

business insurance

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

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J&J excess insurers drop suit against Johnson & Higgins

NEW YORK—Excess liability underwriters for Johnson & Johnson, which are contesting J&J's claim that it is entitled to coverage for the massive recall of its Tylenol products in October 1982, have voluntarily dismissed a third-party complaint brought against J&J's broker, Johnson & Higgins (BI, Dec. 12, 1983).

The suit against J&H, filed in October 1983 by six of J&J's eight excess
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Last straw for insurers?

Terrible first-quarter results may finally force property/casualty companies to increase rates

By JUDY GREENWALD

NEW YORK—Will the first-quarter results posted by the major commercial property/casualty insurers be the straw that finally breaks the camel's back?

Many major property/casualty insurers, after looking at the red-stained numbers they posted in the first quarter, say they have had enough of escalating underwriting losses and are introducing rate hikes, even if it means that they will lose business.

"We are prepared to lose unprofitable business and large amounts of it," sums up a spokesman for CIGNA Corp., which began introducing rate hikes in April.

CIGNA, one of the companies that fared the poorest during the first quarter (see chart), posted a net operating loss of \$23.7 million, compared with a \$76.7 million profit during the first three months of 1983.

There are "definite signs of an upturn," agrees a spokesman for Mission Insurance Group Inc., which also suffered a poor first quarter with a \$15.3 million first-quarter operating loss, compared with an \$8.1 million profit in the first quarter of 1983.

Mission plans to continue its ongoing efforts to increase prices, the spokesman notes.

However, the question remains, insurers and analysts say, whether the insurers' determination to boost prices will remain firm once they are faced with the actual prospect of lost business. Insurers and analysts both note that it was the struggle to increase market share that led to intense price com-

petition and mounting underwriting losses in the first place.

Insurers have said before that they intend to return to an underwriting profit, but "it never seems to happen," explains William G. Watt, senior vp in charge of commercial lines insurance for Royal Insurance Group.

Mr. Watt notes that his company has been trying to introduce rate hikes for the past 1½ years, but he adds that now may be the moment to finally do it.

"There have been recent signals to suggest now is the time."

What may convince underwriters to raise their
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Biggest losers in first quarter

(Ranked by deterioration in operating income)

Company	Aftertax operating income/loss (in thousands)	Percent decline from '83 first quarter
Fremont General Corp.	-\$7,874	4,130.7%
Sentry Insurance Cos.	-12,591	692.2
Mission Insurance Group	-15,271	287.4
CIGNA Corp.	-23,684	130.9
Hartford Steam Boiler	-800	120.7
Kemper Corp.	-1,125	105.4
Reliance Insurance Co. & subs.	2,606	85.5
Aetna Life & Casualty Co.	19,000	84.0
Fireman's Fund Insurance Cos.	10,179	83.9
The St. Paul Cos. Inc.	9,004	79.8

Push under way to speed cleanup of waste sites

By DOUGLAS McLEOD

WASHINGTON—While Congress considers a bill to expand the federal Superfund program for toxic waste cleanup, chemical industry and government officials hope a newly formed private corporation will speed remedial action on the nation's worst dump sites.

The new non-profit corporation, Clean Sites Inc., was formed here last month by a coalition of chemical and environmental interests, and is intended to supplement the Environmental Protection Agency's cleanup and enforcement activities.

Formation of CSI comes just as Congress is preparing to reauthorize and strengthen the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA), which created the \$1.6 billion Superfund but which authorized funding for only five years.

A reauthorization bill, H.R. 5640, sponsored by U.S. Rep. James J. Florio, D-N.J., would raise \$9 billion for Superfund over five years by continuing CERCLA's tax on chemical and oil companies and by imposing a new "waste end" tax on disposers of hazardous waste.

To the chagrin of insurance industry interests, the bill would also create a new "federal cause of action," under which companies that generate or dispose of hazardous waste could be held jointly and severally liable in federal courts for a variety of damages claimed by individuals.

These damages include diminution of property values and "pain and suffering" caused by personal injury, which some fear could lead to lawsuits based on "cancerphobia" or individuals' fears of developing other diseases traceable to toxic wastes.

The bill is due to be marked up in the House Energy and Commerce Committee this week, and industry groups that oppose the federal cause of action—including the American Insurance Assn.—hope to see the provision amended or dropped.

Several major roadblocks have barred fast waste site cleanup to date, according to CSI. These include the absence of an effective way to assess liability among the various companies responsible for pollution at a given
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U.S. takes hard line in Mobil captive case

By STEPHEN TARNOFF

WASHINGTON—Insurance transactions between related companies do not constitute insurance for tax purposes, the government maintains in its post-trial brief in the Mobil Corp. captive insurance company tax case.

Furthermore, whether or not a wholly owned insurance company writes any risks for unrelated parties is irrelevant to the consideration of whether the captive insurer qualifies as an insurance company for tax purposes, the government contends.

As a result, the government argues, Mobil's premium payments to its wholly owned captive insurance companies did not constitute insurance transactions and thus Mobil should not be allowed to take tax deductions for the premiums, the government brief filed in U.S. Claims Court asserts.

In a 102-page post-trial brief filed nine months after the two-week trial in New York, the government also calls the captives "profit maximization centers" and says their use by Mobil was an "incredible tax avoid-

ance mechanism."

A decision in the case, which may not come for at least a year or more, will determine whether Mobil and hundreds of other companies with captives can capitalize on the tax advantages of using captive insurance companies as designed by taxpayers and their attorneys over the last 20 years.

These tax advantages include tax deductions for premiums paid to captives and using excess foreign tax credits to offset taxes due on the captive's income.

At stake in the Mobil case are tax deductions for at least \$35 million in premiums paid to four overseas Mobil captives by 35 subsidiaries during tax years 1961-1969.

Those captives were General Overseas Insurance Co. Ltd. (GOIC) of the Bahamas,

Bluefield Insurance Ltd. of Bermuda, Bishopsgate Insurance Co. Ltd. of the United Kingdom and Westchester Insurance Co. Ltd. of Cape Town, South Africa.

The oil company paid the disputed taxes, but filed suit six years ago in the Claims Court for a refund.

Ultimately at stake, according to a govern-

ment attorney, is approximately \$2 billion in income taxes the government is losing each year as a result of corporate risk funding through captive insurance companies.

"Companies are watching this issue," said an attorney close to the case who asked not to be identified.

An unfavorable decision for Mobil "will certainly make (the financing of risks) more

expensive and inconvenient," the attorney said.

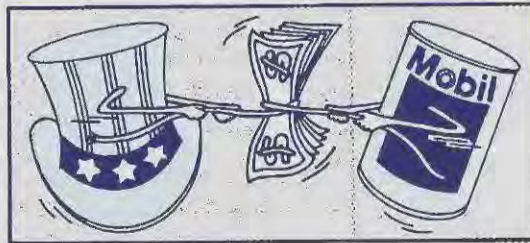
The government's brief was filed in response to one filed by Mobil last December in which it contended that the captives are separate corporate entities operating at arm's length from the parent corporation, and thus Mobil can take deductions for premiums paid to the captives.

Mobil argues the captives were formed for valid business purposes and not to avoid or to evade federal income taxes.

The briefs are part of the third case to go to trial addressing whether corporations can deduct premiums that it paid to a captive insurance company it owned or that it paid to an unrelated insurer that ceded them to a captive.

Twice before, in decisions involving Carnation Co. in 1981 and Stearns-Roger Corp. last year, courts held that companies are not entitled to the deductions (BI, March 16, 1981; Jan. 8, 1979, and Nov. 21, 1983).

The Mobil case, however, differs in two
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Graphic: Amy Palmer

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Complaint against J&H dropped

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liability underwriters, claimed that the broker should indemnify them if they are required to pay claims related to the recall.

The suit attempted to discover whether the broker knew about differences in the wordings between J&J's primary and excess liability policies. The primary policy, written by J&J's Bermuda captive, excluded "damages claimed" for the withdrawal of J&J products, while the lead excess policy excluded "claims made against the insured" for product withdrawals. McNeilab, the J&J subsidiary that produces Tylenol, says the excess policy excludes only third-party claims, not the firm's own recall expenses.

The lead excess insurer was North River Insurance Co. through L.W. Biegler Inc. of Chicago. Both are Crum & Forster Inc. units.

Gardner M. Mundy, senior vp and secretary of Johnson & Higgins, said the broker considers the dismissal a "complete vindication." A spokesman for the underwriters had no further comment.

The litigation between J&J and the underwriters continues.

Dalkon Shield judgment upheld

DENVER—The Colorado Supreme Court last week upheld a \$6.8 million liability judgment against A.H. Robins Co. Inc., which manufactured the Dalkon Shield intrauterine device.

The 1979 judgment, the largest handed down in the litigation, was upheld by a 3-2 margin in favor of Carrie M. Palmer, a former Denver resident who claimed she suffered a spontaneous abortion and internal bleeding after using a Dalkon Shield. The award includes \$6.2 million in punitive damages.

A Robins spokesman said late last week that the company has not yet decided if it will appeal the decision.

As of March 31, Robins and its insurer, Aetna Casualty & Surety Co., had paid about \$197 million to settle about 6,900 Dalkon Shield suits during 10 years of litigation, the spokesman said. He estimates that more than 3,800 Dalkon Shield claims are still unresolved.

Citicorp acquires Lloyd's broker

NEW YORK—Citicorp, barred by federal laws from buying a U.S. insurance brokerage or underwriter, entered the British property/casualty insurance marketplace last week by acquiring Lloyd's of London broker Grindlay Brandts Insurance Brokers Ltd.

"The purchase was made because worldwide and in the U.K. the development of Citicorp's business in the insurance industry has been highlighted as one of the objectives of the next decade," said a Citicorp spokesman in London.

Citicorp would not say how much it paid for the broker, which specializes in marine, construction, aviation, property and casualty risks. The bank holding company already owns a London-based credit and mortgage life insurer, Citibank Assurance Co. Ltd.

Agent Orange pact hearings set

NEW YORK—A series of hearings to discuss the fairness of an \$180 million settlement between seven chemical companies and thousands of Vietnam veterans exposed to the herbicide Agent Orange is scheduled to be held in August in five cities.

U.S. District Court Judge Jack B. Weinstein ordered the hearings last week, almost one month after the May 7 settlement, which some veterans groups have criticized as not providing enough compensation (BI, May 14).

The hearings are set for Aug. 8-10 in New York; Aug. 13-14 in Chicago; Aug. 16-17 in Houston; Aug. 20-21 in Atlanta; and Aug. 23-24 in San Francisco.

In addition, Judge Weinstein last week dismissed a suit brought on behalf of veterans and their families against the federal government to recover for its alleged role in the plaintiffs' injuries.

Horizon liquidation sought

NEW ORLEANS—The New York Insurance Department is planning to ask the state Supreme Court this week for permission to liquidate Horizon Insurance Co., a subsidiary of Vermont-based Ambassador Insurance Co.

New York Special Deputy Superintendent Joseph A. LaMonte said at the National Assn. of Insurance Commissioners' meeting last week in New Orleans that efforts to rehabilitate Horizon have failed. Horizon has been in rehabilitation since Dec. 7 (BI, Jan. 16).

Horizon's parent, Ambassador, has been in rehabilitation in Vermont since Nov. 10, and the Vermont Insurance Department is seeking the liquidation of that company. A hearing on the Vermont liquidation is set for July 16 in Washington County Superior Court.

Ambassador's Horizon subsidiary is not related to Horizon Insurance Co. Ltd. based in Bermuda or First Horizon Insurance Co. in Minneapolis, both wholly owned subsidiaries of Cargill Inc.

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Regulators, insurers asked to advise on health changes

By CAROL CAIN

NEW ORLEANS—Regulators and representatives of the insurance industry say they'll answer a challenge to meet with members of Congress to discuss the creation of a national health care system that is affordable for all Americans.

Rep. Claude D. Pepper, D-Fla., put the challenge to regulators and insurers last week at the summer meeting of the National Assn. of Insurance Commissioners in New Orleans.

"I (want to) meet with you insurance commissioners and representatives from the insurance companies... Let's sit down and talk. Let's put your thinking behind one of the critical problems of all time," Rep. Pepper said.

"...Some way, somehow, we ought to get together."

Although Rep. Pepper did not offer any specific proposals for controlling health costs, he hinted that one way to accomplish these goals would be the formation of a delivery system resembling a health maintenance organization that would be partially funded by the federal government.

In addition, the congressmen hinted that the insurance industry could help manage this system.

The regulators appeared ready to accept Rep. Pepper's invitation to discuss health care problems, though many admitted they are not exactly sure the direction in which the 83-year-old congressman intends to lead them.

"I expect we'll respond positively... and we're going to do our part," said Bill Gunther, Florida insurance commissioner and NAIC president.

Montana Insurance Commissioner E.V. (Sonny) Omholt said, "I'm glad to see that Congress thinks the insurance commissioners can contribute rather than be adversaries. At least he's calling for a joint effort. I think this is a radical departure."

"I don't think they (Congress) call for our input enough," added Mississippi Insurance Commissioner George Dale.

The NAIC has been studying health care costs, wellness programs and health promotion for several years. In fact, a panel discussion on wellness was held after Rep. Pepper's remarks.

In his remarks, Rep. Pepper also expressed his views on health care-related subjects like Medicare and health maintenance organizations. He also praised the insurance community for its efforts and called on it to further use its expertise to help guarantee affordable health care.

"I want to salute the insurance industry of America. You are the shield of the protection of the people of America," he said.

"But, should an industry devoted primarily to pro-

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U.S. Rep. Pepper

Lloyd's sees brighter future: Miller

By STACY SHAPIRO

LONDON—Lloyd's of London is ready for a hardening in the world insurance markets that is beginning to take place, despite the dramatic changes that occurred at Lloyd's last year, says Lloyd's Chairman Peter Miller.

"These are exciting, if difficult, times at Lloyd's," he said. "There are serious problems in the market still to be overcome, but I am sure that we shall do so."

"I believe that the market is well-placed to take advantage of the upturn in insurance markets generally, which now and at last seems really to be taking place."

Mr. Miller delivered his view of Lloyd's and the world insurance market in the recently published Lloyd's Annual Report and Accounts for 1983.

Unlike the global results that are released in September, the annual report describes the activities of the Corporation of Lloyd's, which consists of 1,750 employees who either run Lloyd's market services like the Lloyd's Policy Signing Office or work in one of Lloyd's subsidiaries like Lloyd's of London Press Ltd. or Additional Securities Ltd., which provides for Lloyd's deposits overseas.

Last year, the corporation reported a net surplus of 15 million pounds (\$22.05 million at year-end exchange rates), compared with 13 million pounds (\$19.11 mil-

lion) in 1982.

The corporation spent 63.4 million pounds (\$93.2 million) in 1983, which included 15.8 million pounds (\$23.2 million) spent in trustee and legal fees and taxes, primarily in the United States and Canada.

The annual report reads like a chapter out of Lloyd's 300-year history, because there were so many turning points in 1983.

For example, according to the annual report:

- The new Council of Lloyd's, the market's ruling body established by the Lloyd's Act of 1982, took up its duties in January 1983.

- A deputy chairman and chief executive officer, Ian Hay Davison, was hired for the first time to oversee the corporation.

- The corporation's staff structure was reorganized to include six group heads responsible for regulatory services, external relations, finance, market services, corporation services and systems and communications. These group heads report to the Lloyd's chairman and three deputy chairmen.

- Two working parties led by Alec Higgins and Ian Plaistowe finished their reports on how Lloyd's should restructure its underwriting agencies and its auditing and accounting practices, with particular reference to disclosure of reinsurance transactions and possible con-

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Oceanus creditors are told liquidation to be long, costly

By ROGER SCOTTON

HAMILTON, Bermuda—The liquidation of Oceanus Mutual Underwriting Assn. (Bermuda), a Bermuda-based protection and indemnity club, will take up to five years to complete and the creditors will have to finance it, the liquidator says.

That was just some of the bad news a representative of the provisional liquidators told 20 shipping and insurance company representatives, some of whom flew thousands of miles to attend the first meeting of the Oceanus creditors and to elect a committee of inspec-

tion to oversee the liquidation.

They were also told that Oceanus' management company is refusing to turn over the Oceanus accounts unless it is engaged as manager for an additional three months at a fee of 50,000 pounds (\$69,500).

The meeting was held May 22 in the offices of attorneys Conyers, Dill & Pearman, which have been appointed as advisers to the provisional liquidators.

About 40 creditors were represented, including those represented by proxy, with claims exceeding \$50 million.

At the meeting, the provisional liquidators were approved as liquidators by the creditors and the seven-man committee of inspection that will advise the liquidators on how to proceed was elected.

The creditors also were given a statement of affairs and a status report from the the liquidators.

Tony Houghton of the London office of accountant Touche Ross, representing joint liquidators David Anfossi and Christopher Morris, noted that John Laing Management (Bermuda), which has managed Oceanus, has refused to turn over the insurers' books and records unless liquidators agree to retain the management company's services.

The records are vital to the liquidation, which was ordered by Bermuda's Supreme Court in April (BI, April 23). Without them, no one knows for sure just how much is owed and to whom.

Mr. Houghton also read the statement of affairs that revealed that in 1982 Oceanus had \$53.3 million total

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Wholesalers, surplus lines deadline

Business Insurance will publish its annual directory of wholesale marketers and surplus lines insurers in its Aug. 20 issue. Companies that want to be listed in the directory must return completed questionnaires by July 6.

All excess/surplus lines brokers, managing general agents, underwriting managers and surplus lines insurers that have not yet received a questionnaire should contact Stuart Silverman at *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611; 312-649-5398.

The wholesale marketers and surplus lines directory is published as an editorial service; there is no charge to be included.

FSA fight continues on several fronts

By JERRY GEISEL

WASHINGTON—The battle to overturn proposed Internal Revenue Service rules that could destroy flexible spending accounts is picking up crucial last-minute support.

Sen. Bob Packwood, R-Ore., the ranking majority member of the Senate Finance Committee, has endorsed a proposal by Rep. Barber Conable, R-N.Y., to save FSAs from the IRS rules.

The Conable proposal would require employees participating in FSAs to choose in advance the benefits they want to fund and would place a cap on the value of benefits offered in an FSA. But employees would be allowed to roll over unused benefits into a benefits bank for use the next year.

The IRS rules, on the other hand, require participants to forfeit unused benefits in their individual FSAs at the end of the year. Those rules, experts say, would kill FSAs as vehicles for controlling group

health care plan costs.

Rep. Conable says that he wants to attach his proposal, which again has been revised slightly, to the tax bill that a congressional conference committee began to hammer out last week. The conference committee was set up to iron out differences between tax bills that were already passed by the House and the Senate.

The 11th-hour support by Sen. Packwood means that at least two influential members of the conference committee—Rep. Conable and Sen. Packwood—will be urging fellow conferees to accept the proposal as part of the tax bill. Rep. Conable is also the ranking minority member of the House Ways and Means Committee.

Although Sen. Packwood's support is significant, it by no means assures that the newly-named Conable-Packwood FSA proposal will be accepted by the conference committee.

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Conference committee tackles benefits issues

By JERRY GEISEL

WASHINGTON—A congressional conference committee, which last week began reconciling the differences between House and Senate tax bills passed earlier this year, is already making decisions that affect benefit managers.

Last week, the conferees approved a provision in both bills that extends for two additional years the current freeze on maximum pension benefits and contributions.

Currently, the maximum annual benefit that can be paid by a defined benefit plan is \$90,000, while an employer may contribute an annual maximum of \$30,000 per employee to a defined contribution plan.

These caps were scheduled to expire in 1986, but the conference committee action means these limits will be extended through 1988.

Most observers expected the committee to extend the pension limits, but it may be several weeks before it acts on several other key employee benefit issues.

However, the fate of a key risk management issue, whether tax deductions for self-funded loss reserves for future claims should be disallowed, could soon be decided by the conferees, observers say.

The conference committee, which began meeting June 6, will first try to resolve non-controversial differences in the tax bills passed by the House and the Senate, like the pension provision. Then, it will focus on the more controversial measures.

For example, conference committee staff members labeled as very controversial the difference in the rules regarding tax-exempt 501(c)(9) benefit trusts contained in the House and Senate bills.

The House bill, H.R. 4170, would bar employers from receiving tax deductions for contributions to 501(c)(9) trusts or premiums paid to experience-rated benefit plans if reserves held by the trusts or plans exceed 75% of average claims paid out over a company's most recent two tax years (BI, March 19; May 21).

That restriction, experts say, would deter employers from using the trusts or experience-rated plans to fund their long-term benefit obligations.

For example, a prudent employer funding long-term disability in a 501(c)(9) trust maintains reserves between 500% and 900% of claims paid during the previous year. Large reserves are needed because benefits for a single claim may be paid for decades.

By contrast, the Senate tax bill, H.R. 2163, does not place restrictions on reserves held by 501(c)(9) trusts or experience-rated plans.

Instead, the Senate bill would impose penalties on employers if too many 501(c)(9) trust benefits go to top executives. That provision is aimed at small, professional corporations and would have no effect on the vast majority of the more than 9,400 trusts operated by em-

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IRS probes Quaker Oats' cost-cutting program

By DIANE LYNN KASTIEL

CHICAGO—The Internal Revenue Service is auditing Quaker Oats Co.'s Health Incentive Plan—a plan that helped the Chicago-based food processor hold its average increase in per-employee health coverage costs to 5.6% in 1983.

Quaker projected that without the plan its health plan costs per employee would rise 20% to 25%.

The plan creates a health expense account for each employee, which the employee can tap to pay medical expenses under the plan deductible and other health plan costs without paying tax on the funds. At the end of the year, the employee can take the unused funds in cash, which is subject to income tax (BI, Nov. 22, 1982).

The IRS is reviewing whether Quaker is entitled to a tax deduction for the money contributed to the expense account and whether employees should be taxed on the expense account even when it is used to pay medical costs.

The audit follows the recent IRS crackdown on the use of so-called flexible spending accounts that employers have formed under Section 125 of the Internal Revenue Code. However, Quaker says its Health Incentive Plan may not be governed by Section 125.

Robert Penzkover, the company's director of employee benefits, says Quaker can demonstrate that its Health Incentive Plan is holding down health care spending.

At the core of the plan is the \$300 contribution to the expense account—the amount of the plan's deductible. The plan, which provides comprehensive medical coverage, also requires employee cost sharing and is subject to annual economic adjustments that affect both the company's contributions and the employees' costs.

Under Quaker's former "first-dollar" plan, health

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Average medical plan costs per Quaker employee		
	1982	1983
Medical claims	\$1,421	\$1,336
Administrative expense	71	62
Employee contributions	(38)	(67)
Net claims cost	\$1,454	\$1,331
Unused 1983 expense account refunds		76
Dividend added to 1984 expense accounts		128
Total plan cost	\$1,454	\$1,535

Public risk managers share their ideas

Cooperation from all is needed to have a successful safety plan

By SALLIE J. DRURY

ORLANDO, Fla.—If a safety and loss control program is to be effective, public risk managers must enlist the support of those on every rung of the governmental ladder.

From the governor to the rank-and-file state workers, the risk manager must use management skills to motivate everyone to make safety a priority.

"An unsafe condition is a symptom of something wrong in the management system," said Don LeMond, risk manager for the state of Missouri. "Safety has to be managed like any other management function."

Mr. LeMond conducted a safety seminar at the Public Risk & Insurance Management Assn. fifth annual conference in Orlando May 29-June 1.

Mr. LeMond stresses accountability. For example, if a ladder breaks while an employee is using it, and the employee injures himself or herself, whose fault is it?

"Is it the employee's fault? Was he taught the proper way to use it, and did he use it the proper way?" Mr. LeMond asked.

"Was the ladder checked regularly to make sure it was safe? Was there a formal statement of procedure for inspecting and maintaining the ladder? If not, why not, and whose responsibility is it for writing the SOP?"

"Did someone buy a lot of inferior ladders?" he continued. "If so, who allows purchasing to buy inferior ladders? Is there a budget crunch? If so, is it better to buy inferior ladders than no ladders at all?"

Each safety question implicates everyone from the injured party to the top manager, but the responsibility finally comes down to management, Mr. LeMond said. Thus, the risk or safety manager must assume as much of the responsibility as he or she can and motivate others to carry out their safety responsibilities.

"All the procedures and policies come down from the top," he said. "You have got to go through the chain of command, and sell it to the top men (and women) first."

But, he said, safety is an easy thing to sell to top management. "Who in the world is against safety?" Mr. LeMond said. "You can take advantage of that."

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Careful study is required to find best way to meet insurance needs

By SALLIE J. DRURY

ORLANDO, Fla.—Risk managers for government entities should carefully evaluate the pros and cons of conventional insurance, self-funding and pooling before choosing a funding method for their entities' risks, public risk managers say.

But, no matter which of the approaches is finally taken, the risk manager must aggressively design his or her program to be as cost-effective as possible, they say.

A panel of three public risk managers, each of whom employs one of the above funding methods, cited the advantages and disadvantages of the approaches at the Public Risk & Insurance Management Society's fifth annual conference, held May 29 to June 1.

"Until you make a concerted effort to make the (conventional insurance) system work, I seriously question whether you have a valid basis for choosing any alternative," said J. Craig Ellis, risk manager for the city of Lakewood, Colo., which purchases conventional insurance.

"You have to maximize the benefits that are available to you under any program you already have before making a valid comparison, and with what we have negotiated with our agent and underwriter, I believe we are getting the biggest bang for the buck."

Lakewood annually negotiates every aspect of its contracts, including price, exclusions, definitions, available cash-flow options and payment schedules.

"At these annual meetings we include our agent, the underwriting member from the carrier and, in most cases, the loss-control member so all parties reach an agreement," Mr. Ellis said. "If someone is left out, there are going to be some hurt feelings," which inhibits a good working relationship.

"The process usually takes three to four months—we generally start sometime in September so we have our policy in January," he continued. "The reason it takes so long is no one's initial offer is ever accepted. I start at the bottom and (the agent and insurer) start at the top and we end up meeting in the middle."

"It's during this relatively brief time frame that our agent earns the biggest portion of the annual commission he's paid," Mr. Ellis said. "We

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Photo: WideWorld
Walt Disney World in Orlando offered a pleasant diversion for conferees.

Waste cleanup

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site, and the lack of overall managerial and technical expertise in handling cleanups.

Working with EPA, CSI plans to:

- Bring together "responsible parties" involved at a given waste site and help resolve disputes over the degree of each company's liability for cleanup costs.

- Provide technical review of voluntary cleanup proposals to make sure they meet EPA standards.

- Manage the actual cleanup operations.

The chairman of Clean Sites is Russell E. Train, who served as EPA administrator between 1973 and 1977.

Its board of directors includes Douglas M. Costle, another former EPA chief; Louis Fernandez, chairman of Monsanto Co.; Edwin Gee, chairman and chief executive officer of International Paper Co.; Wil-

liam K. Reilly, president of the Conservation Foundation, a Washington-based non-profit environmental group; and Sandra Gardnerbring, a former executive director of the Minnesota Pollution Control Agency.

The sites CSI works on will probably be among the 552 toxic dumps that EPA has placed on its national priority list of the nation's most hazardous sites, according to Charles W. Powers, CSI's president.

Clean Sites is now working with the EPA to pick the 20 sites it will tackle in its first year. By 1986, CSI plans to be working on about 60 sites per year.

At some sites, Superfund money may be used to cover the portion of cleanup costs for which the private parties involved are found not to be responsible.

After spending Superfund money, the government would then seek to recover from responsible parties that haven't participated

in the cleanup.

CSI plans to participate in both surface and subsurface cleanups, including correction of groundwater contamination, the company says. But to speed the overall process, it may start surface cleanup at some sites before all parties have agreed on subsurface cleanup plans.

In such cases, EPA may grant "rolling releases" of liability, in which the government releases participating companies from further liability for work that is satisfactorily completed, said Gene Lucero, director of EPA's office of waste programs enforcement.

CSI hopes that faster action on a number of these sites will contain losses for the companies involved, though it will have no sure way of knowing how much money is being saved, Mr. Powers says. The company estimates that it will be able to cut cleanup time for the average site by 20% over current EPA efforts.

CSI's operating costs in the first year will be between \$4 million and \$5 million, and will be raised half through contributions from the chemical industry and half from other industries and foundations. Costs will rise to between \$12 million and \$15 million by 1986.

Mr. Powers says CSI already has contribution commitments from several companies, but he declined to name them. He said the "vast majority" of the membership of the Chemical Manufacturers' Assn. will probably contribute.

A CMA spokesman said that while the association supports the concept of CSI and while individual members may contribute, CMA itself is not a contributor.

Despite the enthusiasm of Clean Sites supporters, not everyone is pleased with its formation.

Rep. Florio had recommended that the formation be put off until Congress settles Superfund reauthorization, apparently fearing that private sector action would under-

mine congressional efforts to strengthen the federal law.

However, CSI's steering committee decided against a delay. The organization has since insisted that "there is no connection" between its formation and efforts to reauthorize Superfund.

Rep. Florio's bill is expected to be passed out of the Energy and Commerce Committee for a vote by the full House this summer. The bill also has been referred to the Public Works and Transportation and Ways and Means committees.

The bill would provide funding of \$10.2 billion between 1986 and 1990. About \$1.45 billion per year would be raised by a tax on petroleum and chemical feedstocks.

An additional \$600 million per year would come from a new "waste end" tax assessed against owners and operators of government-authorized disposal facilities, or—if such a facility isn't used—against the person disposing of the hazardous substance.

One section of the bill that has provoked controversy, though, is a provision creating a federal cause of action for recovery of various damages against anyone generating, transporting or disposing of hazardous wastes.

The bill provides for several types of compensable damages arising from "personal injury," including medical and rehabilitation expenses or burial costs; loss of income, profits or any loss of earning capacity; or pain and suffering. Other compensable damages include any loss or damage to property, including diminution of value.

Liability of parties covered by the bill would be strict, joint and several, meaning that at a site where many parties are responsible for pollution, a single party could be held liable for 100% of the personal injuries arising from it.

The American Insurance Assn., which opposes the federal cause of action, has voiced a number of individual objections, explains James L. Kimble, AIA's senior counsel in Washington.

These include:

- The possibility that individuals could sue on the basis of fears of developing a disease arising from exposure to toxic material.

- The possibility that plaintiffs could recover for diminution of property values without any proof of actual damage.

- The difficulty imposed by the joint and several liability provision on underwriters, who must try to assess an insured's exposure.

- The possibility that the cause of action could be indefinitely retroactive. The bill provides a three-year period for individuals to bring suit. The period begins when the individual knew "or reasonably should have known" that an injury was caused by a toxic substance, and this could open companies up to liability in cases that were long considered time-barred, Mr. Kimble explains.

The bill is a "compromise" resolution that follows an earlier Superfund bill sponsored by Mr. Florio, H.R. 4813, that was bottled up in the Subcommittee on Energy, Transportation and Tourism, which Mr. Florio chairs.

The earlier bill contained more stringent "victim compensation" measures, including an administrative remedy for waste-related claims and a "toxic tort" scheme for waste-related lawsuits.

With the new bill, Mr. Florio has picked up the support of John D. Dingell, D-Mich., chairman of the Energy and Commerce Committee; James J. Howard, D-N.J., chairman of the Public Works Committee; and more than 30 other House members.

AIA and others opposed to the bill hope to have it amended before it reaches the House floor, but Mr. Kimble admits with the backing the bill has, it will move along. ■

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Oceanus action

Continued from page 2

income, total expenditures of \$57.5 million and outstanding claims, net of reinsurance, of \$58 million.

Oceanus was ordered into liquidation following a petition to the court for its liquidation by creditors, including some of its own members.

"Subsequent to the appointment of the joint provisional liquidators, it became apparent that the books and records were being held by John Laing Management, which was purporting to claim a lien over them for sums in excess of \$9 million," Mr. Houghton said. No explanation was given for the lien.

"The receivers have been unable to lift this lien," he continued. "The liquidators advised managers there was no possibility of any lump sum being paid to them in advance of their performing services to the liquidators. Furthermore, it was pointed out that the liquidators had

a duty to require the books and records be given up and if they were not, there were certain remedies available under the provisions of the Company's Act to enable this to happen.

"Provisional liquidators argued that the books and records belong to Oceanus and not John Laing management. Negotiations have taken place between the managers and the liquidators with a view to procuring the books and the managers have now advised that they are prepared to release their purported lien provided the liquidators agree, with the sanction of the committee of inspection, to employ John Laing Management for a period of three months at a fixed fee of 50,000 pounds to insure that the liquidation is properly set up."

Mr. Houghton explained to creditors and lawyers attending the meeting that they could either accept the retention of John Laing Management along the lines suggested, or apply under the Com-

pany's Act to have the books and records delivered into court.

But, he added, "The disadvantages of applying to the court are that the process would be time consuming and may not resolve the matter."

Another alternative, he said, was to employ new managers.

The committee of inspection elected at the meeting will have to decide how to deal with Laing's demands when it begins its deliberations in London next month.

A representative of John Laing Management, William Milligan, was elected to the committee of inspection. Also elected to the committee were: John Martin, representing Sedgwick Group P.L.C. in London; John Curry, an insurance broker representing the Colombian shipping line Flota; Martin Heath, representing Clyde & Co., a London law firm; Michael Baker of RTC Ltd., a London reinsurance brokerage; George Zippert, representing Hamlon, a shipping broker

in Hamburg, West Germany; and David Taylor, representing Hill Dickinson, a London law firm.

The committee will have power to advise on the liquidation when the appointments are approved by the supreme court in Bermuda.

However, there is no money to fund the liquidation.

Mr. Houghton said, "The liquidators will be unable to pursue many things unless they are adequately funded and recompensed. Accordingly, they have approached certain of the large creditors of Oceanus with a view to asking for an initial contribution to a fighting fund to enable certain inquiries to be made."

He warned the meeting that it would be necessary to collect "significant further sums" to finance the liquidation and litigation. He didn't say how much more money liquidators would have to seek.

But, efforts to contact "all" creditors could be frustrated unless the liquidators get the Oceanus ac-

counts. "Until that happens, it is totally unclear to me how many problems are going to be resolved," Mr. Houghton said.

Regardless of how the committee decides to tackle the dispute with the management company, Oceanus still has to settle outstanding litigation, including an appeal in London by Container Transport International, which says Oceanus owes it \$8 million in claims.

Oceanus also has begun legal action against reinsurers for 43 million pounds it says is due from stop-loss agreements.

"The reinsurers are seeking a declaration that they are not liable to the terms of the various stop-loss agreements," Mr. Houghton said. "Oceanus in writing these agreements arranged for premiums and claims they are based on a hybrid definition of contributed tonnage. Reinsurers are raising the question as to what is the correct definition of contributed tonnage. They argue that the meaning was never clear. They also say that the statistics supplied by Oceanus for the calculation of premiums were incomplete."

Mr. Houghton said that Oceanus had denied this. He said the club had asserted it had explained the meaning of contributed tonnage, that this explanation had been accepted by reinsurers and that Oceanus maintained it had given the reinsurers every opportunity "for the purpose of satisfying themselves as to the adequacy of the information given."

In any event, he pointed out that the 43 million pounds will be "a considerable underestimate."

"The managers forecast additional claims to the reinsurers of some \$109 million," he said.

Turning to Oceanus' statement of affairs, prepared by John Laing Management Feb. 6, Mr. Houghton said it was regrettable that the liquidators had not seen underlying documentation.

"To date, only the summary has been submitted without all the necessary supporting figures. This statement has been produced by the managers who have asked the joint receivers for 25,000 pounds to cover the cost of preparation of the statement. Both the joint receivers and the provisional liquidators consider that this request is unreasonable," he added.

Mr. Houghton said that the liquidators understood that "sums of approximately \$45 million are due from Oceanus members relating to recent calls."

He explained that the managers had applied association rules in the preparation of the statement.

"One rule states that no setoff is to be allowed by Oceanus between calls and premiums due and claims payable," he said.

"The liquidators have been advised that members of Oceanus will have to pay calls before being able to prove as creditors. The rules also provide that the managers should not allow any claims from members who have not paid their contributions."

Mr. Houghton said the managers predict the recovery of about 50% of the stop-loss reinsurance due to Oceanus. He said the statement of affairs also shows that Lloyd's Bank, one of Britain's clearing banks, had lent "some \$8.8 million" to Oceanus.

"It may well be," he said, "that there are further sums which should be added to sums owing to unsecured creditors in due course. It should be stressed, however, that the rights of creditors whose claims may not be included at this stage will not be prejudiced by their current exclusion."

Mr. Houghton said it had been suggested that Bermuda's Company's Act will keep liquidators from making further calls on Oceanus' members. But he said the act was "unclear" on this point. ■

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opinions

Think about the future—now

CONTINGENCY PLANNING is a vital component of risk management, but we have a sinking feeling that some risk managers aren't developing the contingency plans as they should be to respond to imminent changes in their risk-funding alternatives.

We wish we could say it isn't so, but all indications are that the pending tax bill will declare that corporations can't take tax deductions for self-funded loss reserves. And, it looks like it also will eliminate some of the tax advantages of offshore insurance subsidiaries.

Furthermore, as hesitant as we are to say that property/casualty insurance rates are going to rise, the extent of the first-quarter losses suffered by major underwriters of commercial insurance suggest that they will have to raise rates (see story, page 1).

Separately, each of these developments will shake up the stability that has come to funding property and casualty risks. Together, these developments could hit risk management departments and insurance budgets with a jolt they haven't felt since the mid-1970s.

We think risk managers should be prepared for either or both developments.

Every risk manager whose company self-funds casualty risks and has taken tax deductions for the loss reserves should have a contingency plan for responding to the proposed change in the tax law. Developing the contingency plan requires analyzing how much self-funding will cost the corporation if it is forced to fund for tomorrow's claims payments with aftertax dollars. It also requires checking the availability and price of cash-flow insurance products. Then the options have to be compared to determine the most cost-effective method of funding casualty risks. And, of course, tax departments should be consulted on how the corporation might be able to respond to this change in the tax law without being forced to reserve with aftertax dollars. The creativity of taxpayers never ceases to amaze anyone, including the Internal Revenue Service.

For risk managers using offshore insurers, the prospect of recharacterizing certain Subpart F income requires more analysis. How important are the tax advantages of using excess foreign tax credits to offset income tax due on your captive's income to the economic benefits of the captive? Sure, risk managers say they haven't formed captives for the tax advantages, but the savings associated with their tax benefits have been lost on no one. And, if some of those savings are taken away, will the offshore captive still be the most economical way to fund risk? Or should the company consider a domestic domicile for its captive?

Yes, this is pretty basic advice, but it appears to us that many corporate risk managers aren't preparing for the change in the tax law from the all-events test to the economic performance test or the change in the tax treatment of captive income. We can't understand why any risk manager would want to wait for Congress to

act and then to analyze what the corporation should do. Even if the conference committee rejects these provisions, the risk management department that has prepared these analyses will have shown management that it is prepared for contingencies and capable of responding to changing regulatory conditions.

The prospect of rate increases from property/casualty insurers also requires contingency planning by risk management departments. So far, rate increases are being imposed on selective accounts whose loss experience clearly warrants a rate increase and in certain lines, like aviation and bonds for financial institutions. Few insurers or brokers are talking about rates doubling or tripling as in the mid-1970s.

Nonetheless, every risk manager should today have analyzed his or her employer's losses in comparison with the insurance premium paid. Is your insurer losing money on your account? How much? How much of a rate increase is justified? Or is your account one of the plums that is producing an underwriting profit?

How much of a rate increase are you willing to accept on the next renewal? If the insurer demands more than you are willing to pay, what risk-funding alternatives do you have? Yesteryear's analysis of risk-funding alternatives probably isn't valid anymore. You probably need to conduct a new study, using more current loss and exposure data.

And what if capacity dries up completely for a line of insurance your company needs, such as environmental impairment or product integrity insurance? Do you have any way to fund for these losses?

In analyzing your alternatives, you must consider how the tax bill provisions alter those alternatives. You will need to analyze your risk-funding alternatives under both the currently available tax treatment of self-funded reserves and the prospect of the economic performance test.

Finally, as risk managers, you must anticipate the combined effect of the tax bill changes that could diminish the advantages of self-insurance and using captive insurers and the current trend toward tightening in the commercial insurance markets.

How will insurers respond if they are bombarded by self-insurers looking for coverage at the same time they are trying to raise rates on current business. Some observers contend that if insurers properly priced the business on their books today, their premium to surplus ratios would approach the acceptable maximums. In that event, would insurers be eager to respond to former self-insurers with cash-flow plans?

We know there are risk managers who have answers to these questions—and to more we haven't raised. But we also know there are some who haven't begun to answer these questions. They should start soon.

Don't underestimate the impact of the developments. Most of all, don't be caught unprepared.

letters

Clarifying FSAs' impact on federal revenues...

To the editor: Jerry Geisel's Washington column (*BI*, May 28) referred to a legislative proposal on flexible spending accounts circulated by Rep. Barber Conable and the Employee Benefit Research Insti-

...and on health costs

To the editor: While I am complimented by Ralph Galascione's comments concerning my insights to health care cost containment (*BI*, May 7), I want to stress that I'm not only enthusiastic about flexible spending accounts, but have also evidenced with a number of clients significant savings because of the use of this powerful device.

Thomas E. Wood
Hewitt Associates
Lincolnshire, Ill.

tute estimates (which I prepared) of the revenue costs attributable to these accounts if this proposal were enacted.

To avoid possible misunderstanding, I would like to make three points:

- The Treasury revenue loss estimate of \$11.6 billion assumed that all ZEBRAS (zero-balance reimbursement accounts) and other spending accounts would continue to be allowed without restriction. In contrast, the Conable proposal would impose significant restrictions compared with the current legal and regulatory standing of these plans.

- My estimate was based on actual utilization data from existing flexible spending account plans. Of an estimated 1 million employees covered by flexible spending accounts using salary reduction in 1984, for example, only an estimated

200,000 are electing to participate.

- My paper provided the basis for assessing a range of alternative revenue losses depending on the utilization assumptions chosen, rather than only one figure.

Sophie Korczyk
Research Associate
Employee Benefit Research Institute
Washington

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U.S. files brief in Mobil captive tax case

Continued from page 1
significant ways.

First, Mobil paid the disputed taxes and then filed for tax refunds in the claims court. Second, a decision in the Mobil case could answer for the first time whether the fact that a captive insurer underwrites risks for unrelated parties changes its relationship with the parent for tax purposes.

Because Mobil has filed its case in the Court of Claims, the decision will be especially important, attorneys close to the case say. A deci-

sion against the government would mean other companies would be entitled to a similar ruling if they bring their cases in the Claims Court, which is a court of national jurisdiction.

"If the Claims Court holds against the government, the issue is dead (unless the U.S. Supreme Court takes the case)," explains government attorney Kevin Shea.

But if the government wins, the issue is still alive and taxpayers could argue their cases in federal district courts to seek a favorable

ruling, he added.

And, because both Mobil and the government address the underwriting of unrelated insurance business by the captive, a decision in the case could affect hundreds of captive insurers that have begun underwriting unrelated risks in the belief that doing so will qualify them as bona fide insurance companies for tax purposes.

Taxpayers and their attorneys have been led to this conclusion by private letter rulings by the Internal Revenue Service and a pub-

lished internal IRS memorandum. They indicated that the percentage of unrelated risks was relevant to whether a captive was a legitimate insurance company.

However, the government appears to have changed its position recently.

The government brief argues that the fact that a captive insures risks unrelated to those of the parent does not create a formal contract of insurance among affiliates.

"There is absolutely no insurance

theory that supports the conclusion that the presence of unrelated insureds converts the relationship among affiliates into insurance," the brief says.

"Any informal opinion of the Internal Revenue Service to the contrary is clearly incorrect."

The government adds that several technical memoranda by the IRS that claim an insurance transaction takes place when a captive wholly owned by the parent also accepts "substantial" insurance risks of unrelated parties are also incorrect.

"These technical advices have never stated how much is 'substantial' unrelated business," the government argues.

"The underlying thought is that risk distribution effectuates risk transfer as a matter of insurance theory," the government says. "This opinion, however, does not withstand close analysis."

In its post-trial brief, Mobil takes a contrary position.

"Because the losses of the few are paid out of the premiums of the many, a parent company will be regarded as having shifted its risk outside the economic family when it obtains insurance from an insurance subsidiary which insures risks of other parties," the Mobil brief says.

Mobil cites the first IRS ruling against tax deductions for premiums paid to captive, Revenue Ruling 77-316, to support its argument.

"This concept is reflected in Revenue Ruling 77-316 itself which states that 'the sharing and distribution of the insurance risk by all the parties insured is essential to the concept of true insurance,' and which limits its application to situations where the insurance affiliate has not accepted risks from parties other than the parent and the parent's domestic subsidiaries," the brief says.

The risks must be substantial and would clearly be met in the case of Mobil's captive Bishopgate, which insured non-Mobil risks before, during and after its ownership by Mobil and derived 50% to 90% of its annual net premium income from the insurance of parties unrelated to Mobil from 1964 to 1968 when it was owned by Mobil, the brief adds.

This should also apply to GOIC and Bluefield since they wrote and reinsured a substantial amount of insurance for the benefit of parties other than Mobil and its subsidiaries, the brief states.

Although the tax consequences of captives insuring unrelated risks are debated, the briefs of Mobil and the government focus their attention on the classic argument over whether there is a transfer of risk when a related insurer issues an insurance policy to an affiliated company.

In its brief, the government contends that Mobil's captives did not transfer any risk—which is essential for an insurance transaction to take place and for premiums to be deductible.

It charges also that the captives were essentially tax avoidance mechanisms that the company formed to save money by the deductions, which it could not take if the risks were self-insured.

Moreover, they were set up to achieve minimal costs (apart from actual losses) for Mobil in comparison with obtaining insurance from outside insurers, the government contends.

The government cites prior revenue rulings, federal tax law and prior court decisions to illustrate that the payments to captives did not constitute insurance premiums and thus are not deductible.

Continued on page 12



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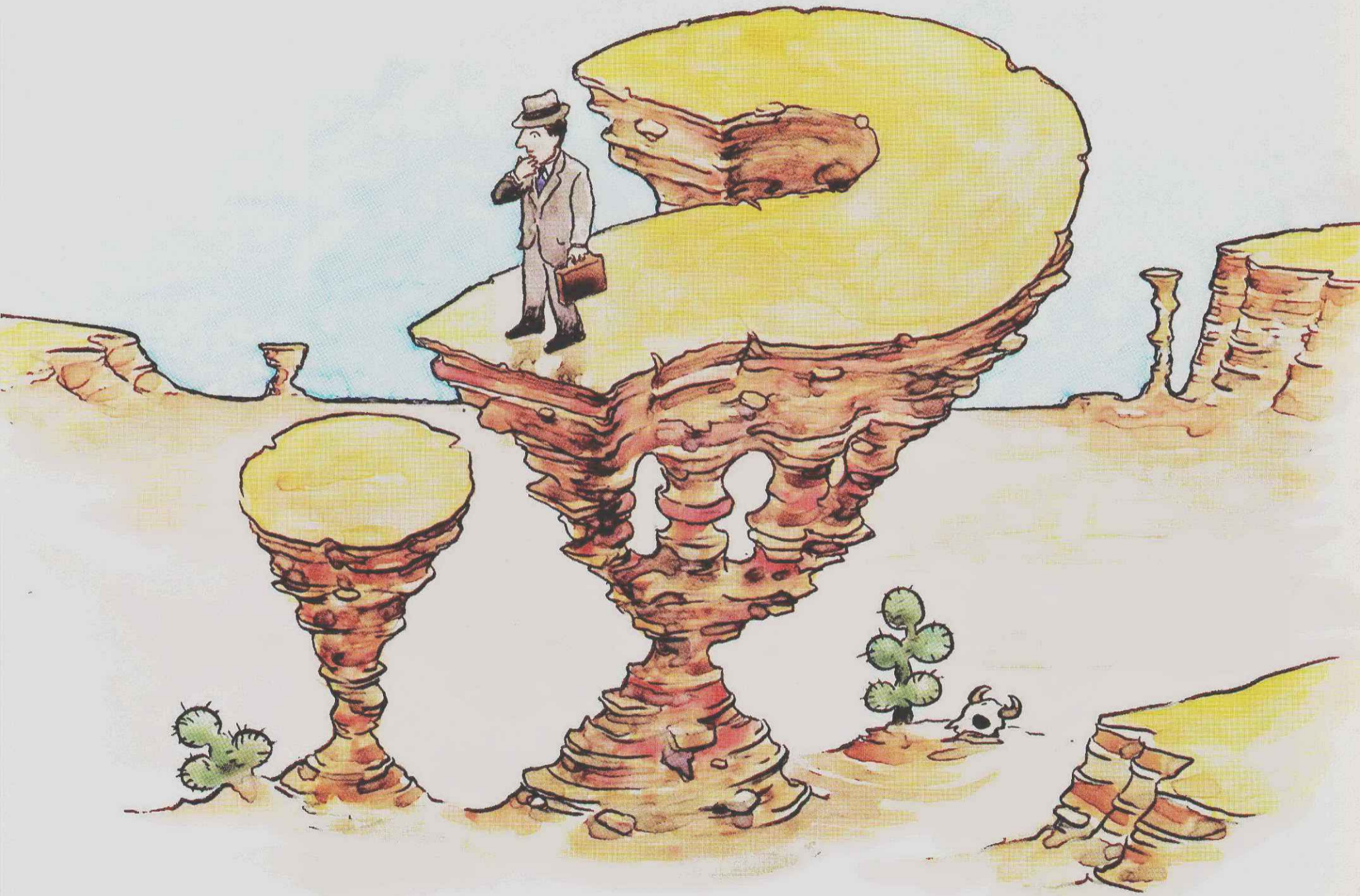
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U.S. files brief in Mobil captive case

Continued from page 10

Central to its position are two points—that an insurance transaction must involve risk shifting and risk distribution to constitute insurance and that sums set aside for a self-insurance plan are not deductible business expenses.

There was no risk shifting in the Mobil transactions since the company retained the risk, the government argues, and the payments to the captives were essentially self-insurance.

“The courts have consistently thwarted taxpayers’ attempts to obtain the tax advantages of insurance for what are essentially risk-retention programs,” the brief says.

“Whether the taxpayer retains its exposure merely by a formal accrual on its books and records or engages in an elaborate device through the use of unrelated corporations and wholly owned insurance affiliates, where risk has in

reality been retained, insurance does not exist as a matter of federal tax law. And that is precisely the situation in this case.”

The brief adds that Mobil had no insurance either as a matter of economic reality or as a matter of insurance theory.

Through insurance, companies seek to relieve themselves of financial uncertainty, the government argues, but if risks are placed in a company it owns, it does not relieve itself of that uncertainty.

“The quintessential difference between a captive insurance transaction and an insurance transaction is that the person who owns the insurer does not shift its uncertainty to another, he still retains the full uncertainty he had before the affiliate issued a formal contract of insurance.

“This person has not parted with a premium, nor the financial consequences of the risk; the true insured has parted with both.”

The brief adds this can be illustrated by the fact that the fortunes of the risks of the affiliates that the captive handles directly affect the balance sheet of the parent corporation, which is not true in an insurance transaction.

“The person who obtains a formal contract of insurance from his captive, however, is not indifferent from a financial viewpoint. He has a direct financial stake in whether a loss occurs and a claim payment is made.

“This is for the reason that both the premium payment and risk is still within the economic family.”

The government adds that a major reason for the establishment of the captives is the financial benefit Mobil would gain from its ability to deduct the premium and the increased profit it would get.

One way Mobil did this was by charging a premium that did not reflect loss cost and other expense savings, as insurance companies normally do, the government argues.

Mobil set premium payments at the same price the market would charge for a certain expected loss ratio (50%).

Its captives, and therefore Mobil, realized large profits from the savings on expenses such as brokerage commissions, administrative costs, inspection, premium taxes and loss adjustment expenses.

“The intent of Mobil was to use GOIC and later Bluefield as offshore profit maximization center,” the brief says. “This was effected through the premium charges to Mobil affiliates.

“Thus, through a premium charge which did not reflect loss cost and other expense savings, Mobil funnelled substantial funds into an offshore investment fund with tax deductible payments.

“The central motivation for this scheme was the belief that premium payments to Mobil’s insurance affiliates were tax deductible in computing both Mobil’s United States tax liability and Mobil’s foreign tax liability.”

The government adds later: “It is clear that Mobil recognized what the defendant (government) is now arguing:

“...that the GOIC/Bluefield program was a risk retention device which maintained the premiums within the group and yet was expected to be tax deductible.

“Yet, not merely content to place its self-insurance program within a ‘separate corporate entity,’ Mobil was able, due to the reality that it was dealing with itself, to minimize its domestic operating profits through premium payments not set in accordance with market reality, and, thus, maximize its insurance affiliates’ profitability in tax-free jurisdictions.”

Mobil counters in its brief, filed last December, that Revenue Rul-
Continued on page 16

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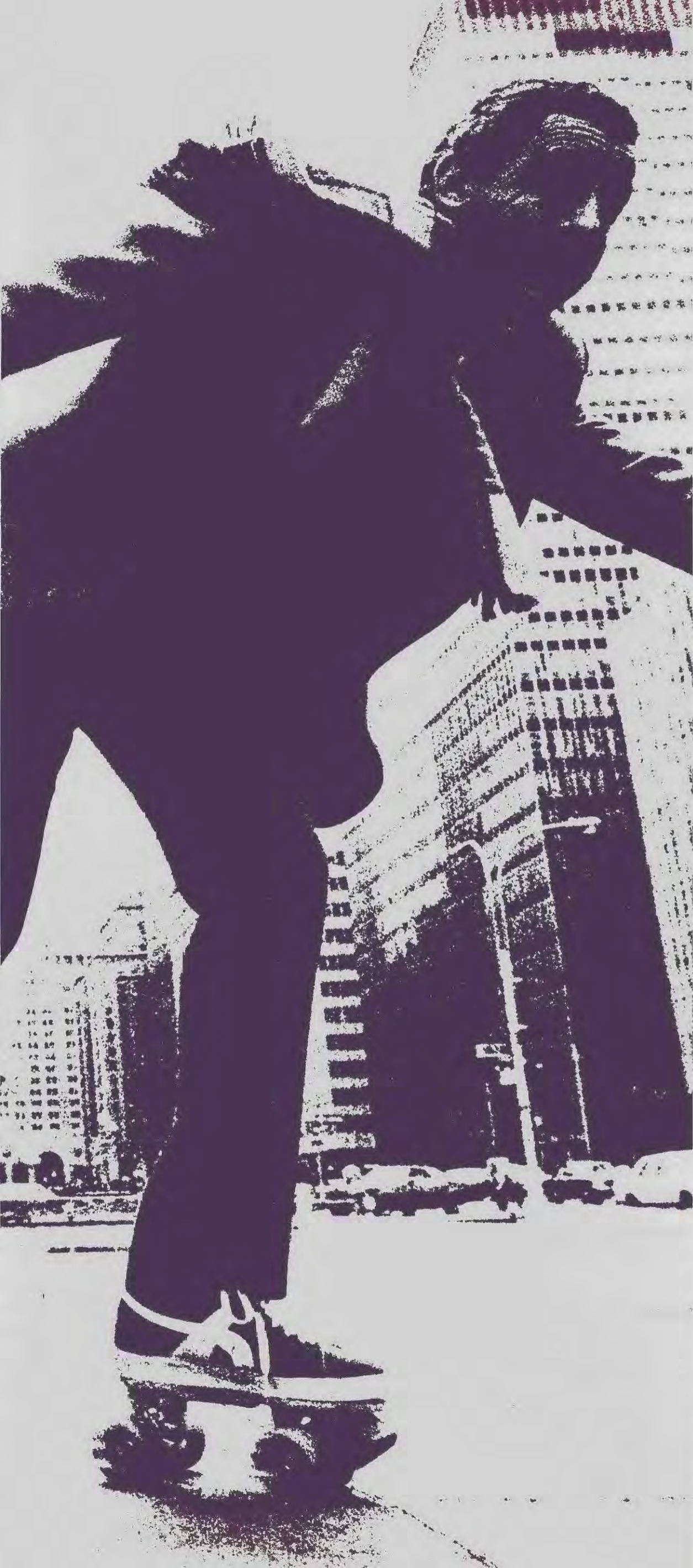
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U.S. files brief in Mobil captive case

Continued from page 12

ing 77-316, upon which the government relies heavily, is wrong, inconsistent and fundamentally opposed to the 'separate corporate entities' doctrine espoused by the U.S. Supreme Court.

Mobil argues also that under IRS rulings and prior case law, premiums paid to captives are deductible and that there is a transfer of risk.

"Defendant's (the government) case is based ultimately upon the holding of Revenue Ruling 77-316 that the risk of loss cannot be shifted from one member of an 'economic family' to another member of the 'family,'" the Mobil brief says.

"This ruling represents a bootstrap effort on the part of the Service to accomplish a change in the law without legislation and with retroactive effect.

"It contradicts the separate corporate entity doctrine and thereby

conflicts with decisions of the Supreme Court of the United States and the basic corporate pattern of the Internal Revenue Code."

Mobil argues that 77-316 conflicts with principles of tax law governing the treatment of corporations as separate taxable entities, established in the Supreme Court case of *Moline Properties v. Commissioner*.

In that case, the high court said as long as the purpose of the corporation is the equivalent of business activity or is followed by the carrying on of business by the corporation, the corporation remains a separate taxable entity, Mobil contends.

"Viewed in terms of their 'practical effect,' the phrases 'economic family' and 'economic reality' are simply elegant ways of obscuring the fact that both insurance subsidiaries and the operating subsidiaries are being disregarded as sep-

arate entities, for how else can one possibly conclude that there has been no shift of risk to the Insurance Affiliates," the Mobil brief adds.

"...the touchstone of *Moline Properties* was not an 'economic family' or 'economic reality' test; it was a separate corporate entity test," the brief adds. "Moreover, the application of that separate corporate entity test is not dependent upon finding that the distinction between a stockholder and his wholly-owned corporation has some 'economic reality.'"

"To the contrary, the doctrine applies notwithstanding that there is an identity economic interest between a stockholder and his corporation."

In addition, Mobil contends that 77-316 is inconsistent because even though the ruling contends Mobil and the captives are of the same economic family, it holds that insured subsidiaries rather than the parent are entitled to a deduction

for the losses.

"In a complete turnabout, Revenue Ruling 77-316 rejects its own analysis when it holds that the insured subsidiaries, rather than their parent, are entitled to a deduction for the losses sustained," Mobil contends.

Mobil also charges that 77-316 is wrong in contending risks cannot be shifted among affiliates and is in "diametric conflict with the most fundamental principles of corporate law."

Corporations exist to limit the liability of their stockholders, the company argues, and corporations can reduce their risk by incorporating and thereby limiting their exposure to loss to the amount invested in the corporation.

"It would seem incontrovertible that a corporation can shift the risk of a casualty loss to its wholly owned subsidiary; it is commonly done and gives a simple example of the fundamental error in the reasoning in Revenue Ruling 77-316."

Social Security offset guides are available

For employers that are curious whether laws in their states allow Social Security disability benefits rather than workers compensation to be the primary source of compensation for disabled workers, the Social Security Administration does offer some direction.

An article in the April 30 issue of *Business Insurance* explained that some employers, especially those that self-insure their workers compensation risks, are working with rehabilitation companies in attempts to garner Social Security disability benefits as the primary source of compensation for their disabled workers.

This is allowed in the District of Columbia and 16 states—Alaska, California, Colorado, Florida, Louisiana, Michigan, Minnesota, Montana, Nevada, New Jersey, New York, North Dakota, Ohio, Oregon, Washington and Wisconsin.

But the story noted that not all of the states listed allow the offsets in the same way.

Local Social Security Administration offices have printed guidelines on workers compensation offsets for each state, and copies may be obtained by contacting that local office, an SSA spokesman said.

Or employers may write the Social Security Administration, Office of Public Inquiries, 6401 Security Blvd., Baltimore, Md. 21235.

For example, in New York and California the reverse offset may be applied in a narrow situation involving state employees. For instance, in California, state employees may receive Industrial Disability Leave payments that are a form of workers compensation. Those payments are subject to reduction if the worker also is receiving Social Security benefits.

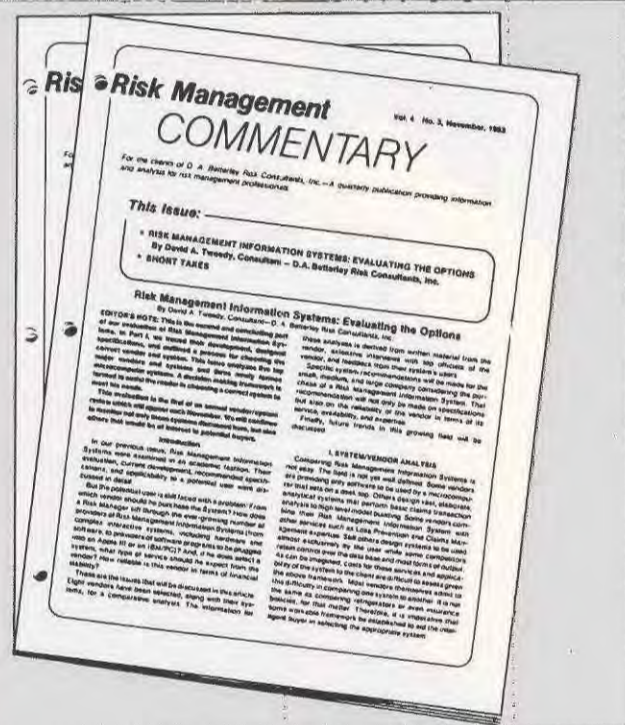
And in New York, the state reduces its supplemental workers compensation benefits by 50% of any federal disability benefits received, the SSA guidelines note, adding that supplemental benefits are not available to individuals with injury dates of July 1, 1974, or later.

In addition to its guidelines, the SSA also offered statutory citations for some of the states that allow reverse offset provisions. They are:

- California—Labor Code, Section 4753.
- Colorado—Workers Compensation Act, Section 81-12-1-(4).
- Florida—Workers Compensation Law, Section 440.15.10.
- Louisiana—Title 23 of Law Revised Statutes of 1950, Section 1225.
- Minnesota—Minnesota Statutes Annotated, Section 176.101. Sub d.4.
- Montana—Workers Compensation Law, Section 92-701.
- New Jersey—Workers Compensation Law, RS 34:15-95.5.
- New York—Workers Compensation Law, 25-A (9).
- North Dakota—North Dakota Century Section 65-05-09.1.
- Ohio—Revised Code, Section 4123.411-414.
- Oregon—Workers Compensation Law, Chapter 656.209.
- Washington—Industrial Insurance Laws, RCW 51.32.220.
- Wisconsin—Workers Compensation Act, 102.43 and 102.44.

A 1981 amendment to the Social Security Act prohibits any additional states from adding similar reverse workers compensation offset provisions, the SSA points out. But the amendment does allow states with reverse offset provisions prior to Feb. 18, 1981, to keep them.

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JUNE 24-28. National Assn. of Insurance Women 1984 national convention in Las Vegas, Nev.; \$110 for members; \$125 for non-members. National Assn. of Insurance Women, 1847 E. 15th St., P.O. Box 4410, Tulsa, Okla. 74159; 918-744-5195.

JUNE 25. Controlling Corporate Health Care Costs Through Preferred Provider Organizations conference in Arlington, Va., sponsored by the Health Costs Management Conference Center division of the Energy Bureau; \$695. Jared Smith, Health Costs Management Conference Center, 41 E. 42nd St., New York, N.Y. 10017; 212-687-3177.

JUNE 25-26. Targeting the Future of Performance Guarantees conference in New York, sponsored by CMA Consulting Group; \$695. Arlene Brower, CMA Consulting Group, 170 E. Hanover Ave., P.O. Box 2287R, Morristown, N.J. 07960; 800-526-0746 or 201-267-7171.

JUNE 25-27. Advanced Employee Benefits course in New York, sponsored by American Management Assns.; \$695 for members; \$800 for non-members. American Management Assns., 135 W. 50th St., New York, N.Y. 10020; 518-891-0065.

JUNE 25-27. 4th Annual Insurance Fraud seminar in Atlanta, sponsored by American Insurance Services Group; \$100. Patrick Henry, American

Insurance Services Group, Committee on Insurance Fraud Investigation, 85 John St., New York, N.Y. 10038; 212-669-0537.

JUNE 26. Organizing and Operating Association Captives workshop in the District of Columbia, sponsored by the Society of Chartered Property & Casualty Underwriters; \$80 for members; \$90 for non-members. Coleen Mulhern, Society of CPCU, Kahler Hall, Providence Road, Malvern, Pa. 19355; 215-251-2735.

JUNE 28-29. Reinsurance Security seminar in London, sponsored by ReActions; \$410 plus value added tax; 10% discounts for multiple registrants from the same company. ReActions, 39-41 North Road, London N7 9DP; 01-609-8661.

JULY 11-13. Annual Arkansas Safety conference in Little Rock, Ark., sponsored by the Arkansas Chapter of the American Society of Safety Engineers; \$45; \$30 before July 5. J.C. Smith, Arkansas Chapter of the American Society of Safety Engineers, P.O. Box 56311, Little Rock, Ark. 56311; 501-666-5560 or 501-661-8293.

JULY 15-18. 1984 Corporate Benefits Management conference in McAfee, N.J., sponsored by the International Foundation of Employee Benefit Plans; \$500 for members; \$575 for non-members. Jordan Fox, International Foundation of Employee Benefit Plans, 18700 W. Bluemound Road, P.O. Box 69, Brookfield, Wis. 53005; 414-786-6700.

JULY 15-20. Eighth Annual National Symposium on Workers Compensation, sponsored by the University of Maine at Orono; \$450. Helen Thomas, National Symposium on Workers' Compensation, 1721 Pine St., Philadelphia, Pa. 19103; 215-735-0205.

JULY 15-21. National Wellness conference in Stevens Point, Wis., sponsored by the University of Wisconsin; \$325. Institute for Lifestyle Improvement, Delzell Hall, University of Wisconsin—Stevens Point, Wis. 54481; 715-346-2172.

JULY 16-18. Basic Safety Management course in Houston, sponsored by the International Safety Academy; \$425; group discounts available. Also **Sept. 24-26, Nov. 12-14** in Houston. Registrar, International Safety Academy, P.O. Box 8527, 1600 Arch St., 12 Tower, Philadelphia, Pa. 19101; 800-231-3147 or 215-241-5800.

JULY 19. Fundamentals of Environmental Health seminar in Houston, sponsored by the International Safety Academy; \$175. Also **Sept. 27, Nov. 15** in Houston. Registrar, International Safety Academy, P.O. Box 8527, 1600 Arch St., 12 Tower, Philadelphia, Pa. 19101; 800-231-3147 or 215-241-5800.

JULY 23-25. International Foundation of Employee Benefit Plans 1984 Trustees and Administrators institute in Monterey, Calif.; \$420. Also **Aug. 13-15** in McAfee, N.J. Public Relations Department, IFEBP, P.O. Box 69, Brookfield, Wis. 53005; 414-786-6700.

JULY 30-31. Dollars & Sense of Communicating Employee Benefits conference in New York City, sponsored by Business Insurance; \$545; 10% discount for additional registrants from same company. Ann Vazquez, Registrar, Business Insurance, 220 E. 42nd St., New York, N.Y. 10017; 212-210-0137.

JULY 30-31. Risk Management for Indian Nations seminar in Reno, Nev., sponsored by Risk Management Publishing Co.; \$125. Nestor Roos, Risk Management Publishing Co., 2030 E. Broadway, #110, Tucson, Ariz. 85719; 602-622-5174.

JULY 30-AUG. 3. Fundamentals of Modern Safety Management seminar in Atlanta, sponsored by the International Loss Control Institute; \$625. Also **Sept. 10-14** in Atlanta. Richard Jump, International Loss Control Institute, Highway 78, P.O. Box 345, Loganville, Ga. 30249; 800-554-6001 or 404-466-2208.

AUG. 2-3. Health Care Cost Containment and Self-Insurance of Medical Benefits seminar in Atlanta, sponsored by Tillinghast, Nelson & Warren; \$600; \$500 for subsequent registrants from same company. Pat Kelley, Tillinghast, Nelson & Warren, 3340 Peachtree Road, Atlanta, Ga. 30026; 404-261-5420.

AUG. 2-3. Governmental Insurance conference in Austin, Texas, sponsored by the Professional Development Institute; \$245. Joanne Paulman, Professional Development Institute, P.O. Box 13288 NTSU, Denton, Texas 76203-3288; 817-565-3344.

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The Sailor-On-Line system is a "competitive product," Mr. Lyman says, but he declined to quote specific costs.

For further details on the Sailor-On-Line system, contact Linda Sundram, Assistant Director of Risk Management Information, The Travelers Insurance Corp., 1 Tower Square, Hartford, Conn. 06115; 203-277-0111.

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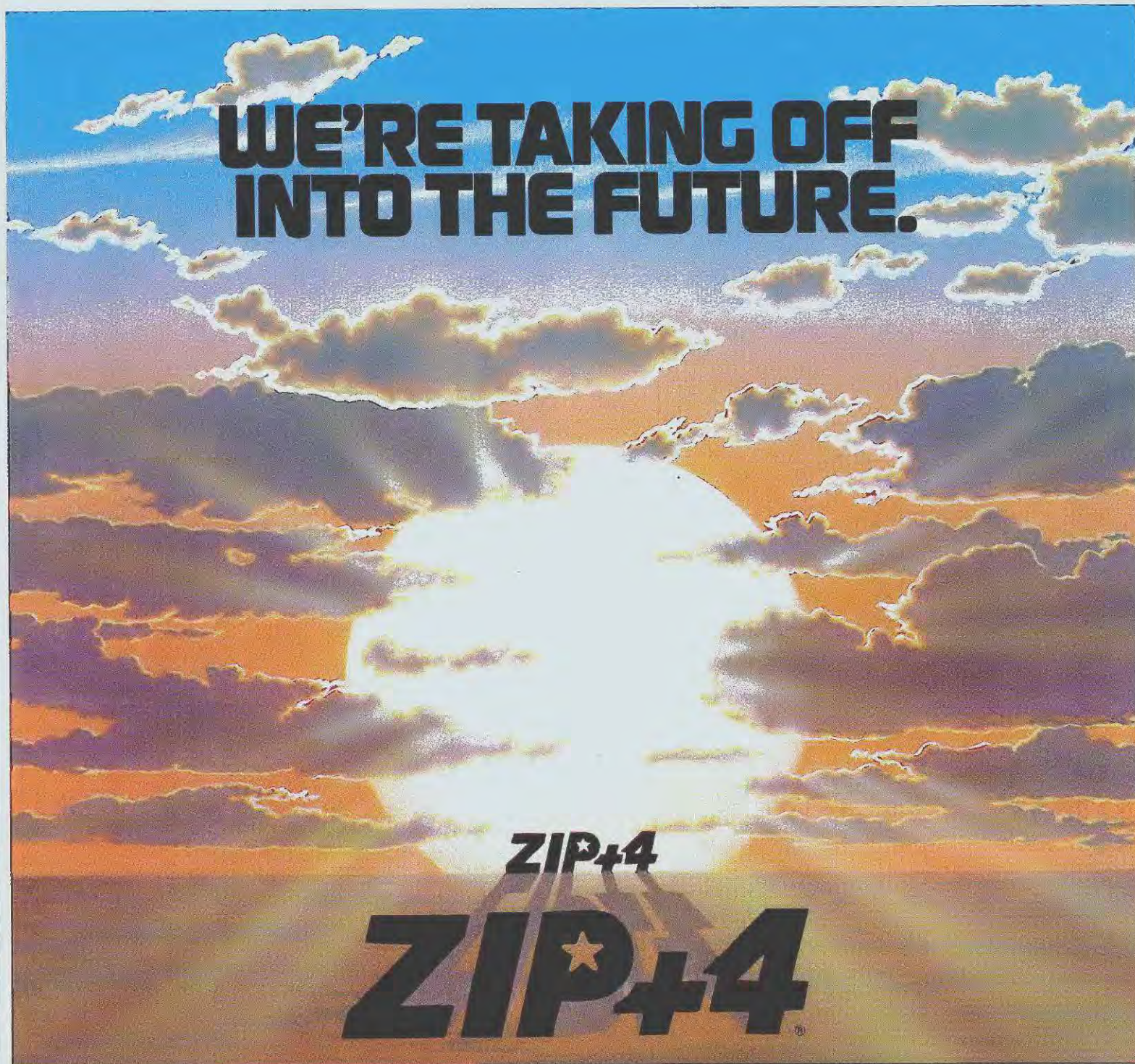
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Luther T. Griffith has been named president and chief executive officer of Anistics Inc., the risk management consulting subsidiary of Alexander & Alexander Services Inc. He had been executive vp and chief operating officer.

Before joining the company in 1978, he had been a financial consultant and also had been involved in international banking.

Mr. Griffith succeeds Peter M. Densen, who became senior vp of finance and chief financial officer of A&A Services recently.

comings & goings: industry

Additional consultant/other supplier changes:

Aaron Curtis joined J.F. Molloy & Associates Inc., an Indianapolis risk management consultant. Also at J.F. Molloy, Craig S. Penwell promoted to vp.

Robert E. McKillop named director of employee benefits for benefit consultant Comiskey, Kaufman & Padon in Houston. Mr.

McKillop joined the firm in 1982.

Thomas A. McSweeney named director of the employee benefits specialty consulting department at the Chicago office of Price Waterhouse. Before joining Price Waterhouse in April, Mr. McSweeney had been tax planning manager for FMC Corp.

David R. Koberstein joined T.E. Brennan Co., a risk manage-

ment consultant in Milwaukee. He previously had been with another Milwaukee-based consulting firm.

Frederick E. Wicks named president and chief executive officer of Self-Insurers Service Inc. in Northbrook, Ill. Mr. Wicks previously had been vp of Virginia Surety Co. Also, Thomas P. Beresky named vice chairman and Herbert J. Carlson named executive vp. Mr. Beresky had been president of the firm, and Mr. Carlson had been senior vp.

Insurers

John C. Boden appointed president and chief operating officer of Mentor Insurance Ltd. of Hamilton, Bermuda, a subsidiary of Mentor Holding Corp. of New Orleans. Mr. Boden previously was president and chief executive officer of Arion Insurance Co. Ltd.

Thomas A. Swanson elected senior vp and general counsel of Fireman's Fund Insurance Co. in Novato, Calif. He began his career in 1961 with a Fireman's Fund subsidiary, and most recently was assistant vp and associate general counsel with Fireman's Fund. He succeeds Borell L. Kirschen, who was elected executive vp.

Dale D. Dixon promoted to underwriting vp of the Oil & Gas Insurance Co. in Columbus, Ohio. Mr. Dixon had been the company's underwriting manager.

Robert J. Nevens named vp of claims for Parthenon Insurance Co., an affiliate of the Hospital Corporation of America in Nashville, Tenn. He most recently was claims manager.

William J. McBride appointed president and chief executive officer of CIGNA Healthplan Inc. in Dallas. Mr. McBride was senior vp and chief financial and administrative officer of CIGNA's Affiliated Businesses Group.

Agents/brokers

Thomas St. Germain named vp of International Risk Placement Inc. in Schaumburg, Ill. He formerly was with Stewart Smith Mid America in Chicago.

Dave Heckert joined Corroon & Black Inc. as vp of the special client division in Seattle.

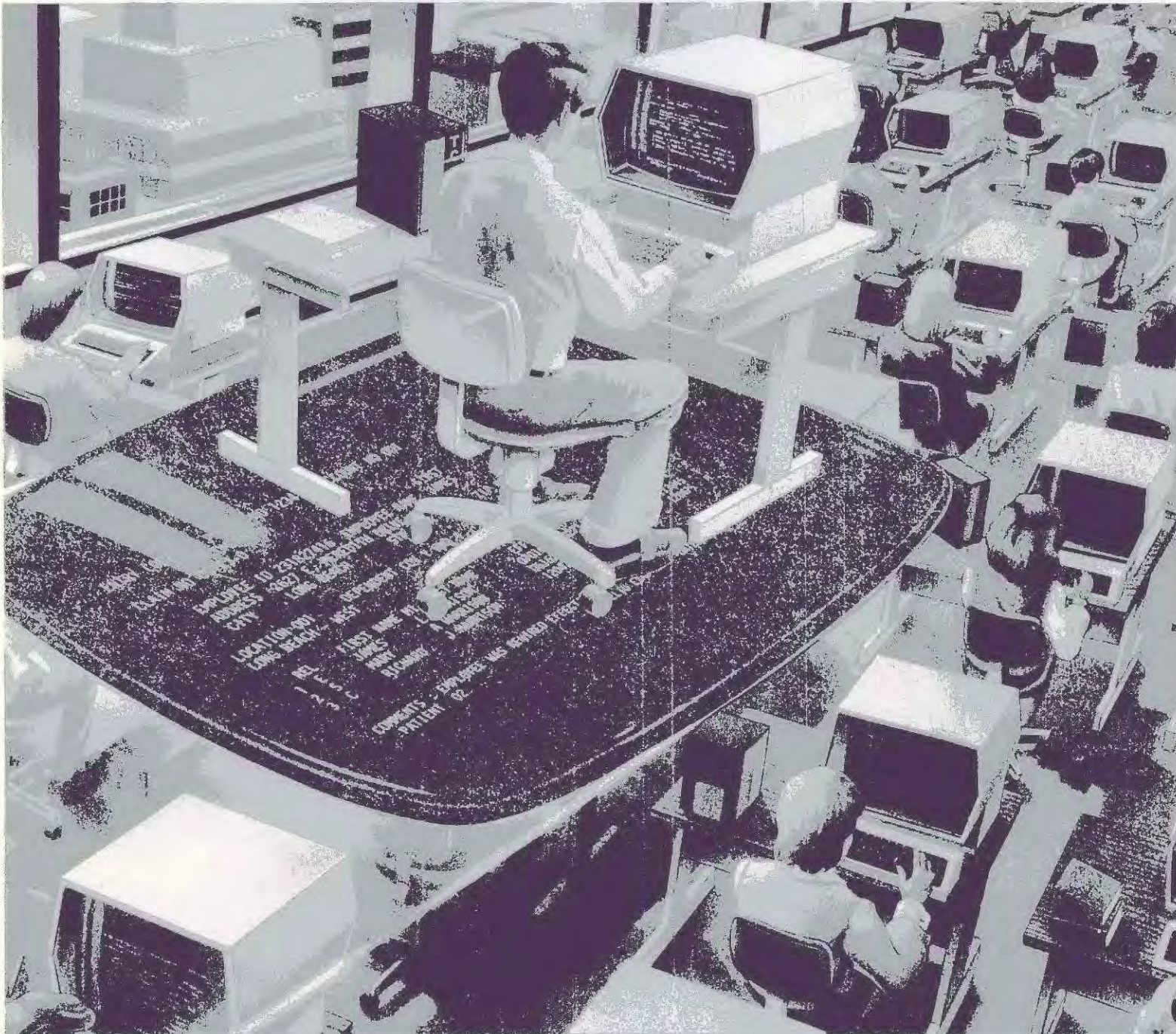
Richard H. Pierpont named executive vp of operations for Rollins Burdick Hunter of Illinois Inc. in Chicago. He previously had been senior vp and manager of the Boston office of Reed Stenhouse.

Reinsurers

James J. Davis named acting president of Cologne Reinsurance Co. of America in Stamford, Conn., a subsidiary of Cologne Reinsurance Co. of Cologne, West Germany. Mr. Davis had been senior vp and secretary. He replaces G. William Davis Jr., who resigned to pursue other business opportunities.

Peter K. Colket joined Monogram Reinsurance Corp., a subsidiary of Puritan Reinsurance Cos., as vp of financial reinsurance. He most recently was vp and manager of the Puritan Excess & Surplus Lines Insurance Co. Also at Monogram Re, David E. Woellner named vp of financial analysis. He joined Monogram Re in 1983, after six years with Puritan Insurance Co. Monogram Re is headquartered in Johnston, R.I.

Leonard J. Meredith Jr. elected president and chief executive officer of NWNL Reinsurance Co., a subsidiary of Northwestern National Life Insurance Co. in Minneapolis. Mr. Meredith joined NWNL Re when it was formed in 1979, and most recently was executive vp and chief operating officer.



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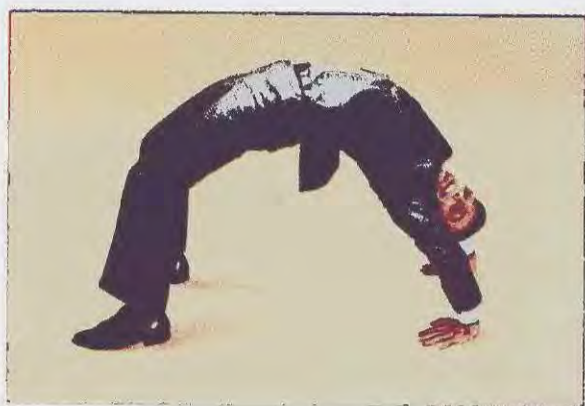
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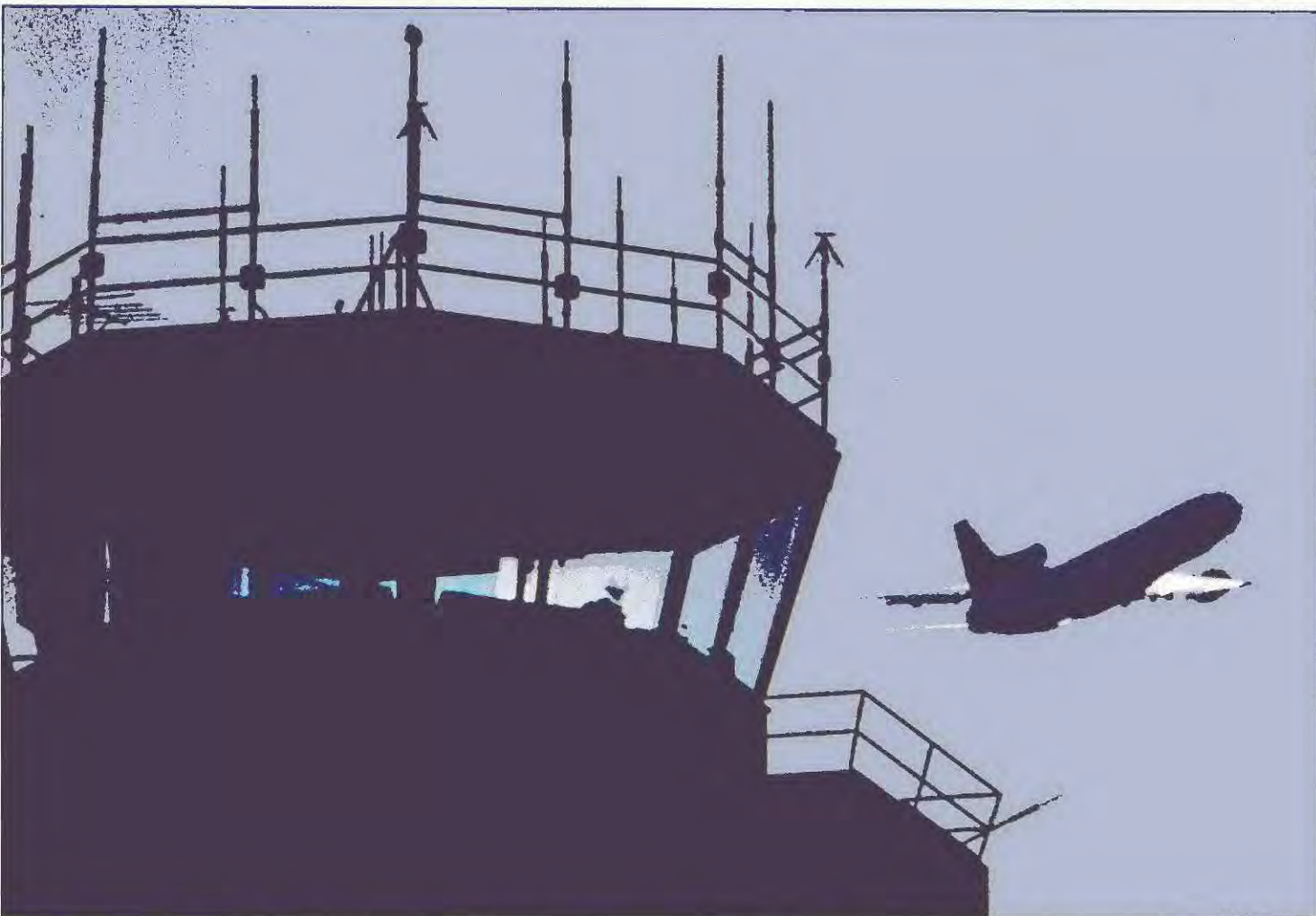
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RISK MANAGEMENT QUESTIONS

How can you evaluate your department's staff?

By Ralph F. Perry Jr.

Q: *Our company is consolidating and we are being asked to review our risk management department staff. How is the best way to evaluate this with a view of continuing to provide the best service to our profit centers?*

A: Zero-base budgeting is a necessary step in analyzing what tasks your department does and how much is spent on these tasks. Perhaps one of the first questions to ask yourself and clearly answer is what responsibility and role your department plays in the corporation. Then you can develop logical goals and objectives needed to meet them.

You can easily obtain the zero-base process formulae from your controller's department. Filling it out logically with clear cost-benefit data can be taxing, but well worth your personal time. It can be a very satisfying (and frustrating) experience, and one that forces you to commit your role and its cost-benefit in writing.

Coupled with this zero-base budgeting exercise, you should separate your self-funded, self-insured program into its various cost elements: expense for loss costs, claims handling, taxes and state filings, etc. This will permit you to reconstruct the total cost using permissible (insured) loss ratios, along with the other "insured" cost elements to estimate the cost of an insured program.

As you do this, don't forget investment income, cash flow and cost of money estimates. This permits a real cost comparison between an insured and self-insured program and should show a cost-saving value to the corporation.

A nebulous, but real cost is the value you place on your corporate claims management department and its attention to your book of claims. The cost/value you

ask a risk manager



are measuring here is the savings the corporation receives in attentive and experienced staff management of your claims.

While your corporate environment may force certain consolidations, these exercises can help you clearly evaluate the cost alternatives that may be handled through unbundling services and coordinating certain responsibilities with your corporation's profit centers.

How can loss control work in multiple locations?

Q: *Can risk control work in a decentralized environment? If so, how should it be approached and structured?*

A: If we acknowledge that risk control is generally fairly well handled in the property field and limit the answer to the casualty field, I think a psychological approach is necessary for a successful program.

Accept the fact that most of us in business are trying to do the best job we can and in so doing, we try to please our boss. We have the most success in doing this if we are competent to do that job. But, as important, is if our boss shows interest and concern in what we do.

This psychology applies at any level.

If it is practiced by the boss, in those areas where workers' injuries are frequent, it can do much to reduce frequency and cost of workers compensation claims. It costs nothing and is extremely effective if the boss shows interest and concern in workers safety, health and job.

In a decentralized environment, a risk-control program must be structured at each level by personnel at that level and tied into a regional program and then to the profit center. All this can work if the profit center boss shows interest and concern. A group of profit centers can then be tied to the corporation by the interest and concern shown by the chief executive officer.

The CEO may have a corporatwide safety management program, rewarding those who meet their goals in reducing their frequency and cost of losses. Success or failure can be measured quarterly, then annually.

The whole program must be tied together and measured from year to year, and it must be tailored to the various businesses that make up the corporation. Most important is the need to have the backing, interest and concern of the CEO.

While the approach sounds straightforward, it may be the most difficult part of the program.

The program structure must acknowledge the individuality of local operations and the need for them to recognize a safety management program.

They must acknowledge this need and develop their own program with guidance and assistance from professionals. The safety management program at locations is, therefore, their own. The measurement of the success of that program is tied together and encouraged from the top.

How can we acquire our own computers?

Q: *How can I convince my management that a computer/microprocessor will be beneficial to our department and the corporation?*

A: The best answer to this is to get involved with a microprocessor yourself. The Risk & Insurance Management Society offers a risk management information course with "hands-on" computer experience. Many local community colleges have programs. Maybe you should buy an Apple or IBM personal computer. Today's investment is moderate and the reward substantial.

The speed with which the use of microprocessors are being used is staggering.

Two years ago a large California business was using its computers to record losses and extract all necessary claim and loss data for risk-control programs. All paper reports, previously mailed from headquarters, have been eliminated.

We have found that our 10-year record history of loss and claim information—particularly in the casualty field—has helped control the cost of our umbrella and excess liability insurance program. Our self-insurance programs can be better managed for effective funding control because we have information.

One risk manager told me he reduced his excess insurance premium expense by \$2 million dollars because he had an accurate claims history record on computer.

We have found that recording our insurance policies in abstract form (by using the word processing programs) on diskettes gives us an invaluable history of insurance policies for internal use and, using our microprinter, easy communication of coverage.

There is an additional, perhaps more valuable benefit from this exercise, and that is the benefit of abstracting your insurance policies. Relating the contract and its terms and conditions to your corporation's activities and committing the contract to your understanding of the coverage is worth all the effort you put into it.

Perhaps one of the more interesting results of having a department microprocessor is that everyone in the department is eager to use it. While the initial use of the microprocessor is in our statistical and accounting areas, we hope to eliminate most of our loss-report paperwork and provide profit centers access to their loss and claim data in program forms for their own loss-control programs.

Ask a Risk Manager and Ask a Benefit Manager are two new features in the Perspective section of Business Insurance. Ask a Risk Manager and Ask a Benefit Manager will answer written questions from readers on risk management and employee benefit management issues.

Ask a Risk Manager makes its debut this month.

The first Ask a Benefit Manager appeared May 14 in Business Insurance. Joseph W. Duva, director-employee benefits and compensation at SCM Corp. in New York, answers the questions for that column.

Mr. Perry's and Mr. Duva's columns will appear alternately on the second Monday of each month.

Address your questions to ASK, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611.

Please give us your name, title and employer. Business Insurance will consider unsigned letters.



Ralph F. Perry Jr. is vp and director of risk management at Amfac Inc. in San Francisco.

PROPER PRICING

Get what you pay for with segmentation

By Howard A. Whittum Jr.

NO GROUP HAS tracked the across-the-board spiral of benefit costs more closely than benefit managers. After all, they are charged with ensuring employee security at a reasonable cost under increasingly adverse conditions.

Risk managers too have watched rates drop for property coverages while prices for such coverage as professional liability have soared. Yet they also have limited budgets with which to purchase all necessary coverage for their companies.

But, relatively few risk managers and employee benefit managers have looked beyond mere cost monitoring to actively examine how the insurance products they buy and manage for their personnel and companies are priced.

In these difficult times it pays to be an educated consumer, and lesson one for risk and benefit managers is that not all insurance companies price their products on the same basis. To understand pricing trends fully, it is important to review the basics of your insurer's operations.

Traditionally, insurance companies have been divided into two separate functions—one to design products and another to manage investments. The managers on the investment side have acted independently, investing the company's premium income without regard to its origin or the nature of the obligation (to policyholders) it represents.

All premium incomes—whether generated by products carrying a short-term obligation, like health insurance, or a long-term obligation, such as pensions—have simply been grouped together and turned over to the insurers' investment management side.

In recent years, however, some insurers have begun to integrate the product management and investment management sides of their business. They are developing the means to match individual insurance products with specific investment strategies.

Product managers and investment managers are starting to work together to monitor the profitability of specific products, develop investment strategy and set prices.

This integration and matching process, known in the insurance industry as asset/liability segmentation, is a relatively new concept that has gained the serious attention of insurers only in the

past few years.

Nevertheless, at least three large mutual insurers in New England have initiated programs to employ asset/liability segmentation.

Extensive systems changes (especially in data processing) may be required to implement a thorough matching process.

Several companies already have implemented matching processes applicable to relatively broad segments of their product lines and are moving toward true product-by-product asset/liability segmentation. They have completed the necessary impact studies and have developed systems concepts for the full implementation of matching product to investment.

Some are now ready to begin modifying their accounting, operations and data processing systems to accommodate the new product-by-product matching procedures.

Given the increasingly competitive nature of the

On one hand, the insurer will have use of your premium dollars to invest in its portfolio for only one year or less.

Yet on the other hand, the high yields now available on even short-term investments dictate that this income be given full consideration by companies wishing to price their products competitively. Insurers need to make the most of their anticipated interest income to gain a pricing edge.

Although return on investment of premium income represents only one of several factors that determine an individual insurance product's price, it is clearly among the most significant pricing considerations.

Insurers adopting asset/liability segmentation will, for the first time, be in a position to accurately project investment yields to be earned by the income generated from each product offered.

This may permit more competitive pricing

throughout—or within specific segments of—the insurers' product lines. Each product can be offered at the lowest possible price with reasonable assurance that it will make a profit.

- Product availability. The proliferation of new products offered by insurers in recent years, like universal life, guaranteed investment contracts and individual retirement accounts, has helped risk and benefit

managers, who now can offer employees a wider variety of benefits than was available before.

Asset/liability segmentation may help carry this favorable trend even further by enabling insurers to market more and more new, even experimental, investment and insurance products.

The matching process allows insurance companies, and the newer banking/insurance institutions, to separate, monitor and contain risky new products. The risk manager's or employee benefit manager's chances of finding an insurer willing to tailor a product to meet unique or very precise specifications are therefore likely to improve.

These very practical advantages of price and availability may be reason enough to favor insurance companies that use asset/liability segmentation.

But perhaps even more important than these advantages is such companies' adherence to a fundamental business premise—that the corporate consumers should get what they pay for.

When your company purchases insurance products priced under a matching system, it will not only get what it pays for, it will pay only for what it gets. ■

'Product managers and investment managers are starting to work together to monitor the profitability of specific products, develop investment strategy and set prices.'

insurance industry, other companies are certain to follow suit, especially as the benefits of asset/liability segmentation become more and more apparent.

Though formulated and generally perceived as an internal management tool, this trend toward matching bodes well for risk and benefit managers as well.

Asset/liability segmentation will affect:

- Pricing. While investment/product matching does not promise lower premium prices across the board, it can and should result in prices that more closely correspond to the realities of individual insurance products.

Buyers pay prices based on the investment return the insurers earn from the specific product being sold, rather than on the insurance company's entire product line.

Premium prices have always reflected, at least in part, an average return on investments anticipated by the insurer. In contrast, insurers employing the matching process can tailor their prices on a product-by-product basis.

In the case of products carrying a long-term benefit obligation, such as pensions, the insurer will have use of your premium dollars for a long time and anticipated investment yields may therefore constitute 50% or more of the pricing decision for that product.

Anticipated investment income also is very important to the pricing of insurance products carrying a short-term obligation, such as health insurance.



Howard A. Whittum Jr. is a partner at Ernst & Whinney in Boston. He also is a member of E&W's management consulting services team.

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

Safety programs require cooperation

Continued from page 3

Mr. LeMond suggests safety managers get the government official named as an honorary member of the National Safety Council. "They like that, and it will cause them to think more about safety."

However, the risk or safety manager also must persuade his or her superiors to move safety higher on their priority lists. This requires the risk manager to speak management's language.

"Show them where safety fits in in terms they will understand," Mr. LeMond said. "Safety people tend to look at things from a humanitarian point of view, and management

tends to look at things from a totally economic point of view.

"Go through the records and compile data," he said. "Then bring them into your boss and say 'We had 300 of this kind of accident last month.' It will blow their minds."

It is then up to the risk or safety manager to guarantee results. "Establish concrete goals. Tell them where you are going to reduce the losses, and by how many dollars," he said.

Next, procedures must be detailed, and responsibility assigned.

"Supervisors must set the example," he said. "If employees have to wear hard hats, supervisors should

wear hard hats, too." Included in these procedures should be the policy for non-compliance, "which has got to have some teeth in it," Mr. LeMond said.

"Do you have the authority to walk into a work site and stop the work right on the spot if conditions are unsafe?" he asked. "You should, but you should also have a damned good reason why you had to stop so you can (protect yourself). That means you need a well-trained professional in the safety job."

At the same time the safety manager is selling his or her ideas to management, he or she needs to communicate safety policies down the line to make sure workers comply. This requires much of the same

data analysis and motivational management that communicating to superiors does.

"You and others in positions of authority, the supervisors, have to set the example for the other employees. If you don't, you get a tremendous amount of animosity and it reduces your credibility," said Gary J. Martin, risk manager for the City of Manhattan Beach, Calif., who also participated in a safety seminar at PRIMA.

One way to encourage cooperation from employees is to involve them in safety decisions.

"Employees know their problems best and know if their equipment works properly," Mr. Martin said. "Ask them to voice their concerns, and you will not be perceived as an adversary."

"It's just good management," said Robert A. Lapidus, vp of the FPE Group, a San Francisco-based loss prevention consulting firm owned by Fred S. James & Co. Inc., who shared the speaker's podium with Mr. Martin.

FPE has designed a supervisor-oriented safety program to "guarantee loss reductions if you do it in the right way," Mr. Lapidus said.

The first goal of the program is to determine the primary cause for on-the-job accidents, as well as contributing factors. Next, a program is designed from management down to guard against recurrences. That program is communicated to the employees, and the results are continually evaluated.

Mr. Lapidus' method of analyzing the primary cause of an accident is called "The New TOR Analysis."

TOR, or Technic of Operations Review, is a sort of checklist with cross references, a lengthy process that should ultimately reveal all the factors that contributed to an accident. And, those factors usually point to management weaknesses.

The checklist is divided into eight categories: training, responsibility, decision and direction, supervision, work groups, control, personal traits and management.

Each category has several factors that could contribute to the accident. And, after each factor are numbers referring to factors in other categories that could be related.

To complete this analysis, the risk manager goes through each category, listing and crossing off the applicable factors until a list of factors related to a specific accident is revealed. The primary cause should be revealed and extraneous causes should be eliminated.

This is a lengthy process, but it drives home the idea that management is ultimately responsible for safety.

Because the TOR analysis and an accompanying supervisor's checklist (see related story) can be so time-consuming, Mr. Martin suggested that risk managers can use it for the greatest risks, and as success is achieved in those areas, continue on to lesser risks.

Once the TOR analysis is complete, management should look at its alternatives to eliminate the primary cause and perhaps six or seven contributing problems.

"Any solutions you devise should be consistent with the management style of your organization, or you won't get support from any level," Mr. Lapidus said. "If management wants to look like a nice guy and you impose a lot of strict procedures and rules, it won't work."

"But, if the same company sets up some kind of incentive program to reward safety-conscious employees, that will go over with management and workers. A program that harmonizes with the style of management is the one that will reduce losses."

Checklist gives managers insight into cause of accidents

Supervisors should answer these questions after every accident, according to FPE Group, a San Francisco-based loss prevention consultant.

The goal is to determine the cause of the accident, not to place blame. Responses should be yes, no, or not applicable. Included with this checklist would be some general data and a brief description of the accident.

The questions are:

1. Did you know that the employee was doing this job?
2. Was the employee trained to do this job?
3. Was the training adequate and complete?
4. Was the employee doing the job correctly when the accident occurred?
5. Has the employee done the job correctly in the past?
 - a. If no, had the employee ever been corrected/retrained?
6. Were obstacles present that would hinder the employee from doing the job safely?
 - a. Conflicting procedures?
 - b. Conflicting orders?
 - c. Lack of equipment?
 - d. Rush to get the job done?
7. Has the employee been under any stress?
8. Any morale problems?

9. Did the work flow (layout, arrangement, clutter, routing) have anything to do with this accident?

10. Were conditions and/or equipment inefficient or unsafe?

11. Was the job procedure awkward or unsafe?

12. Was personal protective equipment needed for this job?

- a. Was it used?
- b. Correctly?

13. Is there a high employee turnover and/or absenteeism problem?

14. Is the job boring?

15. Was the employee correctly placed on this job?

16. Should the employee be doing this work?

17. Could management have done anything to prevent this mishap?

- a. Set better goals?
- b. Set better policy?
- c. Set better accountability?
- d. Spread the workload more evenly?
- e. Recognize safe work?
- f. Discipline unsafe work?
- g. Increase the number of employees?

18. Did you (the supervisor) see the potential for this accident happening?

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Attendance at PRIMA conference grows

ORLANDO, Fla.—The presidential gavel was passed from Don LeMond, risk manager for the state of Missouri to Allen F. Hyman, director of safety and risk management for the city of Corpus Christi, Texas, to open the sixth year of the Public Risk & Insurance Management Assn.

Some 380 risk managers of governmental bodies, brokers, insurers and consultants attended PRIMA's fifth annual conference, held May 29 to June 1, about 100 more than last year. In addition, the number of session offered at the conference grew to 45 this year from 34 in 1983.

PRIMA membership currently stands at about 800, about the same number as last year. Mr. LeMond, the outgoing president, attributes the lack of growth to governmental budget cuts, but he predicts PRIMA will double in size in the next five years.

One of the highlights of PRIMA's activities in the last year was the adoption of self-insurance pool advisory standards by the group's pooling section.

"The pooling section modeled its regulations on the NAIC regulations, and will be the standard of operations to keep the pools financially solvent," Mr. LeMond said. The section also introduced a monthly newsletter this year.

Other PRIMA activities this year include:

- Input on a new comprehensive general liability policy.
- A meeting with Marsh & McLennan Inc.'s public entities committee on how the broker's committee can best serve the needs of PRIMA members.
- A PRIMA task force in Washington to assist the District of Columbia in setting up a risk management program.
- A cost-of-risk survey for the public sector de-

veloped with Risk Planning Group in Darien, Conn.

Mr. Hyman, the incoming president, had been a PRIMA vp for the last two years.

Also elected to the PRIMA board as vps were: Mark Ferraro, risk manager for San Antonio, Texas; Gary Martin, risk manager for Manhattan Beach, Calif.; and Howard Taylor, director of risk management for Lakeland, Fla.

Remaining on the board as consultants are Mr. LeMond and Robert J. Ellis, risk manager in Clearwater, Fla., a former president. Remaining as vps are: Mary Lou Emmert, risk manager with Monterey County, Calif.; Fred Marshall, risk manager and benefits administrator for Arlington County, Va.; and Barbara Yeager, insurance coordinator for Johnson County, Kan.

PRIMA's first annual risk management achievement awards were also presented at the conference.

Mr. Ferraro won the health care cost containment award by saving approximately \$2 million of the city's health care costs between 1983 and 1984.

Edward D. Hansen, risk manager of the Intergovernmental Risk Management Agency, a pool in the Chicago area, won two honors. One, the self-insurance award, was for the pool's record of saving 27.2% over the estimated cost of conventional insurance. The other was the award for loss prevention in pool administration.

David Rule, deputy director of occupational medicine and safety for Baltimore, Md., won the safety in the workplace award. The city reduced accidents by 16%, the number of workers compensation claims by 13% and their cost by 17%.

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Public entities should protect against pollution suits: Expert

By SALLIE J. DRURY

ORLANDO, Fla.—Public risk managers who are not protecting themselves against the strict liability for environmental hazards are sitting ducks, warned David J. Dybdahl Jr., environmental risk management specialist with Corroon & Black of Wisconsin Inc.

Speaking at the fifth annual Public Risk & Insurance Management Assn. conference, Mr. Dybdahl warned risk managers of their retroactive liability exposures caused by "40 years of mismanaged waste."

"The cleanup cost for the 420 Superfund sites is estimated at \$40 billion, and that's just cleanup. It's not figuring for any victim compensation," Mr. Dybdahl said. "There are also more sites than that to be cleaned up. We've already identified 2,000."

To put this figure in perspective, he noted that all the U.S. fire losses in 1982 came to \$6 billion.

Not every public risk manager has a Love Canal in his or her backyard, "but you are at least involved in garbage collection," Mr. Dybdahl noted. Even a garbage waste site can contaminate soil or underground water, and such risks should be managed now, before they cause future liability suits.

Environmental impairment risks are some of the most difficult to manage, Mr. Dybdahl admitted. "They are difficult to identify because what may appear safe today may break down years from now, and also you may not be aware of what your predecessors did."

Also, EIL losses are expensive, "and they are increasing exponentially over time," he said.

To compound that problem, defenses are eroding, and exposure is widespread. "Anyone who was on the site—then or now—is potentially liable to pay."

"There are three defenses," he continued. "Act of God, act of war, or act of a third party that did not have a contractual relationship with anyone involved with the site, and it's very easy to show a contractual relationship."

EIL exposures can evolve through new statutes or regulations, or through common law

when a victim sues.

"We are seeing the greatest bulk of EIL suits come through this (latter) category, because of what the courts are awarding for victim compensation," Mr. Dybdahl said.

Not only are EIL exposures difficult to manage, they are also difficult to fund. "First of all, there is very little data to accurately predict future losses," he said.

"Second, 'non-sudden' pollution is a standard exclusion because insurance companies really don't want anything to do with this stuff," he said.

"And yet," he added, "I have heard brokers and lawyers advise clients not to get environmental impairment insurance. But I would say, read your exclusions again, and buy the coverage."

Risk managers can look for non-sudden pollution coverage, which pays for bodily injury, property damage, cleanup and defense costs. However, those policies may be hard to get.

"There are about 100 insurers willing to underwrite this coverage, but if you have a landfill, you have three people in the world to talk to: Shand Morahan, Swett & Crawford and Stewart Smith," Mr. Dybdahl said.

The risk manager probably will also need the help of a specialist to help him determine his exposures, he said. "Those specialized firms will come in and also tell you how to handle your exposures."

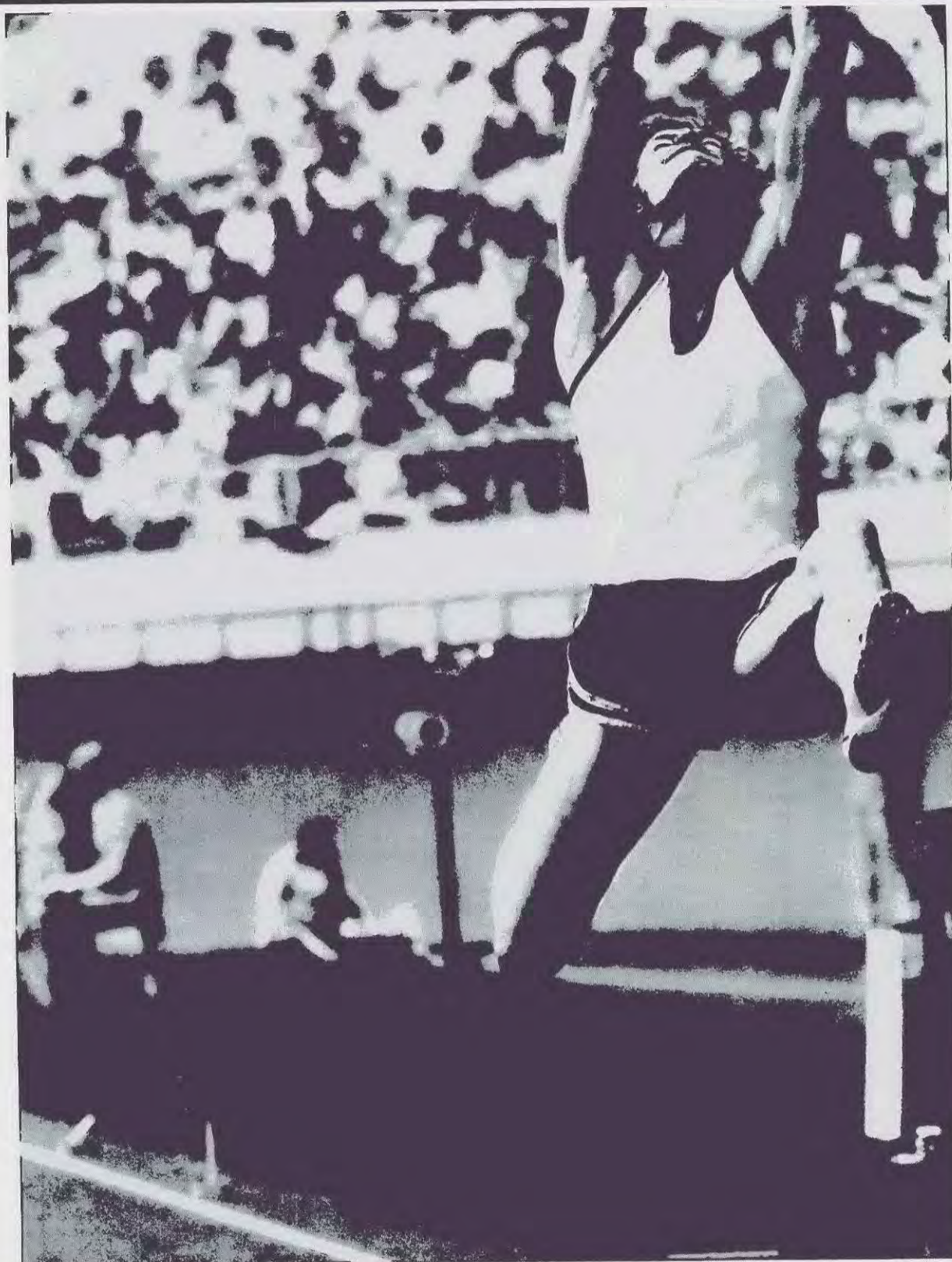
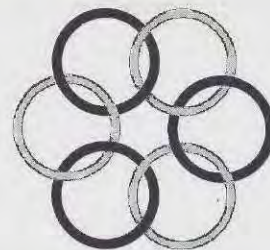
"But what can be an even better way to identify risks is to go back and ask the people that were around years ago," he said.

As a rule of thumb to identify exposures, any underground storage that is more than 20 years old probably leaks, he said.

Not only should risk managers plan safe ways to contain, or "eternally entomb" hazardous substances, they should also devise a contingency plan in the event that these containers spring a leak, Mr. Dybdahl said.

"This contingency plan is your most important risk management tool," he said. "Do you know what attorney you will call when you are named as a defendant? Do you know what your pollution liability policy covers and what it doesn't?"

Look to the Leader

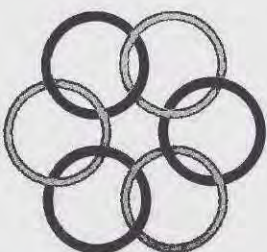


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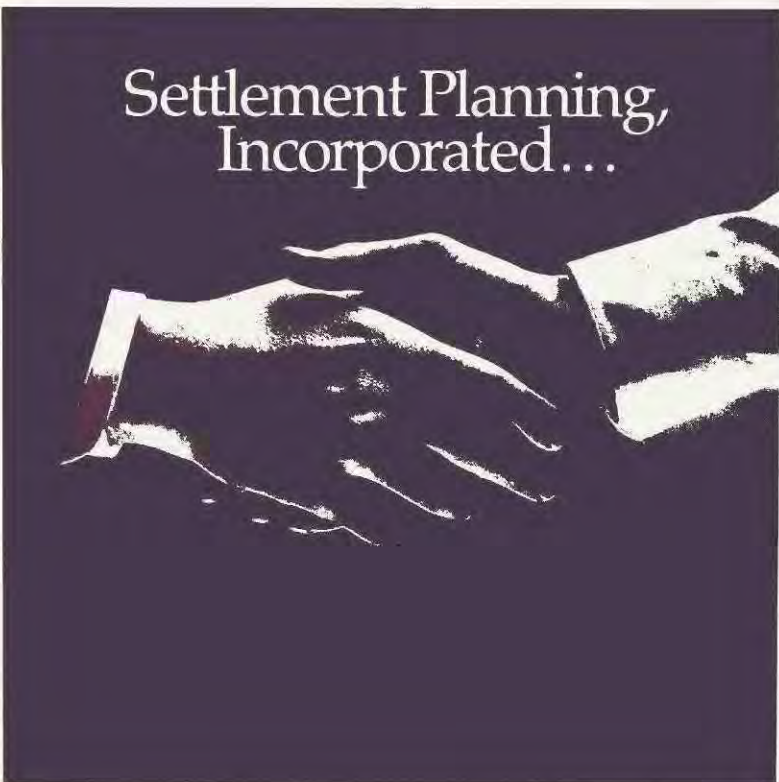
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Public entities' funding options explored

Continued from page 3

even negotiate our agent's commission. How many of you know what your agent or broker makes on each line of business he writes for you?

"Purchasing insurance is not simply a matter of an agent walking in the door with a policy, and you giving him a check, although all too often it goes like that. You should negotiate everything and coordinate your coverages. If you don't, you're asking for trouble," he said.

Risk managers negotiating conventional insurance policies should also be mindful of the personalities of the agents and insurers he or she deals with in order to foster a cooperative relationship in which everyone is satisfied with the outcome.

"The openness you exhibit with your underwriter affects the success of your program," Mr. Ellis said. "Underwriters are flaky, defensive people. If your underwriter trusts you, you have made a major step in improving whatever program you put together."

To establish this trust, the risk manager should provide as much data as he or she can about a risk so the underwriter can come up with a more accurate assessment. Or, even better, the risk manager should have the underwriter view the risk himself or herself.

The key to a successful conventional insurance program is the risk manager's active participation in forming the coverage, he explained.

"Ask specific questions of your underwriter relative to your coverage, exclusions, definitions—the whole gamut.

"For example, many of the ex-

clusions listed in a typical policy can be added at no charge simply by asking. It seems funny that they would be excluded if they can be added at no charge, but the insurer doesn't want to pay out any more money than it has to, so you've got to ask.

"Also, definitions can be changed to broaden the coverage, but you have to understand what the standard definitions are and also know what you want. Then, if you are going to ask for a change, I would suggest that you come up with the wording yourself and hand it to your underwriter, with a copy to your agent," Mr. Ellis said.

Payment schedules are another subject to negotiate. "Monthly payments, quarterly payments all can be had at no interest," Mr. Ellis said. "Jan. 1 this year we got hit with a \$5,000 general liability increase. I said, 'OK, I will give you the extra \$5,000 but I won't give you the whole thing up front. I will give you one-third down and the rest in quarterly installments.'

"The bottom line: The interest earned by having a payment schedule came to \$6,000, so not only did I get back the extra \$5,000 but I got \$1,000 on top of it just for being a nice guy.

"The thing is, I asked for that payment schedule."

The risk manager should also exercise some control over claims and their investigation. "Get nosy," Mr. Ellis urged. "Remember what is 'their' money is really your money. If they pay out more than they take in, they will get it back next year."

Also, many policies give the insurer the absolute right to settle any claim it chooses, which is "a right which is frequently abused," he warned. "They may settle a claim which you have a legitimate chance of not having to pay.

"If you do get a bona fide settlement offer from a claimant, and you as the insured do not feel the settlement is worth 10 cents, let alone \$10,000," then you should insist that the suit go to trial, Mr. Ellis said, but tell the insurer that it is only liable for the amount of the settlement offer.

"That protects you from paying the settlement, although if there is any additional cost, you are liable for that," he said.

To get the most for his or her money, a risk manager buying conventional insurance should demand all the services for which he or she has already contracted. "Are you getting adequate loss control, timely loss runs, safety inspections? The list goes on.

"It's not going to get you anywhere to sit in your agent's office and gripe and moan that you haven't seen the loss-control inspector in eight months," he said.

For those entities that don't want to vie for insurers' and agents' attention, self-insurance may be the answer.

It was for the city of Aurora, Colo., which has been self-funding its risks for the last eight years, after seeking an alternative to eroding liability protection and escalating premiums.

"We hired a risk management consultant to conduct an audit and their opinion was that the city should consider a partially self-funded approach," said Jack McHugh, Aurora's risk manager. "When our liability insurer refused to renew coverage, we decided to take the consultant's recommendation."

What has evolved is a program in which the city self-funds the first \$100,000 per occurrence of liability, workers compensation and other property/casualty losses.

The city's loss fund, which is now set at \$700,000, is re-budgeted every year based on the last five years' losses. All investment earnings in

the loss fund accrue to the city's risk management account.

The city purchases excess coverage from Lloyd's of London, Mr. McHugh said. "We have both specific excess, for losses over \$100,000, and aggregate excess, if the \$700,000 loss fund is exhausted. Therefore, the loss to the city will never exceed the amount in the loss fund, and no unforeseeable catastrophe will adversely affect the city's budget," he said, though he did not disclose the limits of the excess policies.

In addition, loss control was brought in-house, and the city's risk management department now includes, besides Mr. McHugh, two loss-control specialists, two nurse practitioners, one data entry worker and three clerical staffers.

"Our focus is on on-the-job injuries," Mr. McHugh said. "Our two nurse practitioners, plus one consulting physician that comes in once a week, help reduce our medical charges by directing employees to our health services clinic, rather than the emergency room for on-the-job injuries.

"Our secretarial staff functions as an intermediary between claimant and claim services, and they provide our (claims) administrator with most of the information they need. The data entry person analyzes the claims and trends that have evolved over the last several years."

Now that these responsibilities have been brought in-house, Mr. McHugh feels the city has better control over claims, settlements and overall costs than it would with a conventional insurance program. Nevertheless, he issued some warnings to those considering the self-insured approach.

"A self-insured program requires protection from future losses, and that requires reliable loss statistics," he said. "You need a data base to be able to accurately track losses.

"But, the problem of getting this information is sometimes compounded by local insurance agents, who are less than willing to assemble loss data for fear of losing a lucrative account to a national broker.

"Funding for future losses is difficult, too. During the first four years of our self-insured program the level of the loss fund leapt from \$125,000 in 1976 to \$700,000 in 1980. But, since that time it has been stable, which shows you that only experience with a program will allow you to budget accurately.

"Another funding problem that must be anticipated," he added, "is that the city council must be committed to the proposition that your loss fund is untouchable. It may be tempting to any entity facing serious budget restraints, but (the loss fund) can only be utilized for your purposes.

"Also, the council must be committed on a much broader basis to do anything that's required to make this a successful program."

For example, a city must put together a loss-control program since additional risks will be assumed in-house, "and that will never happen unless you have the support of upper management, or your city council. If they feel too limited to give you budgetary support, then you are far better off not self-insuring."

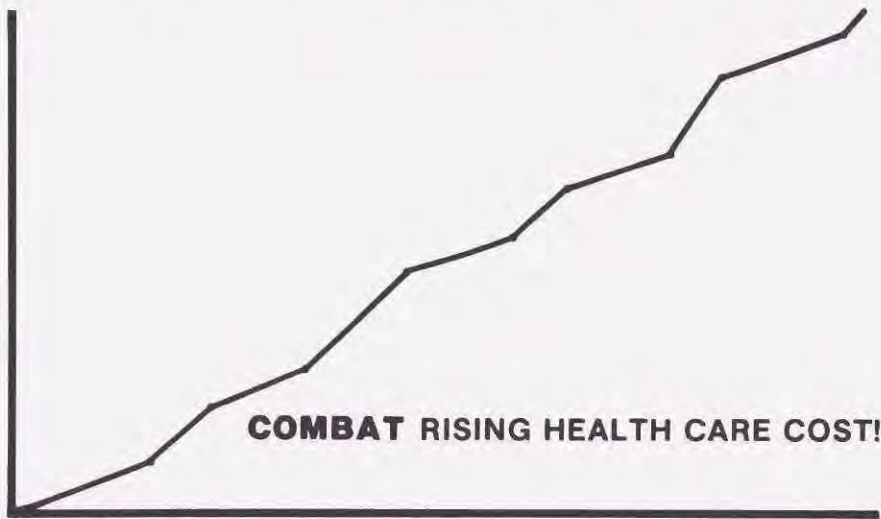
If, after weighing the situation for his or her particular entity, a risk manager chooses to become fully committed to a self-insurance program, such a program can be more successful and rewarding than his or her conventionally insured program had been, he noted.

"If you are committed to self-insurance, the benefits are there," Mr. McHugh said. "You will have control over how a claim is handled, what is paid and what is de-

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 nied. You will have improved loss control because you are directly paying the losses. And, you will have cash-flow advantages and new investment opportunities."
 The size of a community is another factor to consider when evaluating funding methods. For many smaller communities, self-funding is not practical. However, communities that want to self-fund, but can't because they are too small, can pool their risks with other entities.

"Pooling was born out of necessity, as was self-insurance," said David C. Epps, executive director for the Missouri Intergovernmental Risk Management Assn. in Columbia, a pool of 25 Missouri public entities. "Pooling is really another form of self-insurance, but with some of the same advantages and disadvantages of purchasing coverage through an insurance carrier."
 "Basically, you are sharing the risks with your peers," Mr. Epps explained.

"For those of you spending over \$250,000 a year on your (risk management) program and with a full-time risk manager, pooling may not be as viable an option as self-insurance," he continued.
 "In a lot of ways, Jack (McHugh) explained what pooling does, but Aurora does it all by itself. You have significant input on claims policies, loss control and program design. And, you negotiate with the pool the type of program you want, which is what Craig (Ellis) said you need to do with conventional insurance."

Just as with conventional insurance and self-insurance, pooling requires a certain amount of expertise from the risk manager. But, joining a pool means that an experienced staff can be hired and shared by the group, rather than supported by one entity alone.
 Some of the advantages of pooling over conventional insurance that Mr. Epps enumerated are:

- Improved cash flow.
- Ownership of reserves.
- Long-range cost containment.
- Broader coverages.
- Higher limits.
- Superior claims service.
- Superior loss control.
- Superior claims information.
- One source of coverage.
- Centralized services.

Mr. Epps earmarked ownership of reserves as a "very significant advantage."
 "Insurance companies have been accused of over-reserving their claims, and pools can be in the same position. You can reserve more than you actually need, but if you do... those reserves all come back to the members one way or another."

"In many cases, liability claims or workers comp claims can stay open five, six, seven years and longer. The ownership of those funds allows you to keep continually investing the reserves, and that is your money."
 Another advantage pooling has over both conventional insurance and self-insured programs is "strength in numbers," Mr. Epps said. "A pool has greater bargaining power with providers. When you go in and demand services, you are applying a certain amount of muscle, because you represent a significant amount of money."

It all sounds easy and wonderful, but Mr. Epps said a pool will only work "if it is properly formed, properly funded and properly administered."
 "Basically, what it all comes down to is funding," Mr. Epps said. "That's what makes the system work."

"First, it must be adequate. There are two funding methods: 100% and discount."
 The first method—100% funding—requires every member to pay 100% of his assessment up front each year. Discount funding allows

members with superior loss experience to receive 10% or 15% discount at the beginning of the year.

"...I like the 100% funding concept. It's safe. You don't have to give away the store on the first day, you give it back later (through dividends if there are excess reserves)."

It is also prudent for pools to purchase both specific and aggregate stop-loss coverage, Mr. Epps said. "You need to know that several guards are in place when you get into a pool," he said.

Entities interested in participating in a pool should also ask about the pool's reserving practices. "You want to know their procedure to prevent a year-end assessment in a bad year," Mr. Epps said.

Another advantage of the pool is that it removes the temptation of raiding reserves away from individual municipalities. "It takes loss funding out of the reach of the governing bodies, which is important."

In this way, the pool is a compromise between conventional insurance and self-funding, just as it is for its loss control and claims management practices.

"Like conventional insurance, you are transferring the responsibility to another organization. But, like self-insurance, it's an organization that you are a member of."

Despite the differences of each funding method, most public risk managers already have had experience with each type, and they can

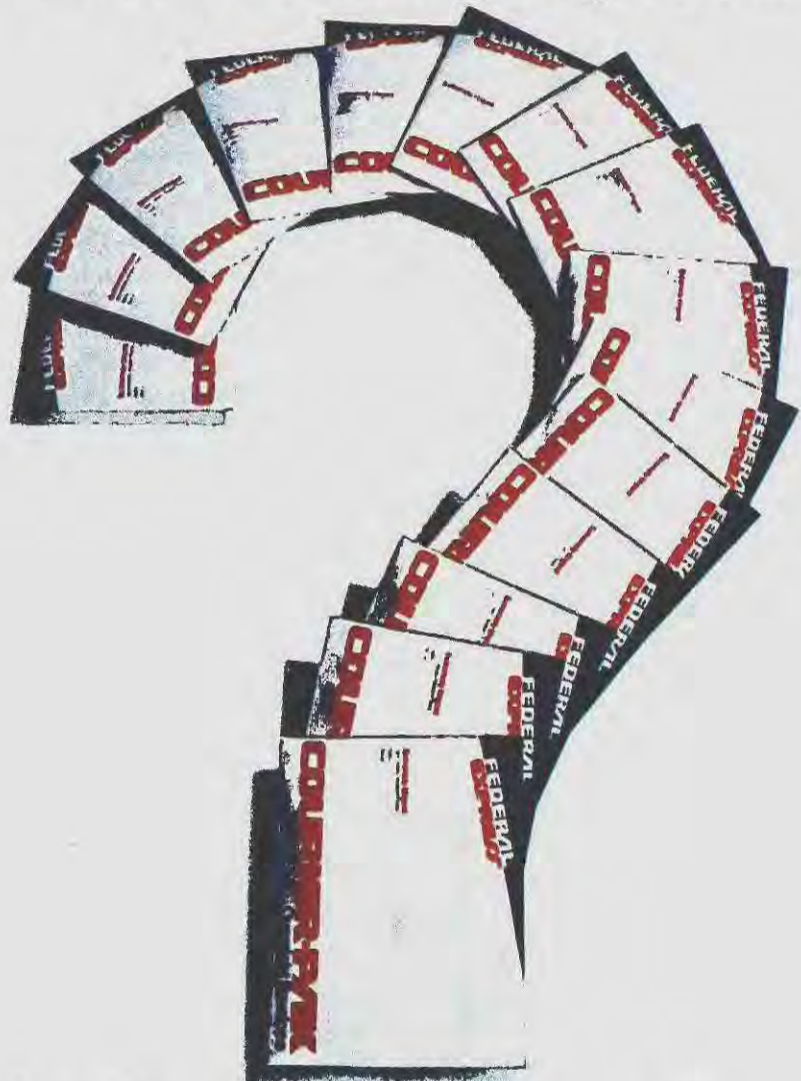
draw on this experience to better understand all three methods work, Lakewood's Mr. Ellis said.

"If you buy any kind of insurance—not just first dollar, but even excess—you are dealing with conventional insurance coverage," he said. "And, most of you in your programs have retentions or deductibles. If you are funding for that amount, it's a form of self-insurance."

"(For) anyone purchasing long-term disability or aggregate or specific stop-loss for group medical, (the) chances are that's pooled coverage. Very few policies in those areas are written specifically for your entity," because they are group-experienced rated. ■

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Detect physical problems: Doctor

By SALLIE J. DRURY

ORLANDO, Fla.—Risk managers should be aware of physical factors that can create health problems that decrease productivity and workplace safety while increasing costs.

That was the message delivered by two physicians at the fifth annual Public Risk & Insurance Management Assn. conference. If those physical factors are understood, the doctors said, they can be managed like any other risk.

"Some individuals may be more prone to heart disease than others," said Dr. Paul O. Davis, president of the Institute of Human Performance in Langley Park, Md. "In fact, 64% of American have some symptom of heart disease."

But, it takes many years for the disease to manifest itself, and control of certain factors can prolong a worker's healthy years.

Some of the factors that cannot be controlled are age, genetic predisposition and the presence of such metabolic disorders as diabetes.

However, a number of other very important factors can be controlled.

"Smoking increases one's risk to cumulative disorders by five to 10 times that of the average non-smoker," Dr. Davis said. "It's the single health condition in this country that, if corrected, would have the most profound impact on the disease statistics. It also reduces one's capacity for doing hard, phys-

ical work by about 10%.

"In fact," he continued, "if we were to tax tobacco in relation to the impact it has on medical costs, that tax alone would be \$1.30 a pack. And lung cancer represents only about 16% of those costs."

Fat and cholesterol levels also increase the risk of heart disease. "You can't say it causes heart disease, but it does have a high statistical correlation," he said. Similarly, obesity and a sedentary lifestyle are not causes in themselves, but in combination with other factors they increase the risk, he said.

Hypertension can also lead to heart failure, and this can only be diagnosed by taking several blood pressure readings to make sure it is a chronic condition.

"Hypertension is not the same as regular tension or stress," Dr. Davis said, "but stress too can be a problem. We don't have a clear-cut method of objectively quantifying stress, and it (stress) is in fact something everyone needs."

What employees need is a method of coping with stress, he said, and a risk manager could implement such a program.

One of the "fastest, most efficacious" methods of determining whether an individual has heart disease is an exercise test, also known as a stress test, Dr. Davis said. Usually, this test requires the individual to run on a treadmill to the point of exhaustion while his or her vital signs are monitored.

But, risk managers must be careful of what exams are conducted on

'You have to ask yourself, is the individual worth the investment?' Dr. Davis says.

current or potential employees.

"You are to test a person for his or her ability to do a particular job. Now, since we've had (Equal Employment Opportunity Commission) legislation, if the test is for pre-employment screening, any potential risk the job may pose to the individual must be imminent and substantial," said Dr. Michael S. Wald, director of occupational health analysis for Memorial Hospital Medical Center in Long Beach, Calif.

Thus, tests must meet certain criteria if they are to be valid.

"First, is the content of the test valid?" Dr. Wald asked. "That refers specifically to a given test's ability to relate to its intended application. For example, if you wanted to know how much someone knew about U.S. history, you would not ask him the square root of seven. So, if you wanted someone to be a firefighter, one of the tests that would have valid content might be climbing a ladder."

A test must also be constructively valid, which relates to its intrinsic worth. "A coronary angiogram has great construct validity to diagnose heart problems, but there is very little construct validity in back X-rays to diagnose back problems," Dr. Wald said.

Tests must also be reliable, or capable of being reproduced by others at a later time. "This is a function of objectivity," he said. "For example, if I have two doctors examine a patient to see if he has a heart murmur, I will probably get two different opinions, because it's a sound each one is listening for, and that's subjective."

"But if I ask the doctors to take the person's blood pressure," he continued, "I will probably get the same result, unless it's taken at two different times."

"And there is another factor," Dr. Wald added. "An objective test will have static measurements, taken at about the same time or in the same circumstances. If the tests were taken at different times or under different circumstances, the test is kinetic."

The test must also be safe, which means a stress test for an employee who recently recovered from a heart attack may not be acceptable.

Cost is another factor. "But don't get deluded by cost," Dr. Wald warned. "A Wasserman test to show the history of syphilis in the bloodstream is very inexpensive. I don't know why an employer would have this test done and use it to influence employment, but it was accepted and was done a long time ago."

"Also watch out for cheap physical examinations," he said. "They can really have no merit whatsoever."

The last factor to consider in administering physical tests is the legal implications, including discrimination.

Employers may wish to measure their employees' physical and mental health by tests of strength and exercise, psychological tests, physical examinations or an integrated approach to all three categories. But, an integrated test is still in the experimental stage, Dr. Wald said.

If applicants "flunk" their health tests, Dr. Davis advises that they not be hired.

But, for current employees, there is a brighter outlook. "Studies show that the effects of heart disease can actually be reversed with good medical—not just surgical—care."

To do that means managing those contributing factors that can be managed—and that can require a risk manager to invest in costly programs.

"You have to ask yourself, is the individual worth the investment?" Dr. Davis said. "Is he or she rehabilitatable, or should he be retired on disability? Keep in mind that the results of a fitness program don't start coming back for five years, but my opinion is (that) you will get a return on your investment."

"And if you don't pay now," Dr. Davis said, "you'll pay later." ■

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Conference committee tackles issues

Continued from page 3

employers, unions and trade associations.

The Senate provision on trusts is strongly supported by employers, but employers' trade associations have conducted an expensive lobbying campaign opposing the House bill's rules on trusts and experience-rated plans.

Committee staffers also describe as controversial a proposal to save flexible spending accounts from proposed Internal Revenue Service rules. Rep. Barber Conable, R-N.Y., and Sen. Bob Packwood, R-Ore., want to hook their amendment concerning FSAs onto the tax bill that the conferees are drafting (see story, page 3).

As a result, conferees may not discuss the Conable-Packwood proposal until later this or next week. The conferees say they would like to complete action on the tax bill by June 29.

A provision in the Senate bill that would affect the taxation of Social Security benefits also is considered controversial and won't be considered right away.

That provision, introduced by Sen. Alfonse D'Amato, R-N.Y., would exclude interest income

from tax-free bonds in determining whether a retiree must pay taxes on his or her Social Security benefits.

The House bill does not contain this provision.

Currently, up to one-half of retirees' Social Security benefits are taxed if their income, including interest from tax-free bonds, exceeds \$25,000 for an individual and \$32,000 for a married couple.

Rep. Conable said some congressmen are receiving thousands of letters in support of Sen. D'Amato's proposal. But conferees are expected to resist making the proposal part of the final tax bill because of fears that its inclusion could be the first step in dismantling the Social Security Amendments Act of 1983, which bolstered Social Security's funding base.

In addition, growing opposition to House and Senate provisions that would expand Individual Retirement Accounts could delay their consideration.

The Senate bill would gradually increase the amount of money an employee with a non-working spouse can contribute annually to an IRA to \$4,000, compared with

the current \$2,250 limit.

The House bill would allow all individuals to contribute an additional \$1,750 to an IRA on an after-tax basis. While individuals would not receive tax deductions for these contributions, they would accumulate interest tax-free until withdrawn.

Opposition has been growing because because both provisions, especially the Senate's, would decrease federal revenues. In addition, some congressmen say the provisions only would aid the middle and upper classes, not the working poor who cannot afford to contribute to IRAs.

The conferees, though, are expected to give quick approval to a provision in both bills that freezes increases in maximum pensions benefits and contributions to defined contribution plans until 1988 (BI, April 23).

Although it was not known last week when the conferees would discuss any other risk management provisions contained in the bills, observers said the committee would act relatively quickly on a proposal that would disallow tax deductions for self-funded loss reserves for future claims since it is contained in both bills.

It's uncertain, however, when

the committee will consider two other major issues that concern risk managers:

- A provision to increase the excise tax on reinsurance premiums paid to alien insurers.

- A provision that would recharacterize certain Subpart F income, which would reduce the tax advantages of using offshore captive insurance subsidiaries.

Observers predict that the Senate-adopted provision that would increase the excise tax on reinsurance premiums will not be accepted, due primarily to insurance industry lobbying.

The provision to recharacterize certain Subpart F income may be among the last items considered by the committee because of the complexity of the provision. ■

update

Star-Kist plant to remain open

LOS ANGELES—A Superior Court judge refused the city of Los Angeles' request to shut down a Star-Kist Foods Inc. plant, noting that the facility is working to improve its alleged poor safety record.

The city is considering an appeal of Judge Lawrence Waddington's May 31 decision, which Jan Chatten-Brown, senior assistant city attorney, calls "disheartening."

She reports the city now also may ask the court to expedite the trial of its civil suit against Star-Kist, Pittsburgh-based H.J. Heinz Co., which is Star-Kist's parent, and seven officers and other employees of the two companies.

The Terminal Island facility, a tuna and pet food processing plant, had been cited for 151 violations of Cal-OSHA and California Business and Professions Code regulations over a four-year period when the city sued in February to close the plant unless it adopted a stringent safety and accident-prevention program (BI, Feb. 27).

Star-Kist's attorney, Ward L. Banshoof with McCutchen, Black, Verlager & Shea, reported last week that the plant has reduced by 46% the total number of on-the-job injuries and accidents in the first five months of this year, to 72 from 133 in the first five months of 1983.

The plant's safety record has seen "constant improvements" since May 1983, he says, adding that the facility and the United Industrial Workers Union jointly hired an independent safety consultant this April and that two additional people were hired several weeks ago to work with the plant's full-time safety director, who was brought aboard in May 1983.

The plant's safety program now is "a responsible and responsive one," Mr. Banshoof says.

On May 14, while Judge Waddington's decision was pending, an accident at the plant resulted in the partial amputation of an employee's finger. Ms. Chatten-Brown says the employee was operating an unguarded machine that she wasn't trained to use. Mr. Banshoof calls the accident "very disappointing," but points out that it is the first major accident at the plant in five months.

Leatherby appeal dismissed

CHICAGO—A federal appellate court has dismissed an appeal by Leatherby Insurance Co. and refused to vacate an earlier judgment against Leatherby that awarded Merit Insurance Co. of Chicago \$10.7 million (BI, Aug. 15, 1983).

The 7th U.S. Circuit Court of Appeals, which reinstated the award to Merit last July after it had been overturned by a U.S. District Court, also ordered Leatherby, now called Western Employers Insurance Co., to pay attorneys' fees.

Merit filed the suit in 1976, charging that Leatherby had illegally withheld cash in the form of claim reserves and failed to disclose other critical information when Merit agreed to reinsure an existing automobile insurance portfolio that a New Jersey agent had written on a retrospective basis with Leatherby.

An American Arbitration Assn. tribunal decided the case in Merit's favor in 1980.

There are still two lawsuits pending in the dispute, including one against the accounting firm that audited the New Jersey agent and the other against the former president and chairman of Leatherby Insurance at the time of the 1972 agreement.

An attorney for Leatherby said the company had filed an application for a stay of mandate with the U.S. Supreme Court to prevent collection of the judgment pending the company's filing a petition for a writ of certiorari with the high court.

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Regulators', insurers' views requested

Continued from page 2

viding the shield of protection for the people not be a vital part of an industry designed to save the most vital of all efforts we have: our lives and our health?" Rep. Pepper asked, calling for the insurers' input in designing the new delivery system.

Noting that he does not favor national health insurance, like the British or Canadian systems, Rep. Pepper called for the creation of a uniquely American system.

"Let's develop an American system based on the American principles of free enterprise, of private responsibilities, of initiative responsibility, in the way that industry and government will be working together to serve the great end of the people," he said.

Rep. Pepper noted that the federal Medicare program does not supply all the health care services needed by the elderly. He told

stories of elderly people visiting his office or testifying before congressional committees who were in need of health care but were without funds.

"How do we put together in America a system of health care, which will be thoroughly American, be fair to everybody involved, but will assure that every man, woman and child in America... will be able, with whatever means he or she has, to get the medical care he or she should have?"

The congressman referred to some alternative delivery systems like HMOs and systems where charges are assessed by diagnosis-related groups.

He noted the many HMOs operating in Dade County, Fla, which he represents.

"A lot of the owners are telling me they're making money. They've got many, many thousands (of enrollees) and that number is increas-

ing. They tell me where they save money is in preventive care," Rep. Pepper said.

"I want to see a system of health insurance based on the law of averages. I want to be able to see people pay in whatever they can, and the rest the government will pay in... and HMOs can be part of it," Rep. Pepper said.

HMOs usually charge a flat monthly rate to enrollees, and in return they offer a full line of medical services, including, in some cases, mental health and vision care. Many HMOs are already operated by insurers (BI, Dec. 19, 1983).

Some of those attending the session, including regulators, believe that HMOs will be part of the solution to rising health care costs, but not the only solution.

"I'm not convinced that HMOs we've had in the past work," Oregon Insurance Commissioner Josephine M. Driscoll said, pointing to an HMO that her department liq-

uidated in 1981.

But, she said, HMOs may have become more effective in the past several years as new laws regulating them have been passed and their ownership is shifting to for-profit organizations.

A representative of an HMO trade association joined the regulators in praising Rep. Pepper's invitation to discuss health care with Congress.

"You'd almost think we wrote the speech," said Erling Hansen, general counsel for the Health Assn. of America, a Washington-based HMO trade association.

He noted that the insurance industry already is involved in developing HMOs, and he said he hopes Rep. Pepper's remarks will encourage more of that activity.

"It's a little unclear exactly what Rep. Pepper has in mind, but we certainly think HMOs are one part of the solution to providing quality health care to the elderly," he said.

Insurer representatives who par-

ticipated in the panel discussion on wellness also were encouraged by Rep. Pepper's remarks.

"We're increasingly coming to understand that our business is long life and good health," said Fred Schott, vp of training and development for Central States Health & Life Co. of Omaha, Neb.

Clarence E. Pearson, assistant vp of the Health and Safety Education Division of Metropolitan Life Insurance Co. in New York, said, "I think (HMOs) are only one of the many activities that the insurance industry has to look at."

And, Ronald J. Cook, corporate manager of health education and physical fitness programs for Sentry Insurance in Stevens Point, Wis., said he is not sure all the facts are in yet on HMOs, but he is eager to meet with Rep. Pepper and his staff.

"The key message is that if we let government make all the decisions, we're going to be sorry," Mr. Cook said. "So let's do it together." ■

Lloyd's report

Continued from page 2

flicts of interest.

• Lloyd's began codifying new rules as proposed in the 1980 Fisher report, which led to the Lloyd's Act, as well as those proposed by Mr. Plaistowe, Mr. Higgins and other working parties.

• In the United States, where more than 50% of its total net premium income is generated, Lloyd's acquired Toplis & Harding Inc., a Chicago-based adjusting firm. A new chief executive is yet to be appointed, but the report notes that the council already is considering how to develop Toplis & Harding into the company that settles Lloyd's claims in the United States.

• Sir Peter Green retired after serving four years as chairman.

According to the report, Lloyd's increased its trust funds by 27% to a total of 1.4 billion pounds (\$2.06 billion). The funds, which are held as part of the security underlying Lloyd's policies, include Lloyd's members' deposits, Lloyd's members' special reserve funds and Lloyd's central fund.

In addition to these funds, Lloyd's also maintains an American trust fund, which last year was increased 5% to 4.4 billion pounds (\$6.47 billion).

But, Lloyd's was not without its hardships last year. The market had to cope with allegations of misconduct by underwriting members.

"The reports of the committees of inquiry provide prima facie evidence of wrongdoing in a limited number of cases," the report said. "It is expected that disciplinary proceedings will be initiated in a number of cases during 1984."

Also last year, Lloyd's completed civil litigation involving syndicates once managed by Sasse Turnbull Ltd. (BI, May 2, 1983).

Disciplinary proceedings may result from the 1979 suspension of underwriting at Syndicate No. 762, the report said. The Sasse syndicate stopped underwriting when it could not pay more than \$51 million in claims from New York property insurance policies.

However, Lloyd's estimates that the corporation may be liable for approximately 10.5 million pounds (\$15.44 million) resulting from its indemnification of 110 Sasse Syndicate members for losses incurred in 1976 and 1977 and a settlement made last year with five other names (BI, May 30, 1983). This figure excludes recoveries that may be made by Lloyd's and contributions made by Lloyd's members.

Also last year, Lloyd's relationship with the Inland Revenue Service was a source of "particular concern," the report noted. At the moment, the Inland Revenue is looking to see if there are any taxes owed on rollover reinsurance policies that syndicates placed offshore (BI, April 30). ■



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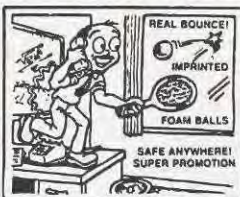
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IRS audits Quaker's successful program

Continued from page 3

care costs were expected to increase 20% to 25% a year, according to Mr. Penzkover. But under the new plan, Quaker spent an average of \$1,535 per employee on health care in 1983, compared with \$1,454 per employee in 1982, a 5.6% increase and the exact increase Quaker had targeted for 1983, he points out.

And, of that \$1,535, only \$1,331 went for health care claims and expenses, an 8.5% decrease from health care claim costs of \$1,454 per employee in 1982.

Quaker calculates its average net health care claim costs by adding the cost of medical claims plus administrative expenses and then subtracting employee contributions.

In 1983, \$1,336 was spent per employee on medical claims, down 6% from \$1,421 in 1982. In addition, average administrative costs per employee dropped to \$62 in 1983 from \$71 in 1982 and average employee contributions to premiums increased to \$67 from \$38 in 1982. Overall, this produced the net average claims cost per employee of \$1,331.

Under Quaker's Health Incentive Plan, if net health care claims costs per employee remain below the targeted total plan cost, the difference between the targeted amount and actual costs is returned to employees as a dividend that is added to their expense account for the next year.

In 1983, employees with dependents received a \$154 dividend and employees without dependents received \$88, for an average dividend of \$128.

At the end of the next year, employees can take in cash any unused dividends in their account.

If the plan's overall healthcare costs exceed the target level, the company, which self-funds its health benefits, absorbs the additional expense.

Quaker also figured that at year-end employees had an average of

\$76 remaining in their expense accounts that they also could take as cash at the end of the year.

The \$128 dividend and \$76 expense account refund, plus the \$1,331 net average claims cost per employee, brings Quaker's total plan cost per employee to the \$1,535 targeted for 1983.

This year, both the expense account contribution and the deductible were increased to \$325, to keep pace with inflation. For 1984, Quaker projects that its total plan costs will increase by 8% to \$1,658 per employee, also due to health care cost inflation.

"The key thing here (in 1983) is that the net cost of medical claims went down," stressed Mr. Penzkover. "It's unheard of to cut medical costs. We're used to looking at 15%, 20%, 25% increases in the past 10 years."

From 1971 to 1981, Quaker's health care costs soared 283%.

"Only 25% of Quaker's savings was from cost-shifting (expenses shifted to employees)," he added. The other 75% came from controlling unnecessary utilization."

Mr. Penzkover believes plans like Quaker's benefit both the corporation and the government.

They benefit corporations by lowering health care costs and, in turn, this reduces the employer's tax deduction for contributions to employees' health care costs.

"Our plan actually increases tax revenue while it controls health care costs," he said.

The IRS review of Quaker's plan began in early March, approximately a month after the IRS issued a news release declaring most flexible spending accounts that are regulated by Section 125 of the Internal Revenue Code retroactively invalid (BI, Feb. 20). Subsequently, the IRS last month published proposed regulations for Section 125 (BI, May 14).

The proposed rules say FSAs are valid only if employees forfeit any unused funds at the end of the year

Benefit manager pleads case in Washington

Robert Penzkover says the Internal Revenue Service attack on flexible spending accounts is a "threat to the most viable cost-containment measure in use today," and he's taken his case to Washington.

Mr. Penzkover, who is the director of employee benefits at the Quaker Oats Co. in Chicago, spoke before the House Republican Research Committee's Task Force on Health and Environment on June 5.

He was asked by the task force to come to Washington to explain Quaker's health care cost-containment plan, which includes an employee expense account. The IRS is currently auditing Quaker's plan.

"The IRS position of not allowing cash rebates of unused medical expense accounts has crushed the effectiveness of our Health Incentive Plan," Mr. Penzkover said.

"We believe our plan complies with all applicable statutes and that the IRS position is without technical merit. It represents new legislation," he told the committee.

"After nearly six years of silence while employers and plan sponsors begged for regulatory guidance, the IRS has dealt a crushing blow to health care cost containment. Our plan has proven that health costs can be reduced while producing revenue increases (see story, page 3). This clearly refutes the contrary allegations by Mr. (Harry) Conaway and Dr. (Robert) Rubin in their letter exchange."

In an exchange of letters between the Treasury Department and the Department of Health and Human Services, it was estimated that \$11.5 billion in tax revenue would be lost between fiscal years 1985 and 1989 if FSAs were allowed to continue in their current state.

Mr. Penzkover went on to ask Congress to pass a proposal by Rep. Barber Conable, R-N.Y., designed

to save FSAs (see story page 3).

"We, like hundreds of other plan sponsors, are asking the Congress to invalidate the IRS position by passing Congressman Conable's proposal as formal legislation," Mr. Penzkover told the task force. "We would like to see the proposal amended to allow year-end cash-outs or rollovers for plans that do not use a salary reduction mechanism."

"It is essential that differences among types of plans be recognized by lawmakers and regulatory agencies. Our type does not cause revenue losses—it provides revenue increases."

"If anything, our cash rebates should be given tax exemption to further encourage judicious use of health care. But that may be too much to expect, given the current financial environment."

Regarding another health care issue, Mr. Penzkover also asked Congress to consider uniform price disclosures for medical care.

"One impediment faced by consumers is a general lack of comparative pricing information," he said. "Consideration should be given to mandated price disclosure by providers of care. The DRG (diagnosis-related groups) prospective payment system can serve as a uniform standard for such disclosure. Since providers will have to maintain data systems for Medicare patients, it would be relatively simple to include private patients as well."

In his closing remarks, Mr. Penzkover asked for relief of Medicare cost shifting to the private sector.

"About 40% of our employees' hospitals bills represents a hidden tax to make up for what the federal and state governments do not pay for their patients. While I can't offer a concrete proposal for solving this problem, it is definitely of a magnitude that requires policy consideration at the national level."

and if employees prospectively choose the benefits on which they will spend their account money.

The IRS has asked Quaker to prepare answers to a list of questions on its health expense accounts. According to Mr. Penzkover, the report took about two days to complete and the audit cost the company "relatively little."

"We're not convinced that our plan is covered by those regulations (that govern Section 125 plans)," he said. "But we don't know if the IRS would agree with that, and you

can't get a ruling. So we're in never-never land.

"We're operating the plan in good faith," he noted.

Mr. Penzkover added that he has spoken to IRS attorney Harry Beker about the audit.

"His opinion, verbally, which doesn't mean anything legally, is that our plan is not covered by (the IRS regulations) because it is not an Section 125 plan," he said.

"We're not exactly sure if our plan qualifies under Section 125 or Section 105B," said Dennis M.

Corry, manager of benefit plans at Quaker. Section 105B deals with the taxability of amounts spent on health care by employers.

Last week, Mr. Penzkover appeared before the House Republican Research Committee's Task Force on Health and Environment to explain Quaker's cost-containment plan and fight for support for a bill proposed by Rep. Barber Conable, R-N.Y., that would make most current FSAs valid plans under Section 125 (see related stories, pages 3 and this page).

Conable FSA proposal picks up support

Continued from page 3

In a speech last week in Washington to the Employers Council on Flexible Compensation, Rep. Conable said that the proposal, which is broadly supported by employers, has at best only a 50-50 chance of being tacked onto the tax bill.

Obstacles that the proposal faces, according to Rep. Conable, include:

- The issue of whether the proposal is "conferable." Some members of the conference committee may argue that the proposal is not relevant to provisions now in the tax bill and thus should not be considered by the conferees.

The Senate tax bill, H.R. 2163, has no section on cafeteria or flexible benefit plans. However, flexible benefit plans are mentioned in a section in the House bill, H.R. 4170, that lays down tax rules for benefits, like employer-provided parking spaces, that are not covered by the Internal Revenue Code.

That section says taxable benefits—except for extra vacation days and group term life insurance coverage exceeding \$50,000—may not be part of the options offered to participants in a flexible or cafeteria plan.

The connection between the Conable-Packwood proposal and the House section on cafeteria and flexible benefit arrangements is tenuous, observers say.

That weak connection could give ammunition to Treasury Department and Internal Revenue Service officials who say the Conable-

Packwood proposal isn't relevant to the tax bill and thus should not be considered by the conferees.

Ultimately, though, what is "conferable" will be decided by the conferees, especially committee chairman Rep. Daniel Rostenkowski, D-Ill., who has so far steered away from the FSA issue.

- Controversy. The issue of FSAs and the rules that should govern them is tough and controversial, which will decrease the chance that the conferees will want to get involved, Rep. Conable says.

- Competition from other issues. With the conferees considering tax bills that have hundreds of provisions, the odds that the committee will deal extensively with a controversial, arcane issue are slim.

In short, Rep. Conable warns, "Don't assume changes in Section 125 (the section of the tax code that governs flexible benefit arrangements) will be easy."

But while the battle to save FSAs from IRS rules will be long and difficult, Rep. Conable says he is determined to fight.

Rep. Conable was the first congressman to enter the FSA fray after the IRS issued a news release in February saying most forms of FSAs are invalid (BI, Feb. 20).

That news release, followed by proposed rules issued last month (BI, May 7; May 14), said employees and employers that have taken advantage of the tax savings offered through FSAs may be retroactively liable for additional taxes, interest

and possible penalties.

FSAs are individual employee accounts that provide for pretax reimbursement of certain non-taxable benefit expenses.

The employee can spend these pretax dollars on expenses that are not covered under group health insurance plans—like deductibles and copayments—and on vision, dental, legal and dependent care plans.

Under the Conable-Packwood proposal, caps would be placed on the amount of benefits that could be offered through an FSA. For all benefits, except dependent child care, an FSA could offer no more than \$2,000 in options.

For dependent child care, the cap would be \$2,400 for participants with one child and \$4,800 for employees with two or more children.

Employees would have to allocate flexible spending dollars for different benefits at the beginning of the plan year.

Unused flexible spending dollars could not be taken out as cash at the end of a year. However, employees could roll over unused benefits into a benefits bank for use next year.

For example, if an employee in 1984 allocated all \$2,000 in a FSA for medical benefits and used only \$1,500, the employee could carry forward the \$500 of unused medical benefits for use in 1985.

However, because of that overall \$2,000 ceiling on FSAs, only an additional \$1,500 could be added to

the FSA in 1985.

By contrast, the IRS proposal says unused benefits must be forfeited at the end of the year, an approach some label "use it or lose it."

The Conable-Packwood proposal would go into effect on Jan. 1, 1985. As a result, existing FSAs would be protected until then. By contrast, the IRS proposed rules are retroactive to Jan. 1, 1979, when Section 125 became part of the tax code.

In fine-tuning their proposal, Rep. Conable and Sen. Packwood would allow two taxable benefits—group automobile and group homeowners coverage—to be part of a flexible benefit plan. The initial proposal barred taxable benefits—except for extra vacation days and group term life insurance coverage exceeding \$50,000—from the plans.

Other changes include:

- Employees would be allowed to carry over from one year to the next up to two weeks of unused, elective vacation days. Earlier proposals did not permit such carryovers.

- All of the provisions in the proposal would "sunset," or end, on Dec. 31, 1987, and would have to be renewed by Congress. In an earlier proposal, the sunset provision would have applied only to FSAs.

- The Department of Labor would join the Department of Health and Human Services and the Treasury Department to study how plans that qualify under Section 125 can be modified to reduce health care costs. A previous pro-

posal would have left the study only in the hands of the Treasury Department and HHS. Rep. Conable says he is willing to consider further modifications of the proposal to gain conference committee acceptance.

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Losses may force insurers to raise rates

Continued from page 1

rates now, unlike after previous poor quarters, is the additional pressure exerted by a poor bond market that will cut into investment income and the fact that companies are running out of the deferred tax liabilities that cushioned earlier underwriting losses, analysts note.

About half—46%—of a property/casualty insurer's underwriting losses are ordinarily tax-deductible if they can be offset against deferred tax liabilities.

In addition, underwriters will be further pressured to raise rates if catastrophe losses continue to climb. In the first quarter, catastrophe losses, mainly stemming from bad weather, totaled \$325.5 million, an increase of 158.3% compared with the first quarter of 1983, according to American Insurance Group Services Inc.

Insurers have "nowhere to turn" except toward higher rates, sums up analyst Norman L. Rosenthal, a vp at Morgan Stanley & Co. in New York.

But, rate hikes, no matter how steep, will come too late to have a material impact on overall 1984 results, some analysts say, although others do anticipate that quarter-to-quarter comparisons will begin to improve in the third quarter.

Frederick V. Hill, vp at Moseley, Hallgarten, Estabrook & Weeden Inc. in New York, says, "I think there's been more price action than people say that's already in place, and I think that'll help."

"I think the modest rate increases already put into effect the past couple of quarters will start benefiting the industry in the second half of '84."

Others are less optimistic. "Eighty-four is gone, kaput. Whatever anybody thinks, it's worse than that," says Myron M. Picoult, senior vp and senior insurance analyst with Oppenheimer & Co. in New York.

"Results will be bad for the rest of the year," says Robert V. Brokaw Jr., senior analyst with Miller Tabak Hirsch & Co. in New York. "Whether it's really bad or horrible depends in part on catastrophes."

"Really bad" and "horrible" could be used to describe the aggregate first-quarter results of the major property/casualty insurers surveyed by *Business Insurance*. According to the survey:

- Underwriting losses for the quarter grew by 101.7%, compared with the first quarter of 1983, with the surveyed insurers posting an aggregate underwriting loss of

\$2.34 billion. Of the surveyed insurers, only Commercial Union Insurance Cos. posted improved underwriting results for the latest quarter.

- The aggregate combined ratio for the top property/casualty insurers—after policyholder dividends—deteriorated by more than 10 percentage points to 120.2% from 109.7% during 1983's first quarter.

- Investment income increased by 7.5% to \$1.7 billion. While modest, the increase compared favorably with the 4% gain posted during 1983's first quarter.

- Net written premiums rose by 5%, compared with a 0.2% decline during 1983's first quarter.

- Policyholders' surplus for the 20 companies that reported this data fell by 13.4% during the first quarter to \$13.56 billion from \$15.65 billion.

- Net operating income plunged 53.6% to \$431.1 million, compared with an 11.1% gain during the first quarter of 1983. Of the 25 firms that reported operating results, only three—American General Corp., Old Republic International Corp. and SAFECO Corp.—reported improved results, while seven suffered aftertax losses for the quarter.

Despite the poor results for the large property/casualty insurers surveyed by *Business Insurance*, they posted better operating results than the industry overall.

According to the Insurance Services Office and the National Assn. of Independent Insurers, the 600 insurers that account for 97% of the nation's property/casualty insurance business suffered a 79% drop in net aftertax income in the first quarter to \$426 million from \$2.03 billion.

Underwriting losses for the wide range of insurers in the ISO/NAII survey increased 98.4%, compared with the 101.7% jump in the *BI* survey. The aggregate combined ratio reported by the insurers in the industry survey stood at 119.0%, up from 110.2%.

Written premiums, according to the ISO/NAII survey, increased 5.4%, close to the 5.0% increase indicated in the *BI* survey. The industry's pretax investment income, however, grew only 3%, compared with a 7.5% gain reported by the large underwriters surveyed by *Business Insurance*.

While many insurers and observers believe the poor first-quarter results—no matter whose numbers one studies—will force insurers to finally implement meaningful rate hikes, others in the industry aren't so sure.

For instance, James A. McIntyre, president

and chief executive officer of Fremont General Corp., which reported the worst operating performance of the insurers surveyed by *BI* for the second consecutive quarter, says Fremont plans to introduce rate hikes on a selective basis, "but how effective it will be is anybody's guess."

"There's been some modest rate increases in reinsurance and in property and casualty," Mr. McIntyre notes, adding that "I wouldn't call it anything consequential."

Fremont, a California-based workers compensation specialist, reported a first-quarter operating loss of \$7.9 million, compared with a \$184,000 profit during 1983's first quarter.

Bernard C. Hlavac, vp and treasurer for Sentry Insurance Cos., another insurer that showed a sharp deterioration in operating results, is more optimistic than Mr. McIntyre.

"We're seeing the beginnings of some increases in the industry," he says, adding, "We're starting to introduce some price increases ourselves."

Sentry, which suffered the second-largest decline in operating income of the surveyed insurers, posted a \$12.6 million loss in the first quarter, compared with a \$2.1 million profit during the first three months of 1983.

Insurers generally say they are introducing the increases on a selective basis, rather than across the board.

"It's where we can price the risk and retain the business," says a spokesman for Aetna Life & Casualty Co.

Whether Aetna is prepared to lose business to make its price increases stick "depends on the individual account," the spokesman says, though he adds: "We do not intend to continue to write business at a level where we expect to incur a loss on it."

Similarly, Travelers Corp. is also introducing price hikes, "but nothing across the board," says a spokesman.

"We look at each case as it comes up for renewal, and see what the experience dictates."

Client response to price hikes "at best is mixed," reports John F. Donahue, vp at Hartford Insurance Group, which began introducing price increases at the beginning of the year. Mr. Donahue says premium growth during the first quarter was flat so "we probably lost some business in the process."

But, at Kemper Corp., the amount of business lost because of rate hikes is beginning to decline, says John H. Fitzpatrick, Kemper's director of financial relations.

Mr. Fitzpatrick says when Kemper introduced rate hikes of about 10% late last year, it lost some market share. But, as it continues to selectively hike rates and is joined by other insurers, the situation is changing in the second quarter.

"Our prices are starting to look more competitive, and we've picked up more business," he says.

A one-time rate hike may not be enough to return insurers to profitability and another round of increases may be necessary next year, says Robert J. Haugh, chairman and chief executive officer of the St. Paul Cos.

About a month ago, St. Paul began introducing price hikes of about 20% to the two-thirds of its commercial book of business that is now unprofitable, or about \$600 million of its total book, Mr. Haugh says.

Additional increases, he notes, will depend upon a variety of factors, including continuation of the abnormally high weather losses of recent months and the rate of inflation.

"It's difficult to project loss activity for the future," he explains.

"Clearly, they (insurers) are looking in terms of two to three bites as opposed to one very large gobble," agrees James B. Stradtner, general partner with Alex Brown & Sons in Baltimore, who believes most companies are shooting for 15% to 20% increases during this round of rate hikes.

Some companies are not anticipating rate hikes in the near future, however.

For instance, no "dramatic" price increases are planned at SAFECO Corp., says James W. Cannon, president of SAFECO's property/casualty companies. "We're going about it pretty much as a business-as-usual basis."

SAFECO was one of the top performers of the insurers surveyed by *BI* with a 7.7% increase in net operating income to \$32.8 million.

While "We would definitely like to raise prices," SAFECO plans to wait until others lead the way, Mr. Cannon says.

He attributes SAFECO's success to its refusal to lower prices to the extent that other insurers have, to quality underwriting and an above-average increase in investment income.

One factor that will determine just how bad 1984 will be for the insurers, according to Oppenheimer's Mr. Picoult, is "how many of them belly up to the bar on reserves." He explains that if insurers significantly add to their reserves—and he believes many are

Continued on facing page

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Hearings on tax status of benefits set

By JERRY GEISEL

WASHINGTON—Long-awaited hearings on the future tax status of employee benefits will begin next month.

The hearings, to be held July 26, 27 and 30 by the Senate Taxation and Debt Management subcommittee, will focus on several issues, including:

- Should the tax law encourage employers to provide employee benefits?
- Are existing rules on benefits sufficient to ensure that all employees benefit fairly from the tax incentives?
- How will tax laws that encourage employers to provide benefits affect compensation planning?
- Do tax incentives for employer-provided benefits affect potential employees' choice of employment?

Subcommittee Chairman Sen. Bob Packwood, R-Ore., hopes the hearings will provide a foundation to support benefit plans against further congressional attacks.

"The purpose of the hearings is to develop a full, fair hearing record on current fringe benefit topics," Sen. Packwood said.

The hearings will begin at 9:30 a.m. each day in the Dirksen Senate Office Building, Room SD-215.

Employers that want to testify must submit a written request to Roderick DeArment, Chief Counsel, Senate Finance Committee,

Room SD-219, Dirksen Senate Office Building, Washington, D.C. 20510. Requests to testify must be received by July 16.

Facet pension debt

Facet Enterprises Inc. has paid off its pension debt to the Pension Benefit Guaranty Corp.

Late last month, Facet, an auto parts manufacturer based in Tulsa, Okla., transferred \$12.3 million to the PBGC to wipe out Facet's remaining obligation to the PBGC. Facet also delivered to the PBGC 10,000 shares of its common stock, valued at about \$100,000.

Facet's debt to the PBGC stemmed from a 1982 agreement in which the PBGC allowed Facet to shift its underfunded pension plan to the PBGC in exchange for giving the PBGC more than \$14 million over the next 10 years, plus a share of future profits (*BI*, Aug. 30, 1982).

The 1982 agreement could have made Facet liable for some \$35 million. The size of the liability made it difficult for the firm to get financing, a Facet spokesman said.

So, Facet began negotiations several months ago with the PBGC to try to pay off that long-term debt now (*BI*, May 21).

The Facet case goes back to a

1974 Federal Trade Commission ruling in which the FTC ordered Bendix Corp. of Southfield, Mich., to reduce its operations in the automotive parts business on antitrust grounds.

So, Bendix set up a new company—Facet—to comply with the FTC order, but Bendix didn't give Facet enough assets to pay the pension liabilities that Bendix shifted to the new company.

Facet said it received loans from Continental Bank of Chicago and from the Bank of Oklahoma and First National Bank & Trust Co., both of Tulsa, which allowed it to pay the PBGC the \$12.3 million.

Locomotive safety

The Federal Railroad Administration is taking a comprehensive look at the safety of railroad locomotive cabs.

The safety inquiry will examine whether noise levels and locomotive exhaust are hazardous to railroad personnel and whether locomotive cabs should be redesigned to better protect occupants, said Federal Railroad Administrator John Riley.

The railroad administration also plans to develop new proposals on grade crossing safety, he told a Senate commerce subcommittee. ■

washington

Summary of major property/casualty insurers' first-quarter results

(All amounts in thousands of dollars)
(Ranked by change in aftertax operating income)

Rank 1983	Corporate				Property/casualty operations								
	Consolidated revenues 1984	Aftertax ¹ operating income 1984	Aftertax ¹ operating income 1983	Percent increase (decrease) 1983-1984	Combined ¹ ratio 1984	Combined ¹ ratio 1983	Net premiums written 1984	Percent increase (decrease) 1983-1984	Pretax underwriting income (loss) 1984	Percent increase (decrease) 1983-1984	Pretax investment income 1984	Percent increase (decrease) 1983-1984	
1	American General Corp.	1,345,400	99,300	70,400	41.1	123.0	106.3	261,300	9.4	(54,500)	(373.9)	33,300	3.1
2	Old Republic Int'l (inc. life)	109,300	13,300	10,800	23.1	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
3	SAFECO Corp.	442,108	32,846	30,487	7.7	104.4	100.6	227,124	5.6	(9,976)	(688.0)	26,528	9.4
4	American International Group	991,550	108,724	115,436	(5.8)	102.3	97.5	636,665	2.0	(21,295)	(343.6)	81,598	4.0
5	The Home Group Inc.	503,863	19,131	20,900	(8.5)	127.9	117.7	388,766	(6.7)	(101,572)	(40.3)	82,360	13.0
6	The Travelers Corp. & subs.	3,212,500	68,400	76,000	(10.0)	113.4	108.2	883,700	7.1	(123,300)	(47.3)	72,700	12.0
7	CNA Financial Corp.	879,500	28,700	32,200	(10.9)	122.4	119.8	450,900	15.0	(107,200)	(28.7)	109,200	19.0
8	Royal Group (U.S. subs.) ³	N/A	(42,000)	(31,000)	(35.5)	126.0	117.9	305,000	(9.8)	(80,000)	(25.0)	46,000	12.2
9	USF&G Corp.	639,786	25,392	43,772	(42.0)	126.8 ²	108.6 ²	525,063 ²	3.1	(137,571)	(157.0)	101,898	37.1
10	The Continental Corp.	1,084,631	15,427	26,957	(42.8)	114.4	112.4	630,147	(1.7)	(81,933)	(11.1)	83,140	13.5
11	General Re Corp.	419,598	29,918	52,650	(43.2)	117.8 ²	102.4 ²	247,948	18.6	(46,636)	(584.6)	48,530	7.1
12	The Hartford Ins. Group	1,382,962	24,625	45,755	(46.2)	122.4	113.2	816,515	5.5	(178,872)	(70.4)	114,781	3.1
13	Chubb Corp.	448,000	13,000	24,600	(47.1)	113.3 ²	104.5 ²	330,600	7.8	(44,500)	(204.8)	36,100	16.8
14	Crum & Forster Inc.	590,465	10,916	35,249	(69.0)	117.3	110.0	535,686	19.5	(92,100)	(170.9)	81,598	8.7
15	Ohio Casualty Corp.	226,881	3,935	18,488	(78.7)	116.2 ²	102.1 ²	215,297 ²	3.7	(34,242)	(568.9)	24,467	14.5
16	The St. Paul Cos. Inc.	627,710	9,004	44,642	(79.8)	127.2 ²	109.0 ²	428,691	5.3	(116,326)	(236.6)	74,497	12.1
17	Fireman's Fund Ins. Cos.	982,642	10,179	63,404	(83.9)	119.7	108.0	789,561	5.5	(142,131)	(171.8)	95,500	0.7
18	Aetna Life & Casualty Co.	3,637,600	19,000	119,000	(84.0)	120.7	108.0	961,400	3.8	(183,100)	(157.1)	127,900	3.3
19	Reliance Ins. Co. & subs.	353,311	2,606	18,000	(85.5)	115.7 ²	107.5 ²	324,207	18.5	(52,764)	(169.8)	42,650	1.9
20	Kemper Corp.	584,054	(1,125)	20,683	(105.4)	119.2	106.2	221,984	(4.4)	(43,034)	(158.4)	19,538	8.3
21	Hartford Steam Boiler	57,680	(800)	3,876	(120.7)	127.8	97.6	40,300	(4.2)	(10,692)	(1,343.3)	5,047	27.3
22	CIGNA Corp.	3,394,619	(23,684)	76,651	(130.9)	137.2 ²	113.1 ²	978,780	7.2	(349,347)	(145.1)	136,984	(3.5)
23	Mission Ins. Group Inc.	133,570	(15,271)	8,149	(287.4)	128.4	108.6	120,882	21.7	(30,771)	(306.2)	12,395	6.9
24	Sentry Ins. Cos. ²	107,505	(12,591)	2,126	(692.2)	120.4	110.1	212,993	3.9	(46,922)	(71.2)	22,635	3.0
25	Fremont General Corp.	161,004	(7,874)	187	(4,130.7)	130.9	120.9	69,068	18.4	(21,366)	(65.7)	10,737	3.2
—	Commercial Union Ins. (U.S.)	N/A	N/A	N/A	N/A	114.8	114.3	380,700 ²	(5.0)	(61,600) ²	8.4	45,000	(4.0)
—	Wausau Insurance Cos.	N/A	N/A	N/A	N/A	121.5	112.0	271,230	17.5	(58,515)	(20.9)	37,834	(2.7)
—	Liberty Mutual Ins. Co.	N/A	N/A	N/A	N/A	117.3	111.3	807,964	—	(107,091)	(76.5)	132,697	3.1
Cumulative		22,316,239	431,058	929,412	(53.6)	120.2	109.7	12,062,471	5.0	(2,337,356)	(101.7)	1,705,614	7.5

¹ After dividends. ² Statutory. ³ Before dividends; includes life business. N/A—Company did not provide data.

Continued from facing page currently under-reserved—it could further depress their 1984 earnings.

David Anthony, an analyst with Smith Barney Harris Upham & Co. Inc. in New York, agrees that insurers may decide 1984 is the right time to boost reserves because the effect of increased reserve contributions on earnings will be less noticeable than if "they did it in a good year."

Others, however, do not feel under-reserving is a problem in the industry. The larger

property/casualty insurers, Mr. Stradtner says, range from being modestly under-reserved to modestly over-reserved. "It's not of the magnitude to create a problem," he says.

Several of the companies that reported first-quarter changes in policyholders' surplus noted large reductions, indicating either reserves may have been increased or a much heavier volume of claims than normal was paid.

The company reporting the largest decrease in policyholders' surplus was USF&G

Corp., whose policyholders' surplus dipped 40.2%, to \$735.1 million from \$1.23 billion.

Others insurers that reported large decreases in their policyholders' surplus included:

- CIGNA, down 25.2% to \$1.08 billion from \$1.44 billion.
- Reliance Insurance Co., down 23.6% to \$353.9 million from \$463 million.
- St. Paul Cos. Inc., down 21% to \$750.3 million from \$949.5 million.
- Fireman's Fund Insurance Cos., down

20.5% to \$722.9 million from \$909.4 million.

Firms that reported increases in policyholders' surplus included:

- SAFECO, up 5.8% to \$482 million from \$455.5 million.
- The Home Group Inc., up 3.9% to \$685.1 million from \$659.4 million.
- CNA Insurance Co., up 3% to \$1.04 billion from \$1.01 billion.
- Hartford Steam Boiler Inspection & Insurance Co., up 2.3% to \$174.1 million from \$170.1 million.

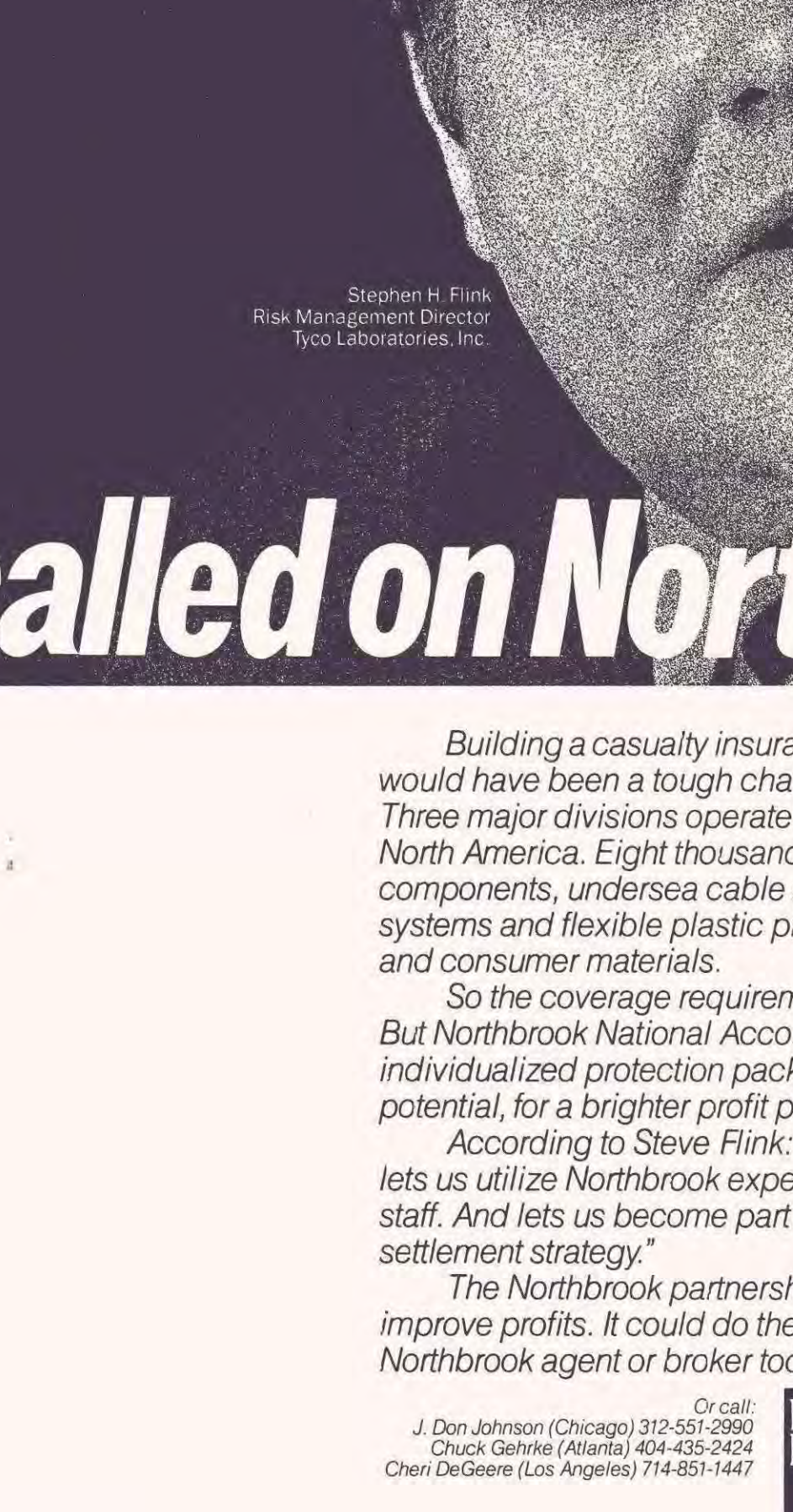
BI Industry Stock Report

JUNE 5, 1984 5/30/84 THRU 6/5/84

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Insurance Cos.		Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol. (000)			Price	% Chg.	P/E	\$ Div.	% Yld.	High	Low	Vol. (000)
Aetna Life & Cas Co	NYSE	31.25	-0.8	15.3	2.64	8.4	31.38	30.63*	1,159.0	United Fire & Cas Co	OTC	26.75	-1.8	15.3	1.60	6.0	27.00	26.75*	1.1
American Bankers Ins Group	OTC	11.50	7.0	8.2	0.50	4.3	11.50	10.50*	416.1	United States Fid & Gty Co	NYSE	45.63	2.0	6.9	4.16	9.1	45.63	44.50*	259.5
American Genrat Corp	NYSE	20.88	3.7	7.0	0.90	4.3	21.00	19.88	1,816.1	United Svcs Life Ins Co	OTC	25.63	-1.4	7.5	1.00	3.9	26.00	25.63	18.1
American Indcy Fint Corp	OTC	16.75	4.7	119.6	1.12	6.7	16.75	16.00	3.7	UsLife Corp	NYSE	24.63	-3.0	6.6	0.96	3.9	25.50	24.50*	315.4
American Int. Group Inc	OTC	62.00	12.7	10.9	0.44	0.7	62.00	55.75	953.0	Washington Matl Corp	NYSE	18.88	4.9	11.0	1.08	5.7	19.00	18.00	59.6
American Natl Ins Co	OTC	23.63	3.3	6.9	0.96	4.1	23.88	23.13	68.3	Zenith Natl Ins Corp	OTC	12.50	4.2	8.3	0.68	5.4	12.50	11.00*	42.2
Aneco Reins Ltd	OTC	2.38	0.0	7.0	0.00	0.0	2.38	2.38	7.1	INSURANCE COMPANIES									
Avenco Corp	AMEX	17.25	-2.8	11.0	0.58	3.4	18.00	17.25	5.1	AVERAGE									
Banks Iowa Inc	OTC	52.00	1.3	20.6	1.56	3.0	52.00*	51.50	10.2	11.2									
Bitco Corp	OTC	10.50	-4.5	0.0	1.33	12.7	11.00	10.50	12.4	4.2									
Carolina Cas Ins Co	OTC	3.25	-7.1	0.0	0.00	0.0	3.50	3.25*	6.0	Agents/Brokers									
Chubb Corp	OTC	43.50	6.1	11.8	2.08	4.8	43.88	42.75	191.3	Alexander & Alexander Svcs	NYSE	18.88	4.1	0.0	1.00	5.3	19.25	18.38	141.0
Combined Intl Corp	NYSE	29.75	8.2	7.6	2.08	7.0	30.25	28.25	304.9	Baldwin & Lyons Inc	OTC	37.00	0.0	616.7	0.80	2.2	37.00	37.00	0.0
Continental Corp	NYSE	26.63	3.4	0.0	2.60	9.8	26.63	26.00	312.8	Corroon & Black Corp	NYSE	33.25	-1.1	14.6	1.00	4.3	33.63	33.25	33.3
Crawford & Co	OTC	14.75	1.7	10.0	0.66	4.5	14.75	14.50	1.9	Crump E H Cos Inc	OTC	12.50	1.0	15.6	0.40	3.2	12.63	12.50	96.1
Crown Life Ins Co	OTC	120.00	-0.8	7.8	3.20	2.7	120.00	120.00	0.5	Emett & Chandler Cos Inc	OTC	9.25	0.0	20.1	0.00	0.0	9.25	9.25	1.9
Employers Cas Co	OTC	30.50	0.0	7.2	1.20	3.9	30.50	30.50	7.4	Hall Frank B & Co Inc	NYSE	21.75	5.5	29.4	1.00	4.6	21.75	20.50	238.2
Equifax Inc	NYSE	26.50	1.9	11.7	1.60	6.0	26.50	26.13	12.7	Integrated Res Inc	AMEX	20.25	15.7	4.7	0.00	0.0	21.00	18.00	232.7
Farmers Group Inc	OTC	38.88	6.9	9.2	1.52	3.9	39.25	36.88	380.1	Marsh & McLennan Cos Inc	NYSE	40.00	9.6	31.2	2.20	5.5	40.00	37.13	551.3
Foremost Corp Amer	OTC	23.25	3.3	12.7	0.96	4.1	23.25	22.75	48.1	Poe & Assoc Inc	OTC	5.25	0.0	0.0	0.00	0.0	5.25	5.25	0.0
Fremont Gen Corp	OTC	13.00	2.0	0.0	0.48	3.7	13.13	12.75	140.4	Reed Stenhouse Cos Ltd	OTC	12.00	2.1	23.1	0.60	5.0	12.00	11.75	112.1
Great West Life Assurn Co	OTC	325.00	8.3	10.4	12.00	3.7	325.00*	300.00	0.0	AGENTS/BROKERS									
Manover Ins Co	OTC	23.00	-2.1	7.4	0.44	1.9	23.00	23.00*	21.1	AVERAGE									
Hartford Steam Boiler Insptns	OTC	51.00	2.0	12.8	3.00	5.9	51.00	49.00	30.7	23.8									
Jefferson Nat. Life Ins Co	OTC	39.63	-2.8	18.0	0.76	1.9	40.50	39.63	5.0	3.5									
Kemper Corp	OTC	35.00	1.4	11.5	1.80	5.1	35.00	34.50	94.8	Conglomerates/Holding Cos.									
Lincoln Natl Corp Ind	NYSE	30.75	4.2	7.5	1.68	5.5	30.75	30.13	280.3	American Express(Fireman's Fd)	NYSE	28.38	6.1	12.5	1.28	4.5	28.38	25.88*	3,415.4
Mission Ins Group Inc	NYSE	13.63	1.9	0.0	0.50	3.7	14.00	13.63	278.7	Anderson (Clayton/Ranger/PanAm)	NYSE	26.50	6.0	12.0	1.32	5.0	26.63	24.50*	37.7
Northwestern Natl Life Ins	OTC	38.50	-1.9	8.6	1.50	3.9	39.75	38.25	154.6	Araco Inc	NYSE	16.38	-2.2	0.0	0.40	2.4	16.50	16.13*	240.9
Ohio Cas Corp	OTC	40.75	3.8	11.3	2.68	6.6	40.75	38.63*	77.7	Baldwin Ltd Corp	NYSE	1.90	9.1	0.0	0.00	0.0	1.50	1.38	103.6
Old Rep Intl Corp	OTC	32.00	4.1	7.0	0.88	2.8	32.00	30.63	40.3	CIGNA Corp	NYSE	33.00	-3.6	8.1	2.60	7.9	34.13	33.00*	2,605.1
Orion Cap Corp	NYSE	21.88	12.2	12.8	0.76	3.5	21.88	20.25	37.4	City Investing Co. (Home Ins.)	NYSE	39.50	-0.6	9.4	2.00	5.1	40.00	38.63	1,344.0
Preferred Risk Life Ins Co	OTC	22.50	-0.6	7.8	0.74	3.3	22.50	22.50	2.4	CNA Finl Corp (CNA)	NYSE	23.25	0.0	8.7	0.00	0.0	23.25	22.38	45.4
Provident Life & Acc Ins Co	OTC	68.50	0.7	6.8	2.88	4.2	68.50	68.00	15.0	Control Data (Comat. Credit)	NYSE	30.50	0.8	7.4	0.66	2.2	30.88	30.38	608.8
St Paul Cos Inc	OTC	51.38	2.8	11.7	3.00	5.8	53.00	49.13*	558.1	General Re Corp	NYSE	53.25	1.4	1.44	2.7	53.50	51.75	552.3	
SAFECO Corp	OTC	28.38	-5.6	7.9	1.50	5.3	29.75	28.38	211.9	ITT (Hartford Group)	NYSE	34.25	0.0	7.6	2.76	8.1	35.00	34.25	1,190.0
Sri Corp	OTC	15.50	3.3	9.1	0.68	4.4	15.50	14.63*	176.9	Optium Hldg Corp	OTC	3.75	0.0	0.0	0.00	0.0	3.75	3.75	0.2
Seibels Bruce Group Inc	OTC	20.50	0.0	13.3	0.80	3.9	20.75	20.50	146.0	Sears Roebuck & Co. (Allstate)	NYSE	30.50	-0.4	7.7	1.76	5.8	31.25	30.13	6,625.7</

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