the current renewal period, he said.

"The larger, more sophisticated accounts will go first," Mr. Walsh added. "The standard market has more of an appetite for them."

To illustrate the exodus of business from the surplus lines market, Mr. Walsh said American Empire wrote \$349 million in gross premiums in 1986, \$215 million in 1987 and expects to write only \$125 million in 1988.

"The standard market is capturing business it turned its back on previously," said Anthony F. Markel, president of Essex Insurance Co. in Richmond, Va. In turn, he added, the surplus lines market is "forced to compromise pricing."

Surplus lines market says

Although policyholders are shunning surplus lines insurers in favor of sharply lower premiums offered by companies in the admitted market, surplus lines brokers and insurers say the non-admitted market is simply performing as it should.

Surplus lines insurers had their best year ever in 1986, said Mr. Snead of Admiral. That year, he explained, "the standard companies were walking away from business."

When that happened, "the surplus lines companies filled a void," he said. "That is our role in the marketplace. In the early part of this year we were still doing that. But all of a sudden in November and December, we began seeing a lot of renewals going back to the standard market."

Buyers of commercial property insurance are racing to the standard market faster than purchasers of casualty insurance, observers agree.

"That is the one area under attack the most," said Mr. Snead. "Our volume has dropped very significantly. That's the market everybody wants to write."

Janet Nelson, senior vp of St. Paul Surplus Lines Insurance Co., a division of Atwater McMillian Inc. in St. Paul, Minn., said property accounts represent "the biggest fall-off on opportunities to quote. It's being handled in the standard market."

Skip Anderson, vp at Skanco International Ltd. in Scottsdale, Ariz., and president of the National Assn. of Professional Surplus Lines Offices, said: "I have to assume some property accounts are really competitive" because surplus lines insurers are underwriting fewer property risks.

Property insurance rates offered by surplus lines insurers are "as low as they can get. We're giving it away," he said.

Continued on next page.



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