

business insurance

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

update:

Hospital system forms captive in Tennessee

MEMPHIS—Methodist Hospitals of Memphis has formed the fifth Tennessee-based captive insurance company and will form the first commercial insurance company subsidiary of a Tennessee captive.

The not-for-profit system, which wants to enter the insurance business, is forming the captive, United States Security Insur-

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FM alters premium deposit

By **LEN STRAZEWSKI** and **JOHN W. MILLIGAN**

JOHNSTON, R.I.—High interest rates and buyer demand have finally wrought a change in the Factory Mutual System's ancient premium deposit plan.

But the change, effective July 1 and approved last week by the FM board, may be less than what the consumers want, *Business Insurance* learned in interviews with brokers, FM competitors and corporate risk managers.

"What we are doing is setting up an optional deferred payment plan that will allow the policyholder to hold on to more of the premium deposit, possibly taking advantage of the high interest rates and investment income," explained James Jergensen, senior vp of Allendale Mutual Insurance Co.

But in exchange for a deferred payment, the policyholder will receive a lower dividend at the end of the policy period.

The ancient premium deposit plan, initiated by Allendale founder Zachariah Allen in 1835, demands that a buyer pay about five times its annual premium in advance to provide capital for the mutual insurance company.

In periods of low interest rates, losing the cash for investment purposes was negligible. But as interest rates grew so did policyholder complaints about losing a significant cash-flow advantage.

Stock insurance companies, which have moved into underwriting the FM specialty of highly protected risks but don't need deposit premiums, began to take advantage of the controversy.

Commerce & Industry Insurance Co., part of the American International Group, began a marketing program targeting dissatisfied FM policyholders (*BI*, Sept. 8, 1980).

The new deferred premium deposit payment plan is a direct response to marketplace requests and a solid effort to retain policyhold-

Comparing the cost of the FM options			
Old		New	
Deposit premium/day one:	\$300,000	Deposit premium/3 years	\$300,000
56% charge at end of 3 years:	-\$168,000	68% charge at end of 3 years:	-\$204,000
Dividend paid at end of 3rd year:	\$132,000	Dividend paid at end of 3rd year:	\$ 96,000
Deposit value—15% interest rate:	\$456,262.50*	Deposit value—15% interest rate:	\$399,337.50**
Less dividend:	-\$132,000.00	Less dividend:	-\$ 96,000.00
Real cost:	\$324,262.50	Real cost:	\$303,337.50

*\$300,000 times 15% for three years.
**\$100,000 paid at the start of each year, earning 15% equals \$152,087.50 from first year; \$132,250 from second year; \$115,000 from third year.

ers upset with the old deposit system, Mr. Jergensen said.

Under the new plan, a firm purchasing coverage from the FM System could pay one-third of the premium deposit in each of three policy years rather than the full deposit on the day of policy inception.

The deposit, however, would be absorbed for premium at 12 points more or a 21% higher rate at the end of the policy period, taking the edge off investment income gain for the buyer and capital loss for the insurer.

In analyzing the cost of the two plans, risk managers would calcu-

late the discounted present value cost under each and consider the company's tax situation to determine which would be cheaper on an after-tax basis. But some simple arithmetic shows the deferred payment plan can save the buyer some money (see chart).

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Florida wage-loss program cuts work comp rates 28%

By **STEVE SHERWOOD**

WALT DISNEY WORLD, Fla.—With medical and legal costs skyrocketing, the idea of providing more workers compensation benefits to employees while paying less in insurance premiums is an employer's impossible dream—except in Florida.

A 2-year-old wage-loss program, combined with other workers compensation reforms, has brought a 28% reduction in Florida's workers compensation insurance rates. In the same period since Aug. 1, 1979, when the wage-loss law went into effect, the maximum weekly benefit for injured workers increased to \$228 a week from \$130.

Florida had the fifth-highest workers compensation insurance rates in the nation and its workers compensation insurers lost \$205 million in underwriting from 1973 to 1977. Now it ranks around 13th for rates, and insurers are making a profit again. The weekly benefit level is the 18th—highest in the nation, up from 41st.

"It is now quite obvious wage-loss has worked," says Robert Hilton, vp of the National Council on Compensation Insurance in Birmingham, Ala. The NCCI is studying the



state's wage-loss program and presented a preliminary report of its findings to the Florida Division of Workers Compensation on June 10.

Based in part on that report, the division voted to reduce workers compensation insur-

ance rates 7.8%, bringing to 28% the total rate reduction allowed since the wage-loss program began.

Mr. Hilton, however, cautioned that other states may not have the same success with a

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Liability loophole could start run on PBGC coffer

By **JERRY GEISEL**

GRANDVILLE, Mich.—The future of the nation's defined benefit pension plan system may be at stake in a lawsuit a Michigan aerospace company has filed against the Pension Benefit Guaranty Corp.

AlloyTek Inc., a manufacturer of jet-engine components, is trying to use a loophole in the federal pension law to shift \$4.5 million in unfunded vested liabilities to the PBGC. AlloyTek has already set up a new defined contribution plan.

It is suing in federal court for the PBGC to take over its defined benefit plan that provides benefits to about 250 retired employees.

Getting rid of its existing pension plan and its mountain of unfunded liabilities is an economic necessity, said Hilary Miller, AlloyTek's chairman of the board. "The company's survival depends on terminating the plan."

But PBGC is balking and won't accept

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ance Co., to operate as a not-for-profit insurer underwriting only risks of Methodist Hospitals. Its subsidiary, United States Security Fire & Casualty Co., will underwrite risks for third-parties, including hospitals managed but not owned by Methodist Hospitals.

The two companies are necessary to protect the tax-exempt position of Methodist Hospitals and allow the subsidiary insurer to operate as a for-profit and tax-paying entity, said Buddy Nichols, former risk manager for the hospitals and now president and chief executive officer of the insurers.

The captive was formed last week with a \$750,000 letter of credit. An additional \$2.7 million will be paid into the captive, \$1.25 million of which will capitalize the commercial insurance company to be licensed this week.

New directors at Celina

CELINA, Ohio—New directors have been named at Celina Financial Corp., an insurance holding company, after seven directors resigned following a dispute over the reinstatement of chief executive Don W. Montgomery.

At a meeting June 12, Dr. Charles Caylor, Bernard Daenzer, Robert Engle, Edward Heminger, Edwin Johnson, Norman Kuhlman and Edward Knapke were named new directors.

About a month ago, the directors voted to remove Mr. Montgomery, who is also chairman of the Illinois Insurance Exchange board of directors, as chairman and president of Celina.

Mr. Montgomery tendered his resignation as chairman of the exchange after he was elected chief executive of Celina Mutual Insurance Co., National Mutual Insurance Co. and Republic Insurance Co., but has since withdrawn that resignation.

Aneco sues investors

HAMILTON, Bermuda—Aneco Reinsurance Corp. is suing its investors, Federated Development Corp. and Cayman Reinsurance Corp., charging them with conspiring to take over the firm.

Federated, the parent of Federated Reinsurance Corp., owns about 16% of the publicly held Aneco and Cayman Re holds about 7.2% of Aneco stock, according to Aneco's attorney Mathias Mone.

The suit charges Federated, Cayman Re and investment banker John Muir & Co. "had secretly and illegally conspired to form and formed a group for the purpose of obtaining control of Aneco, replacing its present management and frustrating management's plans."

The complaint claims the group planned to circumvent stock limitations placed by the Bermuda Monetary Authority by acquiring portions of stock and voting it together to form a controlling interest.

Aneco is seeking a court order to force the accused firms to divest themselves of Aneco stock acquired illegally and prevent the firms from voting Aneco stock.

Syndicates assessed extra fee

CHICAGO—Each of the the nine syndicates approved by the fledgling Illinois Insurance Exchange will be charged an additional \$10,000 fee following action by the interim board of directors.

In addition, all new syndicates will be assessed the extra fee when they submit applications. The fee is to cover the exchange's operating and administrative expenses, a spokesperson said.

Formaldehyde award appealed

PORT ANGELES, Ore.—The largest product liability award to date involving injuries allegedly caused by formaldehyde exposure is being appealed by Fleetwood Homes of Washington Inc. and Olympic Auto & Trailer Sales in a Tacoma appeals court.

A Clallam County Superior Court recently ordered the two defendants to pay plaintiff Maureen Tiderman \$566,500 in compensatory damages for respiratory ailments she claimed were caused by formaldehyde toxins in her mobile home (BI, June 1).

Missing money located in bank

WASHINGTON—The largest money market fund in the Washington area has located a Swiss bank account containing most of the \$1.5 million allegedly stolen in an electronic heist.

First Variable Rate Fund for Government Inc. said an employee transferred more than \$1.5 million of fund money to the Virginia bank account of her boyfriend. The money was later shifted to a Swiss bank account, they say. First Variable has about \$1.5 million of fidelity insurance from Federal Insurance Co. (BI, June 15).

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Court puts work safety before employer costs

By JERRY GEISEL

WASHINGTON—Federal regulators do not have to balance health benefits against the cost to employers when setting rules to protect workers from on-the-job dangers, the Supreme Court ruled last week.

In a 5-3 decision that rejects the concept of cost-benefit analysis, the court said the health of workers "is above all other considerations."

However, in upholding a 1978 Occupational Safety & Health Administration rule slashing the amount of cotton dust to which a worker may be exposed, the high court said that health rules must undergo a "feasibility analysis."

That analysis, as defined in the 1970 Occupational Safety & Health Act, requires the Labor Department, in forming a regulation, to "adequately answer ... that no employee will suffer material impairment by health, limited only to the extent to which this is capable of being done."

The 1978 OSHA dust standard, which went into effect in March 1980, set up a sliding scale of exposure limits to cotton dust in textile mills. Exposure to cotton dust has been linked to brown lung, a respiratory disease.

The standard sets a permissible exposure range to cotton dust of 200 micrograms to 750 micrograms of dust per cubic meter of air over an eight-hour period.

The textile industry, however, resisted the OSHA rule. It warned that compliance costs could exceed \$2 billion.

Employers argued that OSHA cannot issue safety rules to protect workers if it does not back up the rules with proof that the real benefits to employees will outweigh the added cost to industry.

The textile industry received support from the Reagan administration, which asked the court to turn the allow the administration to reconsider the rule. The court

rejected that request in a footnote to last week's decision.

In a similar case last year, the court rejected an OSHA standard limiting worker exposure to cancer-causing benzene.

In that case, the court rejected the standard because the government failed to prove that a reduction in exposure to benzene would reduce the cancer rate of workers. ■

Bush defends cuts in OSHA rules

By LEN STRAZEWSKI

WASHINGTON—The Reagan administration is working to head off labor union backlash to reduced Occupational Safety & Health Administration regulation, Vice President George Bush told *Business Insurance*.

"I've been in touch with the labor guys about what we are trying to do with OSHA, and I know they are concerned about some parts of our program," he said. "But I just don't think they understand what we are doing."

Labor unions, according to industrial sources, are considering asking members to file workers compensation claims in areas in which OSHA is abandoning or reducing regulations.

A large pharmaceutical firm, for example, has noted an increase in hearing-loss claims since OSHA noise standards, one of the Carter administration's midnight regulations, were postponed.

"We must explain to labor and industry that we aren't trying to damage the workplace environment—that we aren't trying to create an unsafe workplace," Mr. Bush said at the annual meeting of the National Assn. of Insurance Brokers.

"What we are looking for is a cost-benefit and operating efficiency that could come from eliminating excess regulation that over-aps state powers in workers compensation and tort law," he said.



Bush

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Sasse's reinsurer agrees to pay \$7 million settlement

LONDON—The major reinsurer of the Lloyd's of London loss-strapped Sasse Syndicate is expected to pay Lloyd's \$7 million to settle \$14 million in claims.

The settlement with the Instituto de Resseguros de Brazil, which is pending legal formalities, was announced last week at the end of the Lloyd's annual meeting.

It also was suggested that more funds were expected from other reinsurers.

At one time, Lloyd's said all reinsurers of Sasse owed about \$15 million toward claims against

Sasse, which at last count were expected to total \$51 million.

Lloyd's will receive the \$7 million settlement to offset its \$36 million bailout of the members of the

Sasse Syndicate. The bailout settled a lawsuit against Lloyd's of London filed by Sasse members who charged that Lloyd's failed to

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Surplus lines issue deadline extended

The deadline has been extended to Monday, June 29 for surplus lines brokers and insurers and managing agents to submit completed questionnaires to be listed in the *Business Insurance* excess/surplus lines special issue to be published Aug. 10. Any surplus lines supplier who has not received a questionnaire should immediately contact Claudette Eisenzimmer at 312-649-5398.

Captive ruling may go to high court

By KATHRYN J. MCINTYRE

LOS ANGELES—Carnation Co. has until early August to petition

the U.S. Supreme Court for a writ of certiorari in its losing battle over the tax treatment of dealings with its captive insurance company.

The 9th U.S. Circuit Court of Appeals denied Carnation's petition for a rehearing on May 13, leaving the company 90 days to petition the Supreme Court for a hearing.

Carnation's outside attorney, J. Patrick Whaley of Musick, Peeler & Garrett in Los Angeles, says his client has not decided yet whether to petition the high court.

He admits, however, the chances of the high court accepting the petition are slight. "This is true in any case where there is no conflict among the circuits," he explained.

The 9th Circuit affirmed, of the December 1978 Tax Court ruling that Carnation's dealings with its captive insurer did not constitute insurance for tax purposes. The effect on other cases between the Internal Revenue Service and companies using captive insurers

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errors & omissions

• Contrary to a statement in a BI Ticker column, the prospectus for Transglobal Insurance Co. Ltd. correctly states the total income figures for Walton Insurance Ltd. before administrative expenses and notes administrative expenses for two years where results seemed to radically differ from Walton's annual statements (BI, June 1).

• Due to an editing error, a riskWatch column in the June 15 issue suggests that the bill pending in Parliament introduces self-regulation at Lloyd's of London. The bill reforms the self-regulation system already in effect at Lloyd's. The divestment issues involve removing underwriting agents from the ownership of brokers and the separation of member agents from managing agents, supported by Parliament to safeguard the independence of Lloyd's underwriters and those who bring members to Lloyd's.

• General Public Utilities Corp., owner of the Three Mile Island reactor, is suing the Nuclear Regulatory Commission for \$4 billion in property damage. Due to a typographical error, the figure was misstated June 15.

Illinois firms may get work comp refund

By EILEEN NORRIS

CHICAGO—Thousands of Illinois employers could be apportioned some \$500 million in refunded workers compensation insurance premiums if a 23.8% rate increase from 1979 is reversed in circuit court this week.

Chances are good that all or part of the rate increase, approved by the Illinois Insurance Department, will be returned to commercially insured employers, sources say.

Illinois Insurance Director Philip J. O'Connor recently blasted insurers for their "excessive profits" (BI, May 25), supporting the case for a refund.

The class action suit, filed in Cook County Circuit Court in August 1979 by the Associated Employers of Illinois and the state chapter of the AFL-CIO, asks that the rate hike order be overturned. It also asks that the National Council on Com-

pensation Insurance, a ratemaking organization that submits rate proposals on behalf of many insurers in most states, be required to resubmit a proposal.

NCCI, the suit charges, used insurers' estimates for incurred but not reported losses when calculating needed rates. The IBNR factors increased the expected loss ratio, which supported the greater rate increase.

The NCCI actuary who has been involved in the case since it began could not be reached for comment.

At the time the 23.8% rate increase was granted—the industry originally had asked for a 36.8% increase—the Insurance Department did not consider insurers' investment income to determine rates needed, said Bob Gossrow, a casualty actuary in the department.

Since the approval of the rate hike in 1979, however, the Insurance Department has become keenly aware of the

"monetary impact" of investment income, said another source in the department.

"If we had to do it over again, and the law allowed for it, we would have considered investment income in the rate request," he said.

As of Sept. 15, 1980, however, Illinois law was changed so that investment income can be analyzed in determining what rates should be charged, Mr. Gossrow said.

Circuit Court Judge James Murray has indicated he will rule on the nearly 3-year-old lawsuit in a written opinion slated for release June 23.

He could remand the matter to the Insurance Department for action; order a full or partial reversal of the 24% hike, which would return about \$500 million in premium to employers; or he could rule that the rate hike was not excessive.

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Man sues insurer to get \$400,000

By STEPHEN TARNOFF

SACRAMENTO, Calif.—A California man who agreed to a \$3 million structured settlement after a 1979 gun accident is suing the Italian insurer of the gun manufacturer for allegedly refusing to pay its \$400,000 share of the award.

And the devaluation of the Italian lira since the agreement makes the original settlement worth less than expected.

Boid Charles Lehman, 34, who lost part of his skull in the accident, filed suit in Yolo County Superior Court against Generali of Italy last month.

The company had agreed to pay 400 million lira (about \$400,000) but then refused to do so, according to John Poswall, Mr. Lehman's attorney.

Robert Stein, the attorney for Generali in New York, denied this week that Generali has refused to come up with the money.

"I'm not inclined to comment on it. It is still in litigation," he explained to *Business Insurance*. "Hopefully, it will be resolved and is in the process of being resolved."

A spokesman for a Generali office in New York agreed that the matter may be resolved soon and said a meeting was scheduled late last week.

"The claims will be paid shortly," Georgio Balzer said. "There were some technical difficulties."

Mr. Balzer said that communication problems sometimes occur when parties from different countries are involved.

Generali is the insurer for Ransom Italia, a gun manufacturer, which was one of the defendants in the product liability suit.

Mr. Poswall said a settlement agreement between his client and Ransom was entered into on Feb. 13, 1981. A 60-day grace period was allowed for payment, but it was never received. In mid-May, he again went to court and had a judgment entered against Generali.

About a week later, a suit was filed against Generali and Aetna Life & Casualty Co. based upon the alleged misrepresentation of the settlement and to seek additional damages.

Aetna is involved because it is a partner of Generali, acting as an insurance adjustment service for it, Mr. Poswall said.

Complicating the problem is that Generali agreed to pay the equivalent of \$400,000 plus 10% interest in lira, Mr. Poswall said. Since the settlement, however, the lira has been devalued substantially and the value of the

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Photo: Wide World

Ron Jackson of the Minnesota Twins cleans out his locker at the beginning of the strike.

Striking players' health benefits are safe for now

By JOHN W. MILLIGAN

NEW YORK—If a major league baseball player has an emergency appendectomy during the current baseball strike, the cost will be covered under his group medical plan—at least for a while.

But if he hurts his knee working out on his own to keep his pitching arm or his swing up to par, he won't get workers compensation benefits.

Players will continue to qualify for all employee health benefits during the baseball strike, but will not qualify for workers compensation benefits since they aren't on the job. That probably will keep most from working out to keep in shape while they are benched by the strike that began June 12.

By definition, workers compensation covers only work-related injuries, said Doug McCormick, treasurer of the Pittsburgh Pirates. Therefore, if a player injures himself working out after he's walked off the job, he could not collect for injuries through the workers compensation system, Mr. McCormick said.

This is a basic tenet of workers compensation in all states, he said.

The Pirates organization insures its workers compensation risks through The Home Insurance Co., he said.

All players, however, still qualify for hospital, surgical, major medical, dental and pension benefits through a trust administered by Meidinger Inc. of Cleveland, said Meidinger spokeswoman Angelia Rowland.

The major league teams contribute to the trust, which has three segregated accounts, twice a year, after the All Star game in July and the World Series

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RIMS, PRIMA debate pool standards

By EILEEN NORRIS

DETROIT—Model standards are in the works for municipalities that want to self-fund their risks, but a disagreement over enforcement is taking center stage.

The two major parties on an ad hoc subcommittee of the National Assn. of Insurance Commissioners' task force on municipal liability can't agree on whether guidelines for pooling should be enforced—or just available to governmental bodies as standards to follow.

The Public Risk & Insurance Management Assn. is all for standards but thinks compliance should be voluntary. The Risk & Insurance Management Society, on the other hand, believes standards should be enforced by each state insurance department.

The controversy is brewing in a subcommittee that officially has been disbanded under the NAIC's reorganization plan (BI, June 15), but RIMS and PRIMA members, along with some insurers, plan to keep the committee work active.

A consensus report on standards for municipalities that want to pool all or part of their risks may be forthcoming.

The proposals include:

- An annual certified public accountant audit and actuarial audit of the pool. The pool should make the audits available to participating pool members.

- Pool bylaws that contain certain standards for pool operation, including establishment of reserves

that are actuarially sound and subject to any existing tort liability statutes.

- Bylaws that provide for determining the amount of catastrophic, excess loss coverage of specific stop-loss insurance that should be purchased.

- Pools that are authorized to

provide or contract with any qualified firm to carry out reporting and handling of claims, loss-prevention services, safety engineering services, administrative services and any other services for proper functioning of the pool.

- Establishment of sound risk management techniques and audits

of the risk management operation by a consultant or auditing firm every three years.

Because the makeup of the advisory committee represents many diverse views, the process of completing a final report will not be simple, said Dennis Connolly, sen-

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someone you should know

Florida exchange's Teale sets international goal

By STEVE SHERWOOD

WALT DISNEY WORLD, Fla.—When Alan Teale crossed the ocean to take command of the Insurance Exchange of the Americas this month, he didn't pack away his worldwide insurance background.

The former director of Lloyd's of London's policy-signing office and a founder of the British Insurance Brokers Assn. wants the exchange to snare a good share of the international insurance and reinsurance market.

Just how big that share will be depends entirely on the exchange's investors, Mr. Teale said during an interview.

"We can take as big a bite of the international market as our capital and surplus allow," Mr. Teale said. "The sky is the limit as far as we're concerned."

Mr. Teale, who officially became the chief executive officer of the

exchange on June 1, has been working toward its entry into the insurance market since November and hopes to have the Miami facility ready by fall 1982.

"The exchange will be another member of the international insurance and reinsurance market," he said. "Except through overseas subsidiaries, the U.S. insurance industry is not a world power. Although the United States leads the world in total insurance volume, it trails much smaller countries in the international market. The exchanges (New York, Illinois and Florida) are trying to remedy this."

Legislation that allowed the creation of the Florida exchange was passed by the state Legislature in 1979. The law empowers the exchange to accept business in all lines, except those restricted to the state's admitted carriers.

"We can write business in other states provided we are not prohi-

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Firefighters receive legal coverage

The Philadelphia Fire Fighters Union now receives group legal insurance as part of its total benefit package.

The legal services are fully paid by the city of Philadelphia and underwritten by the Prudential Plus Insurance Co. Legal services are provided by Law Stores Group Inc., a subsidiary of Century General Corp.

Law Stores provides preventive legal services that include an estimated 80% of an employee's legal needs.

For legal matters of a more serious nature, employees are referred to an attorney in their vicinity and the Prudential policy pays for the legal fees.

Preventive services are provided by Law Stores on an unlimited basis.

benefit beat

Dental plan

The Berkshire Life Insurance Co. of Pittsfield, Mass., now provides a comprehensive dental plan for all its full-time and permanent part-time employees.

The new plan is underwritten by the Connecticut General Life Insurance Co. and covers four classes of dental services: Class I for basic services such as cleaning, examinations and X-rays; Class II for simple fillings, extractions and periodontal treatments; Class III for crowns, inlays and installation of dentures; and Class IV for braces and orthodontic services.

Classes I, II and III carry a com-

bined calendar year limit of \$750, while Class IV carries a lifetime dollar maximum of \$750.

Benefit cost

Basic employee benefits—pensions and group health and life insurance coverage—cost employers an average of 12% of payroll, according to a new survey.

The survey, "Cost of Basic Employee Benefits," conducted by William M. Mercer Inc., found that pensions soak up an average of 7% of payroll, while health insurance consumes 4.3% of payroll and life insurance 0.9%.

Of the industries surveyed, utili-

ties spent the most on basic benefits, 13.8% of payroll, while retail and wholesale merchandisers spent the least, 5.7%.

Mercer surveyed 356 employers in the fall of 1980 to determine the average cost of basic benefits.

Free copies of the report may be obtained by writing William M. Mercer Inc., Dept. 99, 1211 Ave. of the Americas, New York, N.Y.

Pension assets

Employees of The Bulletin, a Philadelphia daily newspaper, have filed a class action suit in federal court to prevent the paper's management from withdrawing a reported \$5 million in assets from an employee pension fund.

The suit alleges that such action would violate state and federal

laws and a promise made in 1972 by The Bulletin Co. never to remove assets from the fund, which consists of employee and company contributions.

John J. McCabe, general manager of The Bulletin, said there is a surplus in the pension fund and maintained the company is doing nothing "illegal." The company has requested permission from the Internal Revenue Service and the Federal Guarantee Pension Fund to remove some of the fund's assets, he said.

Charter Media Co., which purchased The Bulletin last year, knew the pension was overfunded and the purchase price "reflected that," he said.

Although he could not provide the exact figures, Mr. McCabe said Charter purchased the paper for a higher price, with the intent of recouping a portion of the cost from the fund.

Employee contributions into the fund already have been reduced because of the surplus, he said, and the amount which Charter would remove would not reimburse it for the large capital investment it has made.

Mr. McCabe, who joined The Bulletin Co. in October 1980, was not aware of any promise made by the prior management to not remove assets from the pension fund.

Insurers changed

Crain Communications Inc., publisher of *Business Insurance* and 14 other business and consumer publications, has changed insurers for its medical, life and long-term disability plans.

Citing dissatisfaction with the speed and quality of service provided by its previous insurer, the Connecticut General Life Insurance Co., Crain has placed its medical and life insurance coverage with the Confederate Life Insurance Co. Crain has also switched its long-term disability coverage to Union Mutual.

Coverage with the new companies essentially will be identical to that received previously, the company said.

Crain's comprehensive medical plan pays for: 100% of reasonable and customary hospital confinement costs up to \$2,000 per year, and 100% reimbursement of the remaining covered expenses after the first \$2,500; 80% of non-hospital expenses for injuries; 80% of non-hospital expenses for illnesses with a \$100 deductible per year; maternity benefits at the same rate as illnesses; and 80% of accidental injuries with 100% reimbursement of emergency room fees.

The company's long-term disability plan is in the form of salary continuance insurance. After 90 days, employees receive 60% of their salary up to a maximum of \$2,000 per month. A minimum monthly benefit of \$60 is paid regardless of other income.

Comprehensive medical coverage for employees is paid by Crain, while coverage for dependents is shared by the company and employee at a cost to the latter of \$30 per month.

Salary continuance insurance is also shared by the company and employee, with 85% of the premium paid by Crain and 15% by the employee.

With the new insurers, Crain has obtained higher maximum amounts for both long-term disability and for basic and additional life insurance.

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editorial opinions

A timely change

Zachariah Allen would be proud. The change in the deposit premium requirement of the Factory Mutual System reported in this issue maintains the tradition he established of fairly pricing commercial fire insurance.

The FM change also reminds us that this business of risk and insurance management is in constant change, responding to the demands of knowledgeable risk managers and competition from suppliers willing to meet those demands.

The FM System's deposit premium requirement dates back to formation of the first mutual insurance company founded in 1835 by Zachariah Allen to reward manufacturers practicing fire prevention with lower insurance rates. The 19th-century textile manufacturer had enough of insurers' unwillingness to reward these loss-prevention efforts with reduced rates. The creation of Manufacturers Mutual Fire Insurance Co. by Mr. Allen and other Rhode Island mill owners stands as an early example of business people forming their own risk-funding alternatives when the commercial insurance market is unresponsive.

The deposit premium plan established to provide the mutuals with the money needed to pay the big losses that weren't prevented worked well for more than a century. But in the last few years of record high interest rates, the buyers questioned the additional cost of doing business with an insurer that demanded big premium deposits.

It seemed for awhile, however, the FM System wasn't going to respond. Every inquiry by

Business Insurance about a rumored change was met with denial and staunch defense of the deposit requirement.

Now we find out that FM executives have been scrutinizing the deposit premium requirement for more than two years, in the best tradition of Zachariah Allen.

Indeed, it's as unjust to ignore a change in economics today as it was to ignore loss-prevention efforts in Mr. Allen's day.

We're sure, too, that the frontal attack on the deposit premium requirement by American International Group's Commerce & Industry Insurance Co. helped spur FM's decision. AIG's advertising campaign kicking off its HPR market, which criticized the deposit premium requirement as gluttonous, captured the essence of complaints by FM policyholders.

Who says the insurance business can't change? Insurers and brokers who once criticized the formation of captive insurance companies in Bermuda now cater to their formation and needs. An industry unwilling to provide all the insurance a buyer wanted will now write policies to fill gaps in previous year's coverage.

And now the FM System changes a premium deposit requirement dating back to 1835 in recognition of the increased time-value of money—and risk managers' demands.

Risk managers must now scrutinize the new deposit premium payment option to determine if it affords each of their companies enough cash-flow benefits to make the Factory Mutual companies competitive on price as well as on loss-prevention engineering service.



Zachariah Allen

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letters

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

Guns don't kill people . . .

To the editor: I have a few comments on your June 8 editorial regarding handgun control.

• Guns don't kill people, criminals kill people. If they don't have a gun, they will use anything they can get their hands on. Knives appear to be the state of the art in prisons, for example.

• Criminals usually don't buy guns in pawn shops or stores. They get them from fences or other criminals. Most guns enter the hands of a criminal through theft.

• As to the "full-time commitment to protecting the health and safety of people and property," I couldn't agree more. But you have

failed to address the problem, which is the criminal. We must get them off the streets, and gun control or registration will not accomplish this. If a person is going to commit a crime, what does he care if he commits another by having an illegal weapon?

I sincerely wish you would dedicate an editorial to the criminal, for if we can control them, there will be no need for gun control. Then you would have an editorial that no one except the criminal would disagree with.

Steven J. Jones
Jordan Jones & Associates
Sacramento, Calif.

Enforcement is impossible

To the editor: I read your editorial on gun control in the June 8 issue with some interest because I know something about the subject.

First and foremost, I have a question that I challenge you to answer. What effect have laws like New York's Sullivan Law had?

I believe that in recent hearings on the subject an assistant secretary of the treasury testified that the administration of such laws would be nearly impossible and would require huge amounts of men and money.

The most recent fiasco in handgun control occurred in Baltimore where \$50 was paid for each handgun delivered to the police. Thieves were stealing guns and turning them in, and people came from miles around with cheapies to cheat the cops.

If guns are such a poor risk, why then is coverage on a rifle range so cheap?

Dick Fee
Fee & Fee Insurance Inc.
Bloomington, Ind.



Editorial logic is ludicrous

To the editor: Your logic regarding the desirability of a national gun-control law overwhelms me (BJ, June 8).

For a magazine to take this approach to a readership, which has enjoyed the benefits and huge reduction in injuries and death occasioned by the advent of OSHA together with the increases in cost to the federal taxpayer and the fines and harassment of employers that it entailed, is ludicrous.

In a country whose legal system cannot find the courage to impose the death penalty for the murderer

of Robert Kennedy or mandatory jail sentences for convicted dope peddlers, what would you consider an adequate penalty for a little old lady with an unregistered "banker's special" in her nightstand?

What we need is enforcement of the laws that are already on the books, not the creation of another meddling bureaucracy with a multi-million dollar budget.

Dick Mlinar
National Insurance Agency
Corpus Christi, Texas

Early retirement trends

To the editor: In the Management column (BJ, May 4), Kenneth Shapiro states that "this labor-force growth is partially responsible for the recent early retirement trend."

This statement is contrary to what we have been able to ascertain from some sources. As a matter of fact, we have heard just the opposite is true due to federal legislation, which gives workers the right to work until age 70.

Karl E. Warming
Business vp
Berea College
Berea, Ky.

■ Mr. Shapiro replies: "Data from the Department of Labor and Social Security backs up the President's Commission on Pension Policy's statement that 'retirement

trends over the last two decades have been toward earlier retirement.' But as you accurately perceive, very recent data hints at a possible reversing of that trend—due mainly to high inflation rates.

"However, because of demographics, an eventual reversal of the early retirement trend is inevitable. Not only will a shrinking labor force in the next 20 years be hard-pressed to support the post-war baby boom retirees, but this potentially insufficient labor pool will force baby boom workers to work longer. The 'premature' reversal that may be happening now may have more important implications; if workers defer retirement, the mass of baby boom workers will be pinched even more in the so-called 'promotion squeeze.'"

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Maine defeats state fund for work comp

By STEPHEN TARNOFF

In a move that will please private workers compensation insurers, the Maine Legislature last week defeated a bill that would have created a state fund to provide workers compensation coverage.

The bill, which had passed the Democratic-controlled House of Representatives, failed by three votes in the Republican-controlled Senate.

Had it passed, the state fund would have been competitive with the private insurance industry.

According to Kenneth Allen, executive assistant to Maine House Speaker John L. Martin, the state compensation fund bill was a response to growing concern by businesses that insurance rates are rising to astronomical heights.

Describing Maine as having a "high-risk industrial base" with numerous logging and paper companies, Mr. Allen said the number of workers compensation claims is higher than average.

This resulted in insurance premiums rising 25% last year, and insurance companies indicated they could justify 140% increases, Mr. Allen added.

In addition, Maine has a liberal benefits policy, ranking third or fourth in the nation, according to Everand Stevens, chief examiner of the Maine Bureau of Insurance.

The competitive state fund would have allowed Maine employers to choose either private insurance companies or the state fund for workers compensation insurance.

Supporters of the state fund argued the cost of workers compensation would drop since the state could charge lower rates because it would not make a profit, and this would force insurance companies to reduce their rates to compete.

Opponents of the bill said it would entail more government interference and not solve problems.

Mr. Allen said that two major compensation packages were approved that will bring about "extremely important reforms."

The laws will enable the state to better catalog claims, speed up access to medical reports for doctors, lawyers and insurance personnel and increase the speed and efficiency of the court system in handling claims, Mr. Allen said.

RIMS may direct open-rating study

DETROIT—The effect of competitive rating for workers compensation risks on employers' premiums may be evaluated in a national survey.

The survey is the latest attempt of the National Assn. of Insurance Commissioners to gain acceptance of a model open-competition bill it adopted last December.

Minnesota Insurance Commissioner Michael D. Markman asked the Risk & Insurance Management Society at NAIC's annual meeting in Detroit June 8-12 if RIMS would survey its 3,400 members on the "qualitative aspects of workers compensation risks."

Minnesota is the first state to establish open rating for workers

compensation. The law will require insurers to compete on price beginning in mid-1983. Other states are pushing for similar legislation, with the hope that competition would force rates down.

Mr. Markman said the survey information would help regulators evaluate how a competitive rating structure would affect employers.

The survey would center on payroll hours vs. man hours in determining rates, said Reginald Beane, governmental affairs director for RIMS. He said RIMS is ready to assist the NAIC, but that it's up to RIMS' review committee to decide if members should be surveyed. No action has been taken yet, he said.

The task force on competition and an advisory committee of the NAIC's workers compensation subcommittee are two of the few ancillary groups that will be retained under a massive reorganization of the NAIC.

Despite a flurry of last-minute challenges from the insurance industry, a model national open-competition bill for workers compensation insurance remains unchanged since its original adoption six months ago.

Nationwide Insurance Co. was one of several industry groups to offer amendments to the model bill at NAIC's annual meeting in Detroit. The insurer disagreed with several sections of the bill, including a section that called for "monitoring competition."

Allstate Insurance Co. and State Farm Insurance Co. expressed disappointment in the model bill. Bruce Clements of Allstate said the model bill, as adopted, is not sufficiently competitive.

The NAIC's competition subcommittee opened up the bill to scrutiny from insurers and other interest groups, but the subcommittee left the measure virtually unchanged and sent it on to the NAIC executive committee.

One of the strongest backers of open competition for workers compensation risks is Illinois Insurance Director Philip J. O'Connor, who is chairman of the NAIC competition subcommittee.

"Many issues remain controversial and some of the more fundamental issues are still receiving a wide variety of viewpoints," Mr. O'Connor said. "But the NAIC model more than ever can be seen as a solid middle and in some ways as an optimal approach at this point in time."

Progress seen on trade worries

WASHINGTON, D.C.—The International Insurance Advisory Council of the U.S. Chamber of Commerce cites "considerable progress" in improving U.S. government response to the international trade and investment problems of insurance companies.

In its 1979-81 report, the IIAC says the U.S. Trade Representative has committed the administration to "a major international effort to support service industries including insurance which are confronting barriers in foreign markets."

- This commitment includes:
- Full use of existing bilateral arrangements with other governments to resolve trade issues.
 - Inclusion of service industry concerns in the ongoing review of U.S. export disincentives.
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 - The review of U.S. legislation on reciprocity for U.S. service industries.

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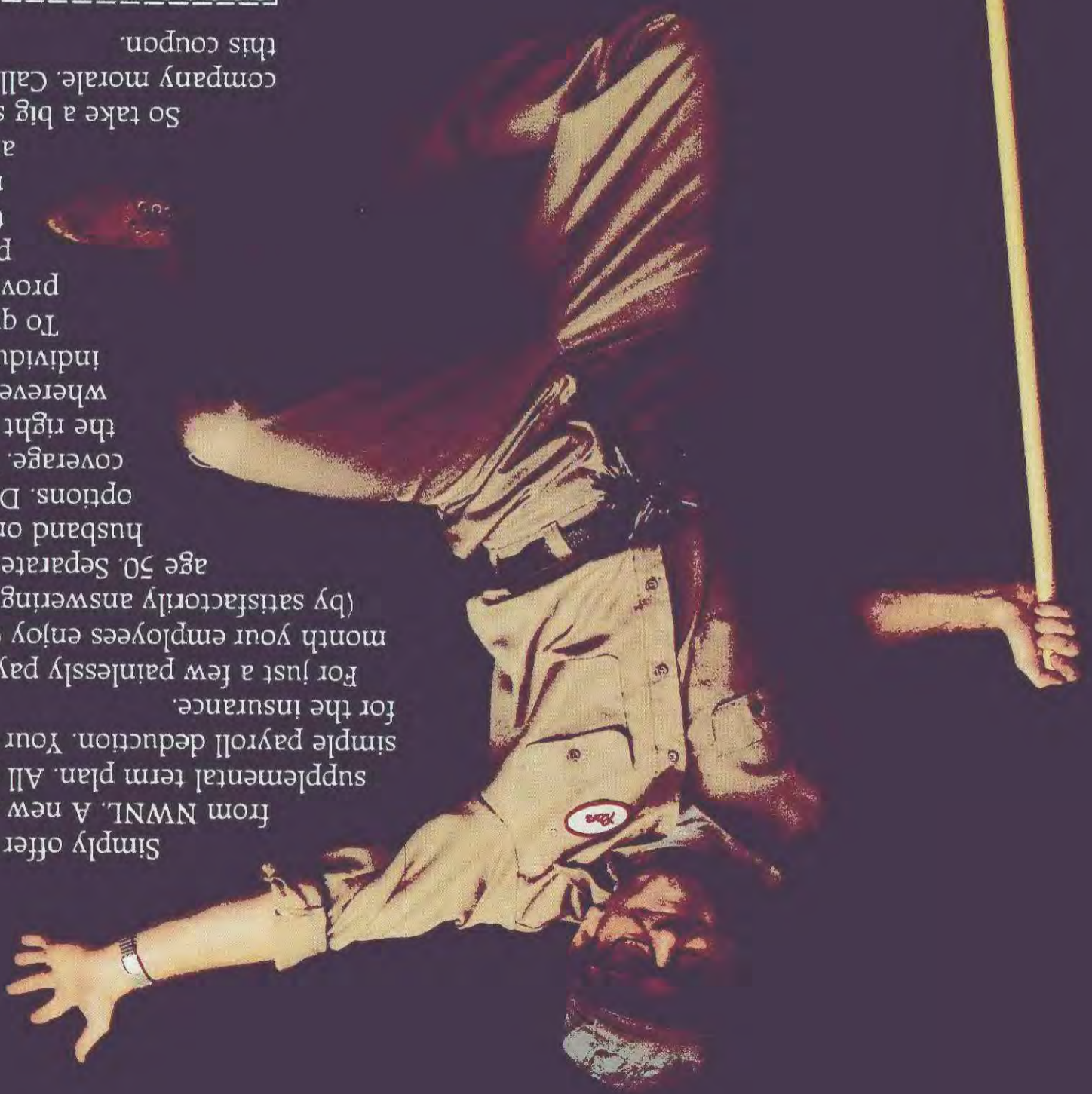
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Vermont requires pregnancy benefit plans

MONTPELIER, Vt.—Employer-provided health benefits in Vermont must include pregnancy benefits, the state attorney general has concluded.

The law, as interpreted by the attorney general, requires the same treatment for all employer-provided health benefits. Employers must comply with the requirements regardless of size.

The interpretation is in keeping with the Pregnancy Discrimination Act of 1978 that requires a business with 15 or more employees to include coverage for pregnancy health benefit plans.

If the insurer should erroneously advise its employer/insured about benefits provided, the state's division of banking and insurance securities can treat it as "unsuitable policy or unfair discrimination."

around the states

Surcharge dropped

TRENTON, N.J.—A 0.5% surcharge on property/liability insurance policies that has been in effect the past six years will be eliminated Aug. 1, Insurance Commissioner James J. Sheeran says.

The surcharge on policies written by insurers admitted in New Jersey was imposed to provide funds for the New Jersey Property-Liability Insurance Guaranty Assn., which gives protection to policyholders and claimants of insolvent admitted insurers.

The surcharge will be discontinued because the guaranty association has sufficient funds to meet

expected liabilities.

As of last Dec. 31, the surcharge had generated \$56.6 million, of which \$42.9 million had been paid in claims and expenses. Fourteen companies are on the association's insolvency list.

The association, which comprises all property/liability insurers admitted to do business in the state, was created in 1974.

Insurer fined

NEW YORK—New York State Insurance Department has imposed a \$3,500 fine against AFIA, an association of insurance companies licensed to do business in the state.

AFIA has acknowledged that it placed advertisements in various publications that did not show admitted assets, liabilities and reserves required by law, nor the amount of surplus to policyholders of its participating insurance companies. The failure to include the information violated New York insurance law.

AFIA has paid the fine and stated the violations were inadvertent, have been corrected and that all possible steps have been taken to prevent recurrences.

\$59,000 fine

NEW YORK—Aetna Insurance Co., a subsidiary of Connecticut General, and Aetna Fire Underwriters Insurance Co. have been fined \$59,000 jointly by the

state Insurance Department. The fine was imposed after a market conduct investigation of their rating and underwriting practices found that they had committed several insurance law violations.

The violations applying to multi-peril insurance include: using rates not filed with the department; committing errors involving incorrect experience ratings and individual risk premium modifications; failing to establish adequate rate verification procedures; failing to promptly process applications for insurance benefits; delaying payment of claims already filed; and paying no interest on late payments.

The insurers have acknowledged the violations and paid the fine. They have stated that the rates not listed in the ISO manual are now being submitted to the department, that they have corrected their claims procedures and that all necessary steps have been taken to prevent recurrences.

Rate increase

MONTPELIER, Vt.—Vermont workers compensation insurers are seeking state approval of a 2.3% rate increase, the National Council on Compensation Insurance says.

A spokesman for the NCCI, a non-profit ratemaking organization, said a change in the state law raising weekly wage benefits payable to victims of occupational injury or disease made the increase necessary.

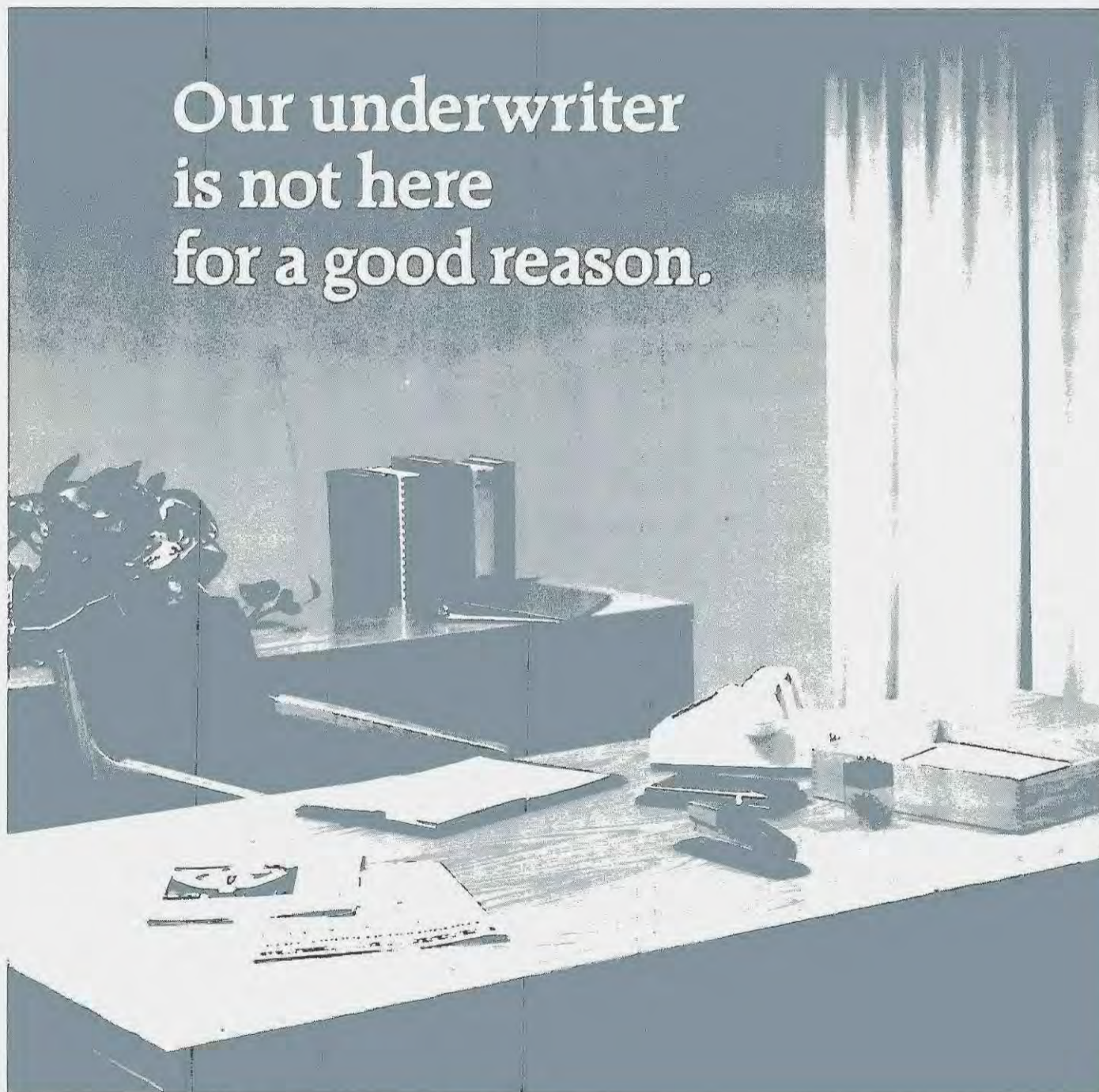
The rate increase would apply to all policies purchased or renewed after June 30 and to policies outstanding as of July 1, since the higher benefits will be payable on policies already in force.

Elect or appoint?

NEW ORLEANS—Legislation has been introduced in the Louisiana Legislature that would make the state insurance commissioner an elected rather than an appointed position.

The change, which would take place in 1983, is being opposed by the present commissioner, Sherman A. Bernard, who is in the third year of a four-year term. Louisiana Gov. David C. Treen supports the legislation.

Mr. Bernard expressed his opposition in a letter to Gov. Treen and instead recommended the abolition of the state's insurance rate commission, which he said could save the state \$2 million a year.



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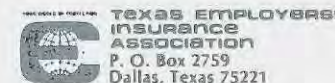


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Risk managers to meet in Monaco

North American and European risk managers and insurers will get a chance to exchange information and assess the state of the art at an international conference Oct. 12 to 14 in Monte Carlo.

Sponsored by the Risk & Insurance Management Society and the Association Europeenne des Assures de L'Industrie, the conference is an attempt to bring the world's often disparate approaches to risk management and insurance closer together.

"It is the first of its kind, the first time European and United States risk management groups will be getting together," says Eckart Russell, risk manager for Alcan Aluminium Ltd. "They will be getting together in an international forum to discuss global risk management problems."

Mr. Russell, who is chairman of the International Cooperation Committee of RIMS, says the intercontinental exchange of ideas and techniques is essential for risk managers on both sides of the Atlantic. The conference should help establish a more exact definition of risk management.

"Europeans will learn more about the state of the art, what it is all about," he says. It should contribute toward creation of the "same universal approach."

Americans will be able to learn more about developing global insurance markets and the European approach to product liability.

In addition, the more theoretical European approach to risk management will be compared with the American "quantitative, problem-solving" methods, Mr. Russell says.

He estimates 350 to 400 risk managers, insurance brokers and consultants will attend. Some 50 top executives will speak.

Opening-day sessions will feature a comparison of risk management practices in North America and Europe.

Speakers will include: Benedetto Saleroli, insurance and risk manager for Fiat Corp. of Italy; Marcus Kiry, corporate insurance manager for Ciba-Geigy of Switzerland; James V. Davis, chairman-research and development division of Corroon & Black Corp.; and Matthias H. Haller, director of the Institut fur Versicherungs Wirtschaft of Switzerland.

Second-day sessions will highlight the relationships between risk managers, government, brokers and international markets. Speakers will include: John R. Cox, president of INA; Francois Settembrino, risk and insurance manager for Tabacofina Ltd. of Italy; Gerard Imbert of Belgium, director of the Department of Insurance and Finance for the European Economic Community; and Pierre Esteve, president of the Union des Assurances de Paris.

A third-day session on international implications of product liability legislation will feature: Hans Heimbach, head of insurance for Bundesverbandes der Deutschen Industrie of West Germany; John Havers, group insurance manager for Dunlop Ltd. of Great Britain; Norman D. Chanzis, director-risk management for American Standard Inc.; Joachim Schmidt-Salzer, vice member of the board of Haftpflichtverband der Deutschen Industrie of West Germany; and Edith F. Lichota, vp of government affairs for INA.

Among other speakers are: Harold Christensen, vice chairman, AFIA; H. Felix Kloman, president, Risk Planning Group Inc.; Donald E. Reutershan, president of the New York Insurance Exchange; Robert Clements, presi-

dent and chief executive officer of Marsh & McLennan Inc.; and John A. Bogardus Jr., president and chief executive officer of Alexander & Alexander Inc.

Also Burton J. Carbino Jr., senior vp/risk management division of Irving Trust Co.; William L. Mather, administrator-risk management of the Gillette Co.; Duane Allen, assistant treasurer of Hanna Mining Co.; and Mr. Russell.

The registration fee is \$675 for risk managers and \$775 for insurance industry personnel. For a brochure and registration material, contact Mitchell York, Public Relations Manager, RIMS, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

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Congress bans IRS vesting proposal

By JERRY GEISEL

washington

WASHINGTON—Congress has extended a congressional ban on an Internal Revenue Service plan to impose faster vesting schedules on private pension plans.

Last December, Congress approved a stopgap measure that barred the IRS from requiring a pension plan to adopt a more rapid vesting schedule than the so-called 4-40 vesting schedule—40% vesting after four years of service.

That legislative, however, ex-

pired June 4. The latest legislation extends the congressional ban through Sept. 30.

The issue of rapid vesting arose last year when the IRS unveiled a proposal that would have required some firms to provide 100% vesting in their pension plans to employees who complete three years of service (BI, April 21, 1980). Most companies now provide 100% vesting

after 10 years of service.

Although the IRS backed off from its initial proposal after an uproar from business, Congress passed the legislation to make it clear that it would decide if vesting schedules should be changed.

Mine safety

The Labor Department's Mine

Safety & Health Administration is warning coal mine operators to take extra safety precautions as they reopen mines following the settlement of the United Mine Workers strike.

"Past experience has shown that accidents occur following a work stoppage of long duration," said Joseph Lamonica, administrator for coal mine safety and health.

Mr. Lamonica warned operators to pay particular attention to the condition of instruments used to measure the presence of dangerous

gases in mines, mine electrical systems and newly timbered areas.

About half of the nation's coal mines were shut down when the UMW struck March 27 after its contract expired.

Lawsuit settled

The trustees of a New York prepaid legal services plan have agreed to repay \$150,000 to the plan to settle a lawsuit filed by the Labor Department.

The lawsuit, filed in February 1979, charged that the trustees of Prepaid Legal Services Care Plan of Local 1115 Joint Board violated pension reform law. This was the first ERISA suit filed by the department against trustees of a prepaid legal services plan.

The department said the trustees acted imprudently in hiring Jay Mark Sackman, the son of Michael Sackman, a plan trustee, to provide legal services to plan participants. The suit cited inadequate selection procedures.

The trustees paid Jay Mark Sackman excessive fees for his services, the department also charged.

Under the consent order, the defendant trustees have agreed to return \$150,000 to the plan for alleged overpayments to Mr. Sackman.

The order also requires the plan trustees to monitor the cost, quality and efficiency of the plan's legal services.

The consent order was entered in the U.S. District Court for the Southern District of New York.

Health care study

The Reagan administration has set up a task force that will examine how to inject more competition in the health care delivery system, says Richard Schweiker, secretary of the Department of Health and Human Services.

"We intend to loose the forces of the market to make the health-care system more competitive," Mr. Schweiker said.

The task force, which is centered in Mr. Schweiker's department, will be taking a close look at "pro-competitive" legislation. Under the pro-competitive approach, employers would be required to offer several different health insurance plans.

If insurers are forced to compete, lower premiums and better benefits will result, Mr. Schweiker and other pro-competition advocates argue.

The task force will submit a legislative package on the best ways to reduce health-care and related costs by the end of year.

Alaskans form RIMS chapter

ANCHORAGE, Alaska—Nineteen employer representatives have formed the Alaska chapter of the Risk & Insurance Management Society.

Walt Woodard, assistant corporate risk manager for Boeing Co. and past president of RIMS, represented the national organization at the meeting and presided over elections.

Elected to offices were: Mary Pierce, risk manager of the Anchorage School District, president; Howard Cutter, risk manager of Alyeska Pipeline Service Co., vp; Hanh Tran, risk and insurance management administrator of Alascocom Inc., secretary; Ike Charlton, risk manager of the University of Alaska at Fairbanks, treasurer; and Ed Hite, risk manager of the Municipality of Anchorage, delegate to the national board.

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perspective

Make yourself marketable

By Richard Meyers

HAVE YOU EVER given any thought to how marketable you are as a risk management professional? Most of you are probably under the impression that you are in fact very marketable and don't have the opportunity to test that until you're actually in the job market. But there are many ways in which you can better prepare yourself during the development years of your career.

The first thing a young risk management professional should think about, preferably early in his or her career, is education. As your career develops, so does your responsibility, and along with responsibility come commitments. This in turn minimizes your available time for the pursuit of your studies.

In addition to a bachelor's degree, the risk management professional should give serious thought to completing an M.B.A., preferably in finance.

Why finance? First of all, most risk managers or directors are reporting to financial officers such as treasurers, controllers and vps of finance. These financial managers are increasingly recognizing that risk management is another department making financial decisions. Risk management is no longer a cost center, but a profit center.

In the last two years, more and more

companies are requiring M.B.A. graduates or those who are, in the process of completing one, particularly when looking for a risk manager/director.

There are two additional types of education available to the risk manager: CPCU and ARM certifications. These are status credentials, self-imposed by the insurance industry to further professionalize the risk manager. These credentials are usually pursued during the first five years of the risk manager's career. The CPCU and ARM designations should be pursued on a lower priority than the M.B.A. Unless you're ambitious and have the time to pursue both designations, get the ARM first; it takes less time.

As you begin your career, remember, even in a field of specialization, there is still a market for a generalist. The generalist still continues to be much more viable in today's job market. When I speak of the generalist, I simply mean the professional who has both property and casualty insurance responsibilities.

Gaining a diversified background—multiline insurance responsibility—is of the utmost importance. For example, if you're a property analyst for the last three years and are currently looking to change jobs, make sure your next employer will afford you a position that either has greater depth, supervisory or management potential and/or the ability

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- RISK MANAGER (St. Louis area):** Responsible for all aspects of a conglomerate insurance program...
- RISK MANAGEMENT & INSURANCE:** CERTAINTED CORPORATION, a major building materials manufacturer... opening in its Management and Insurance...
- DIRECTOR, RISK MANAGEMENT/PROPERTY:** The University of Missouri has an immediate opportunity available for the position of Director, Risk Management/Property...
- COORDINATOR OF RISK MANAGEMENT (Wichita Public Schools):** Applications are being accepted for the above position. This position assumes responsibility in the areas of employee benefits, property and casualty insurance, fixed asset accounting...
- Director of Risk Management:** Leading NYSE health care products manufacturer in San Francisco Bay area seeks Director of Risk Management to direct and administer all domestic and international risk management and insurance programs...
- Risk Management:** National Recruiting For Insurance, Brokerages, Trucking, ARM... (212) 598-2662

A neophyte must make sure he or she is prepared before looking for a job.

to branch out into other areas of insurance such as international, self-insurance, loss prevention, captive involvement, casualty and/or property and employee benefits.

A job offer deserves careful consideration, and the decision should not be made lightly. So consider the following: Will this job add to my existing experience,

broaden my coverage involvement, expose me to greater authority and potential, associate with key personnel and provide me supervisory and management responsibilities?

If some of these questions can be answered positively, then in fact, this job

Continued on next page

A little learning can be a big benefit

By Tom Miller

ALLEXANDER POPE once wrote, "A little learning is a dangerous thing."

Another person, who isn't at all famous, asked me as I was describing my education, "Son, if you are so smart, why ain't you rich?" That person was my father, who didn't need "all that education" to become a success.

I have never agreed entirely with Alexander Pope, but I cannot reconcile my father's question, either. What I do know is that in most disciplines, education is an ongoing process.

There is an acute need for continuing education and acquisition of knowledge in the field of risk management. To be truly

professional requires a risk manager to secure and maintain a distinct body of knowledge. Nothing less will do.

Insurance has become more and more complex because exposures have become more complex. Many years ago, larger insurance consumers, which had relied on external suppliers, began to see the need to hire people who knew something about insurance, just to make sure that proper coverage was being purchased at a good price.

These buyers developed the National Assn. of Insurance Buyers, a very descriptive if not imaginative title. The group was saying "Look at us. We have special knowledge and expertise that set us aside from a clerk or bookkeeper."

Times have changed since then. The complexity of our business has thrust us into a future that we once marveled about and that will require a great deal more of risk managers. Can we meet that challenge? Are we fully equipped with the knowledge and expertise that is required?

Never before have opportunities to improve a risk manager's formal knowledge,

not just experience, been more available. Formal knowledge is taking the best experiences of others and utilizing them. Others have made mistakes, so studying them eliminates the need to make them again.

For example, the Chartered Property and Casualty Underwriter designation is both recognized and coveted. Obtaining a CPCU requires many hours of study and examination. Such a program increases a risk manager's knowledge, raises his or her level of awareness of the business and builds credibility.

Do you know who holds the designation? Most are in the insurance industry. The insurers, brokers, agents and consultants are CPCUs, but very few risk managers are. Does this mean the sellers are more knowledgeable than the risk managers?

One should be well-grounded in insurance fundamentals if he or she is to handle an insurance program. Such knowledge can be secured through some insurance experience or formal education. Is

this enough, though, to be effective? Probably not in most cases.

Traditionally, insurance was developed as a social mechanism to provide a means for transfer of pure risk through an orderly marketplace. Through the years, it has served well with rough spots here and there. But will the traditional insurance approach fill all or at least most of the needs of the large, complex business entity of today and tomorrow?

In most cases it will not. Risk managers are charged with the responsibility to protect their company from the impact of financial loss arising from pure risk—fortuitous events. The word financial should be stressed heavily because it is at the heart of the risk management process.

Insurance provides financial reimbursement, or at least partial reimbursement, since over the long run the average company will receive 50 cents to 60 cents in losses for every dollar it spends on premiums.

Should risk management be more real-

Continued on next page



Richard Meyers is vp of Logic Personnel Associates Inc., a New York-based insurance recruiting firm.



Tom Miller, CPCU, ARM, is president of Scor Risk Management Inc., a Dallas-based risk management consulting and captive management company.

perspective

Careful career preparation is necessary

Continued from previous page

offer is furthering your career advancement and better preparing you to be that risk management executive. So be sure proper thought goes into making an intelligent decision that will enhance your career objectives.

Stability is an area which has undergone major reconsideration. In today's job market the 10-year veteran is becoming more and more obsolete. Risk management professionals now have an average stability factor of three to four years.

Some of the contributing factors to this major change in employer/employee relationships are due in part to the increase in risk management popularity.

Many companies have found a need, not necessarily by choice, to establish a risk management staff because of the continuing rise in insurance premiums, exposures to loss and the present available methods of risk financing, thus creating more jobs from within the risk and insurance industry.

As a result of this popularity, assistant risk managers are being provided greater job opportunities earlier in their careers without having to wait the traditional amount of time for a similar opportunity. An example of this traditional amount of time, can result from a resignation, retirement or promotion by your immedi-

ate superior that would possibly lead to your promotion. The thinking simply seems to be "Why wait until tomorrow, when I can possibly have it today?"

Another factor towards stability is the economy. Switching jobs, more often than not, provides large increases in salary that are often contrary to your normal 8% to 12% raises. However, employers are still very sensitive and suspicious

The 10-year risk management veteran is becoming truly obsolete.

of "job hoppers."

An area that has not been given proper attention, but one that is critical to one's marketability, is one's presence and personality.

First of all, when you are looking for a job change, you must realize that you can't go on a job interview and treat your prospective employer as you do your present employer. Secondly, you must always dress as a true executive. Looks have much to say about a person.

Thirdly, in order to better prepare yourself for your job interview, consider the following: Have you researched the company's history and current activities? This can be done via annual reports, business magazines such as Forbes, Fortune, Business Week and others. These are viable avenues for obtaining the necessary information. The idea is "get to know your perspective employer before they get to know you."

Lastly, making direct eye contact and having good posture will identify your awareness, attentiveness and astuteness.

In addition, you should gear your interviewing personality to be consistent with the management of the prospective employer, especially if you're utilizing a recruiter who can feed you information. Many interviewers have been known to say, "The candidate has everything we're looking for, but chemistry-wise he doesn't fit in."

Employers are more apt to "give up a little" in your experience than they are in "chemistry." Just keep in mind that chemistry plus experience equals being the more marketable choice.

Selling yourself. It's an area all risk management professionals should improve upon. Risk managers are so good in selling themselves and their ideas to superiors; if they could only remember

to apply the same principle when they themselves are interviewing for a prospective job.

Aside from having the experience and the personality, why should a company hire you? Let them know! What have you done for your employer? Do you have additional material documenting both professional and personal skills relevant to the perspective employer's needs? What can you do for them? Just as much as the employer is going to sell you the job, you have to sell yourself to them.

Another thing that's a must is to show a desire for the job. Whether or not you want the job, always leave the perspective employer with the impression that you either really want the job or are interested in further pursuing your candidacy. It's very difficult to determine during the course of the interview whether you like or dislike the job, so leave them with a positive impression and assess your opinion later.

The key to being marketable is a solid plan of construction that takes place at the onset of your career. Intelligent movement, stability, increasing responsibility, extensive education, presentation, good appearance and the ability to sell yourself are the ingredients to being more marketable.

Risk managers need to study

Continued from previous page

istically viewed as a financial problem than an insurance problem? Since most large companies have risk management functions under the finance department, it is now largely viewed as a financial problem.

There is ample evidence that property/casualty insurance companies are now viewing risk management more and more as a financial business. For example, many insurers lose money on the product they sell assuming they will make it up on investment income.

Is this insurance of finance? Take another example. Insurers were willing to backdate coverage for the MGM Grand Hotel fire, betting that investment income would earn them a nice profit.

Or take American Express' acquisition of Shearson Loeb Rhoades, a stock broker. American Express, which owns Fireman's Fund, says it is interested in integration of all financial services, to provide one-stop shopping.

You can bet that more of this integration will occur in the future. The typical representative of such a full-service company will be a young person with a degree in finance who will be qualified to sell all financial services, including risk management.

No wonder some risk managers are feeling that their training is inadequate.

The future is going to require a new type of risk manager. Since many of today's risk managers aren't ready to retire, they must prepare to meet new challenges.

How can risk managers with yesterday's and today's skills be an important asset to the company of tomorrow? Will they be able to speak the technical and financial language that will be required in the complex business environment of the future? Risk managers would be wise to take a hint from Confucius who said, "Even the longest journey must begin with the first step."

Some of the first steps a risk manager can take are:

- Not approaching your job with a closed mind. Even if you are an old insurance horse, there is no reason to keep the blinders on. Open your mind, explore new products and new ways of doing things and consider alternatives.



Photo: Mary Cairns

Risk managers need to study finance to stay up to date in a changing field.

- Acquiring new knowledge, particularly in the area of finance. Pick the brains of your financial officers, read financial texts and periodicals, take some college courses in finance and maybe work on your MBA.

- Beginning to exercise your newly-acquired skills, honing them sharply. Always look for opportunities to improve your job and your performance.

If all of this sounds like woolgathering to you, then don't do anything. But if you want to get something out of risk management while contributing to your well-being and your company's, get moving.

Don't be like the last dodo who was heard to say just as he passed into extinction, "Boy, I sure wish I had learned to fly like those other guys."

William C. Clark joining Gulf Oil

William C. Clark is leaving his position of senior vp of General Reinsurance Corp. in Greenwich, Conn., to join Pittsburgh-based Gulf Oil Corp. as a senior officer in its insurance operations.

Mr. Clark, 48, will be based in New York and will collaborate with Leslie Dew in Bermuda, president and chief operating officer of Inco Ltd., Gulf's Bermuda-based reinsurance company, and president of Britamco, Inco's underwriting agency.

Inco has grown under Mr. Dew, a former deputy chairman of Lloyd's of London, from an underwriter of mostly Gulf risks to a commercial reinsurance company with a 1980 gross premium volume of \$153.7 million, two-thirds of which is unrelated to Gulf risks.

Mr. Clark, who has been with Gen Re since 1959, was in charge of its facultative department until 1978 when he became a member of the office of reinsurance operations. In September 1979, he became president of Herbert Clough Inc., a wholly owned reinsurance brokerage subsidiary of Gen Re.

Other insurer changes:

Henry U. Harder, president of The Chubb Corp., elected chairman, succeeding William M. Rees. Mr. Harder, 56, has been with Chubb since 1948 and was named president in 1977 and chief executive officer in 1980.

In another move, **Roger S. Ingalls** has been elected executive vp of Chubb.

Fremont Indemnity Co. has announced several promotions. **William Collins** was named senior vp in charge of operations. **Gerald Evans** was appointed Glendale division manager and resident vp. **Jim Milne** was named manager of the Los Angeles division property and casualty department.

Brian Duperreault elected senior vp for American International Underwriters, the international marketing division of American International Cos.

Reinsurers

John M. Wilson named assistant vp of treaty property underwriting at North American Reinsurance Corp.

Skandia Group announced several promotions. At Skandia American Reinsurance Corp., **Patrick J. McKell** named vp and **John B. Laadt**, **James W. Treffinger**, **Paul A. Bellone** and **Glenn B. Slay** named assistant vps. **John A. daCunha**, **Gerald A. Dugan**, **James J. Farrelly**, **Max H. Foley**, **Arthur J. Forenza Jr.**, **Peter L. Hudson** and **John C. Raley** named assistant secretaries. **Edith Lovas** named assistant secretary for Skandia Corp., Skandia America Reinsurance Corp. and Hudson Insurance Co.

At the Hudson Insurance Co., **James W. O'Brien** named vp and **James W. Treffinger** promoted to assistant vp.

Other suppliers

Ronald Piro named vp/director of property at LJR Inc., insurance adjusters and self-insurance administrators.

Raymond E. Sharp and **John W. Thompson** named consulting actuaries and **Jan R. Harrington** named reviewing actuary at Buck Consultants Inc.

M.F. Bank & Co. Inc. appointed three new branch office/warehouse managers: **Frank A. Clark** in Boston, **Joyce M. Reifel** in Houston and **Terry J. St. Denis** in Dallas. M.F. Bank & Co. Inc. is a nationwide independent salvor and

comings & goings: industry

appraiser for insurance companies.

Excess/surplus

Shand, Morahan & Co. Inc. has announced three promotions among staff members. **James E. Ruiz** and **Andrew J. Palmer** were named territorial managers in architects and engineers professional liability claims department. **Charles P. Sponburgh** was named miscellaneous claims division manager.

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In lots of ways. For one, we develop fast, accurate and in-depth data on plan performance. In fact, we are now expanding computer capabilities to monitor our programs even more closely. For another, we work

with our Associate Insurers to maintain our programs' cost effectiveness. A good example is the cost containment program we recently set up with an Associate Insurer. By applying sophisticated, U.S.-style claims control and approval procedures, we were able to help a client succeed in bringing their disability claims into line.

HOW DOES IGP HELP CLIENTS TRACK THEIR PROGRAMS' PERFORMANCE?

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Lloyd's committee bans betting on 'tonner' policies

london line

LONDON—Lloyd's of London underwriters no longer will be able to gamble on "tonner" policies, Lloyd's Chairman Peter Green says.

"The committee has decided that from today's date no Lloyd's underwriter will be allowed to place or write a tonner or similar policy relating to any class of business," Mr. Green said in a letter to Lloyd's underwriters and brokers.

A tonner policy is a bet on how many crashes will occur on a specific type of aircraft or ship. Underwriters, who have no specific airline or shipping company in mind, can insure against a total loss on specific classes of business or weight. For example, they estimate how many crashes might involve a Boeing 747 and pay premiums to reinsurance underwriters accordingly.

When a crash occurs, the underwriter is paid by the reinsurers, no matter what airline suffers the loss.

A claim on this type of policy, unenforceable in a court of law, has been settled in the market through gentleman's agreements. These policies have been included when fraud is suspected, as in the Christopher Moran case.

"It does harm to the reputation

of Lloyd's if pure gambling policies are permitted," said Sir Henry Fisher in his report on self-regulation at Lloyd's.

Legal coverage

The British Law Society will raise premium rates for its master policy by 17% in September.

This increase was approved by underwriters after consultations with the law society, which began the coverage for its members in 1975.

More than 20,000 British solicitors are now enrolled in the society's plan.

The first hike in two years will increase total premiums to 19 million pounds next year, but that may not be enough to avoid an underwriting loss.

Underwriters have relied on high interest rates on premium income to maintain the plan's stability even though they suffered heavy losses in the plan's first three years from which they have not yet completely recovered.

The master policy is written by various Lloyd's syndicates and two British Lloyd's companies, General Accident and Guardian Royal Exchange.

Solicitors practicing in central London will pay 1,083 pounds a year after the increase. Those outside London will pay 833 pounds a year.

The policy provides 50,000 pounds of coverage per solicitor, with a higher aggregate coverage for multiple firms. Excess coverage is available from the present underwriters or other sections of the market for large firms.

The law society is considering assessing premiums on the gross income of law firms, rather than on individual solicitors.

Shipping safety

LONDON—Marine insurers are being urged to impose sanctions on

shipowners who are reluctant to disclose details of their safety records, which are kept by shipping classification societies of various nations.

Lars Lindfelt, managing director of the Swedish Mutual Club, which insures many domestic and foreign ships, says that underwriters often find themselves at a disadvantage when they want information.

Major classification societies like the American Bureau of Shipping have begun a concerted project to eliminate substandard ships. Nine of the societies met recently to deal with the problem.

But Mr. Lindfelt criticized their insistence on secrecy about many of their findings. "I am sorry to note that the societies seem to be prohibited by their rules from advising underwriters if they feel the standards of the ships they classify are falling. We have found some ships that were definitely below acceptable standards."

Such criticism was answered by Bryan Hildrew, managing director of Lloyd's Register, which suspended 70 ships from its classification list last year because they did not reach the required standards.

"The findings of our surveys are a private matter for our clients under the terms of our contracts with them," he said.

"Underwriters certainly have a case for getting information, however. The best way for them is to ask the owner for the information if he wishes to get his risk insurance completed. They also could ask him to instruct his classification society to forward the necessary details to his insurers."

"If all marine underwriters adopted this course, then clearly shipowners would have to comply with such a requirement. Until then, we can't be expected to divulge our individual records. But we're aware of the problem of substandard ships and are doing all we can to overcome it."

datebook

JUNE 23-JULY 1. Institute on Collection of Employer Contributions program in Lake Tahoe, Nev., sponsored by the International Foundation of Employee Benefit Plans Inc.; members, \$360; non-members, \$425. IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005.

AUG. 10-12. Establishing a Computer Security Program seminar in Boston, sponsored by the Computer Security Institute Educational Resource Center; \$695. Gerald I. Isaacson, Computer Security Institute, Box 528, Matawan, N.J. 07747; 201-566-6622.

AUG. 13-14. Risk Analysis Techniques course in Boston, sponsored by the Computer Security Institute; \$495. Also **Aug. 20-21** in Denver. Gerald I. Isaacson, Computer Security Institute, Box 528, Matawan, N.J. 07747; 201-566-6622.

SEPT. 9-10. Casualty Loss Reserve seminar in St. Louis, sponsored by the American Academy of Actuaries and the Casualty Actuarial Society; \$100. AAA/CAS Casualty Loss Reserve Seminar, 1835 K St. N.W., Suite 515, Washington, D.C. 20006; 202-223-8196.

SEPT. 13-18. Fundamentals of Money Management seminar in Philadelphia, sponsored by the International Foundation of Employee Benefit Plans. Members, \$600; non-members, \$725. IFEBP, 18700 W. Bluemound Road., Box 69, Brookfield, Wis. 53005; 414-786-6700.

SEPT. 20-23. Canadian Risk Management conference in Toronto, sponsored by the Ontario Risk and Insurance Management Society; \$225 before Aug. 31, \$250 after. Mrs. Jean C. Murphy, conference committee, c/o Canadian Oxygen Ltd., 355 Horner Ave., Toronto, Ontario M8W 1Z7; 416-251-5241.

OCT. 1-2. First Annual Self-Insurance Institute of America conference in New Orleans, sponsored by the Self-Insurance Institute of America. Cost of conference depends on business of participant. SIIA, 1700 E. Dyer Road, Suite 165,

Santa Ana, Calif. 92705; 714-979-6318.

OCT. 11-14. Health-Care Cost Containment seminar in Palm Springs, Calif., sponsored by the International Foundation of Employee Benefit Plans Inc. Members, \$440; non-members \$515. IFEBP, 18700 W. Bluemound Road., Box 69, Brookfield, Wis. 53005.

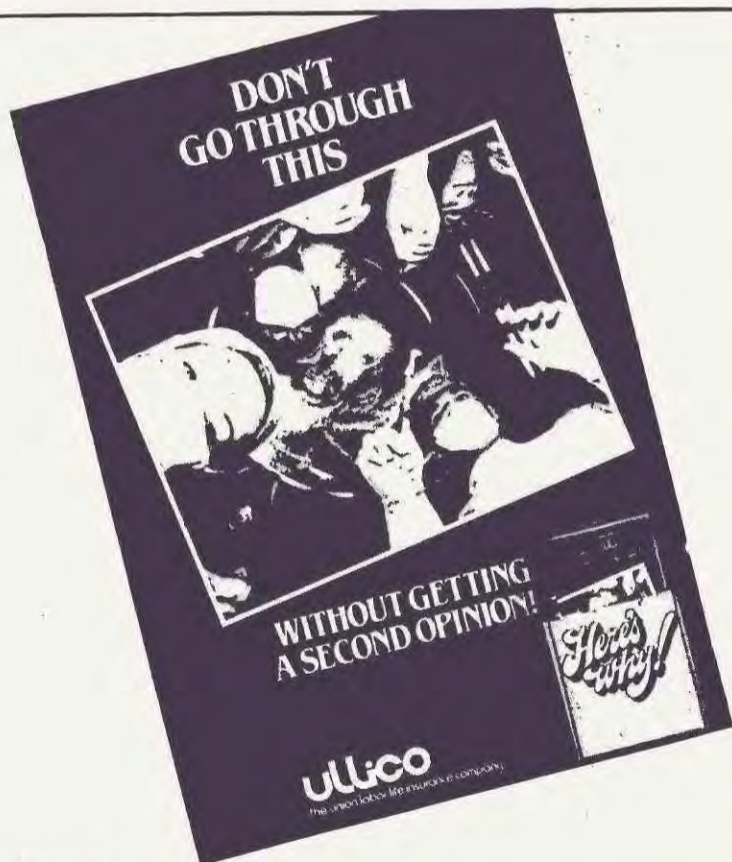
OCT. 12-14. International Risk Management conference in Monte Carlo, Monaco, sponsored by the Risk & Insurance Management Society and the Association Europeenne des Assures de L'Industrie; risk managers, \$675; other insurance industry personnel, \$775. Mitchell York, Risk & Insurance Management Society, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

OCT. 12-16. Lloyd's World of Shipping conference in Hong Kong, sponsored by Lloyd's of London Press. For more information and the cost of the conference, contact Mr. Roy Baker, Conference Division, Lloyd's of London Press Ltd., 16/17 Bride Lane, London, EC4Y 8EB, England; (01) 353-1000, ext. 30.

OCT. 19-21. 69th National Safety Congress in Chicago, sponsored by the National Safety Council. Members, \$60; non-members, \$80 in advance. Congress Planning, National Safety Council, 444 N. Michigan Ave., Chicago, Ill. 60611; 312-527-4800.

OCT. 26-27. Eighth Annual Environment and Safety Briefing sessions in Washington, D.C., sponsored by the Bureau of National Affairs Inc.; \$250. Environment Conference Secretary, BNA Education Systems, Suite S-602, 1231 25th St. N.W., Washington, D.C. 20037; 800-424-9890, 202-452-4420.

NOV. 11-14. 1981 Public Employees conference in Williamsburg, Va., sponsored by the International Foundation of Employee Benefit Plans. Members, \$360; non-members, \$435. Public Employees Conference, IFEBP, 18700 W. Bluemound Road, Box 69, Brookfield, Wis. 53005.



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British put a price on safety measures

By STACY SHAPIRO

LONDON—British companies aren't required to sacrifice profits to eliminate health or safety risks.

"Employers shall remove health and safety risks so far as is reasonably practicable," says John Dunster, deputy director of the Health and Safety Executive, a government agency.

"You go on reducing the risk until the price you have to pay is out of proportion to the risk's price," he says.

Sometimes the cost of loss associated with a risk is substantially less in money and lives than the cost of removing it, Mr. Dunster says.

And in a nation where a company doesn't have to worry about courts awarding punitive damages, retaining the losses can be cheaper than eliminating the risk.

A British company, for example, doesn't have to do anything about asbestos materials in a workplace unless it causes more than 100 related deaths per million per year, Mr. Dunster says.

And it's too expensive to remove sulfur out of coal, as required in the United States, so it isn't done in Britain.

"We essentially have done nothing to remove sulfur from energy," Mr. Dunster says.

Even toxic substances that are examined by an advisory committee can continue to be sold if precautions less costly than the risk are taken.

The Health and Safety at Work Act of 1974 is very broad, Mr. Dunster says. The act formulated the Health and Safety Executive and its legislative arm, the Health and Safety Commissions, which monitored British workplace risks for the first time.

"OSHA, NIOSH, the EPA and the Nuclear Regulatory Commission—put them all together and you have the Health and Safety Executive."

The agencies now employ 4,000 people who enforce present legislation and recommend new legislation to the British government and the European Economic Commission.

Although the HSE has the power to enforce safety standards, it can only require companies to avoid "reasonably practicable" risks. Sometimes a company can save money and protect workers' health by leaving risks alone.

For instance, it's very expensive to remove asbestos from a workplace, and removing it would create more danger for the employees, Mr. Dunster says.

"The best thing to do is leave it alone," he says.

Mr. Dunster says that asbestos causes very few problems when it's just lying around. Particles don't collect in the air as readily unless someone starts fooling around with it, he says.

And he says it's foolish to believe that asbestos in hair dryers can hurt anybody. "If you blow it in your mouth for eight hours a day for three years, there's a slight possibility (of injury)," he says.

Unnecessary expense arises from cleaning up a moderate risk, Mr. Dunster says, and overreaction to safety requirements can hinder the growth of industry.

"The HSE could go a long way to shut down British industry," Mr. Dunster says. "Suppose the U.S. used the Clean Water Act stringently. You wouldn't have any industry left."

The public is overreacting to the risks of the industrial world, Mr. Dunster says. He cited the demand for excessive safety regulations on

nuclear energy as an example of regulation injuring an important industry.

"The dumping of radioactive waste is a lot less dangerous than dumping other wastes," says Mr. Dunster, who heads the nuclear committee in the HSE.

"Nuclear waste eventually decays. But cadmium doesn't."

Other chemical and mineral wastes could have a far more dangerous effect on the population than nuclear waste, Mr. Dunster says.

Although the HSE has loose control over occupational health and safety, British integrity often fills in where the agency leaves off.

The HSE, for example, cannot set stringent workplace standards or impose fines. Its only recourse, after issuing endorsement notices

that can be appealed to industrial tribunals, is court action.

But of the 6,000 notices issued by the HSE each year, only a few thousand end up going to court, where the maximum fine is 1,000 pounds.

"The responsibility to get it right is for management, which is where it belongs," Mr. Dunster says. "You can't be responsible all the time for workplace safety."

That's why the 1974 act called for union members to be represented on shop floors by safety representatives. The safety representatives can complain to the employer about poor safety and health conditions, and if the company does nothing, they can appeal to the HSE.

There are now 150,000 safety

representatives in Great Britain watching shop floors.

Proposed legislation would further regulate industrial health and safety.

The legislation would require

plants producing hazardous material to submit a report on their occupational safety problems to the HSE. The HSE would have the power to reject the reports and conduct investigations.

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N.J. will pass deregulation bill: Lawyer

By RHONDA L. RUNDLE

RENO Nev.—The New Jersey Legislature probably will pass a law this year to substantially deregulate the state's commercial insurance industry, says Donald J. Greene, senior partner at LeBoeuf, Lamb, Leiby and MacRae.

The change will bring better choices for the insurance consumer, he said. Under the plan, only conventional commercial policies costing less than \$10,000 for a single line and \$25,000 for multiple peril would be regulated.

Mr. Greene, who is general counsel to Lloyd's of London underwriters in the United States, made the prediction at the 55th annual meeting of the American Assn. of Managing General Agents

held in Reno June 7-10.

New Jersey is going to become a very important insurance state if the proposal passes, Mr. Greene said. He said the bill, A.B. 3383, introduced May 4, will serve as a model for other states that want to revive their insurance industries.

The marketplace flourishes in the California's open-competition environment, he said. The New Jersey proposal does not go as far as California because it calls for regulation of small policies.

The proposal amounts to doing business in the admitted markets the way it is done in surplus lines, he said. It assumes the buyer is not a victim, but is capable of making informed choices and is well represented by a broker, he said.

The proposal was unveiled by

the New Jersey Insurance Department at a regional meeting of the National Assn. of Insurance Commissioners last fall. It called for ending rate and form regulation on policies costing more than \$10,000 and on all exotic and special risk coverages (BI, Nov. 10, 1980).

The policy size eligible for deregulation has since been increased to \$25,000 for multiple peril policies.

This has been a busy year for legislation affecting the insurance industry, Mr. Greene observed. He said his office has screened more than 45,000 federal and state bills to identify those that would affect the surplus lines industry.

Mr. Greene complained that insurance commissioners sometimes show an excess of regulatory zeal. He cited New York's recent revisions of Regulation 41 as an example.

A group of excess lines brokers has brought suit against the state Insurance Department to block implementation of the revised regulations requiring licensed insurers to retain copies of affidavits of rejection submitted to them by excess/surplus brokers.

Howse is new AAMGA president

RENO, Nev.—Joseph A. Howse, executive vp of Cravens, Dargan Special Risks in Houston, was confirmed as the new president of the American Assn. of Managing General Agents during its annual meeting.

Ray R. Johnston, chairman of the Gulf Agency of Montgomery, Ala., will serve as president-elect. David F. Anderson, president of Anderson & Murison of Pasadena, Calif., will continue on the executive committee as past AAMGA president.

Mr. Howse has been an active member of AAMGA for more than 20 years, recently serving as chairman of the finance and long-range planning committees. He is the senior officer and director of the companies comprising Cravens, Dargan Enterprises.

He began his insurance career with Cravens, Dargan in 1946 and has performed production, underwriting, claims and administrative functions for the company.

He holds a bachelor's degree in economics from the University of California at Los Angeles and a law degree from South Texas Law School.

Elected as representatives to the AAMGA executive committee were: Joseph D. Timmons, president of Midwestern General Agency Inc., Kansas City, Mo.; Joel P. Ory, Agency Management Corp., Baton Rouge, La.; and Louis T. Mastos, Louis T. Mastos & Associates Inc., Reno.

The following were confirmed at the meeting as zone vps: Marie E. Welch, Oklahoma General Agency, Oklahoma; Brownie Bolton, Bolton & Co., Kentucky; and Malcolm S. Murison, Vern Gilbert Co., Oregon.

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Underwriting losses to be prolonged: Allianz chief

RENO, Nev.—The current cycle of poor underwriting results will be more prolonged than its predecessors, predicts Frank E. Raab, chairman and president of the Allianz Insurance Co.

That's because brokers are spreading risks so widely—among old and new sources of insurance capacity—that adverse underwriting results are unlikely to make an appreciable impact on rates for some years, Mr. Raab said at the American Assn. of Managing General Agents meeting.

Despite underwriting losses, newcomers are continuing to pour into the marketplace, he noted. Their aggressiveness is a symptom of major changes in the structure of world insurance, which is becoming truly international for the first time, Mr. Raab said.

The competitive challenge, which is creating highly attractive insurance pricing for commercial buyers, is accelerated by the entry of the biggest insurers of Europe, the United States and Japan into

the property/casualty marketplace.

"These companies can afford, or so they believe, to absorb hefty losses to win new business," said Mr. Raab. Worried by saturation of their own national markets, they are looking abroad to spread risk and find profitable business their own countries no longer provide.

New sources of capacity also include life insurers, Arabs and underwriting pools, he said.

"Insurers are colliding head-on in the limited markets they are simultaneously trying to develop," said Mr. Raab. "To make matters worse, some of the business they are seeking is vanishing."

Many large companies, especially multinationals, are self-insuring and forming captive insurance companies. Developing countries are closing their doors to foreign insurers, setting up local, state-owned insurance companies.

So while long-established insurers are being shut out of the obvious areas of growth, the newcomers are beginning to compete

in the established markets. "They—far more than the big companies of Europe and North America—need to widen the spread of risks in their portfolios."

Paradoxically, however, the international insurance market, overflowing with capacity to write the small conventional risks, still lacks the money—or the nerve—to insure the really big risks, he said.

International insurance brokers are scouring the world looking for capacity to underwrite some of these vast risks, such as oil platforms and underwater pipelines.

Eventually, the world insurance business will attract more capital than it can keep profitably employed. Then that surplus capital will disappear into other industries, said Mr. Raab.

But the list of the 20 biggest insurers may look very different in the next 10 years, he said. The British companies, which pioneered international insurance, may not be the only strong contenders in the war of attrition.

comings & goings: buyers

Tronnier made assistant vp at Tulsa drilling company

Bill F. Tronnier has been named assistant vp for corporate risk management at Parker Drilling Co. in Tulsa, Okla. It is a new position.

He joined Parker Drilling in 1979 and developed its corporate risk management department. He was previously employed by Phillips Petroleum.

A graduate of the University of Tulsa, Mr. Tronnier is a member of the Risk & Insurance Management Society and was a co-chairman of the onshore insurance committee of the International Assn. of Drilling Contractors.



Tronnier

Alan R. Sklar has been appointed manager of corporate safety at CBS Inc. He will be responsible for conducting plant safety surveys and coordinating safety services for the company.

Before joining CBS, Mr. Sklar was a loss-control representative for the Insurance Co. of North America. He has a master's of science degree from Kent State University and is currently a candidate for a master's degree in occupational safety and health at New York University.

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

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Stewart Wrightson to manage insurer

LOS ANGELES—Stewart Wrightson Group of London, the principal owners of Associated International Insurance Co., will assume direct management of the company next month.

The excess/surplus lines insurer, which had a premium volume of \$17 million last year, will be managed by Transport Underwriters until July 1 when its current contract expires.

D. Michael Polizzi, incoming president of Associated International, says the new management brings a different attitude toward underwriting.

"We hope to reflect our British ownership with a 'London' kind of approach. We want to emulate Lloyd's by being quick, creative and responsive to new ideas," he said.

Although the insurer does not intend to compete aggressively on price, Mr. Polizzi said it would look at unusual, special risks that other underwriters might be unwilling to consider.

After the management switch July 1, Transport Indemnity and Stewart Wrightson Group are expected to negotiate the sale of the former manager's minority interest to the principal owners.

Associated International Insurance Co. is moving its headquarters to 3450 Wilshire Blvd., Suite 201, Los Angeles, Calif. 90010.

Pooling agreement

Under a new joint pooling and reinsurance arrangement, MacCready & Gutmann Insurance Services Inc. of San Francisco will provide specialty-underwriting and policy-issuing services for limits up to \$15 million on behalf of Associates International Insurance Co. of Los Angeles and Oxford Property and Casualty Insurance Co. of Phoenix.

Both companies are admitted in California.

Consulting firm

Silas J. Knudsen, former vp of Los Angeles-based U. S. Administrators, has established a new consulting firm specializing in the design and delivery of employee benefit programs, administration, marketing, cost containment and utilization of new techniques.

Services are available to corporations, Taft-Hartley trusts, associations, third-party administrators and insurance companies.

The firm's offices are located at 2281 Coco Palm, Tustin, Calif. 92680; 714-730-7139 and 31 Langerfeld Road, Hillsdale, N.J. 07642; 201-664-8890.

Acquisitions

Great West Casualty Co. and a group of casualty insurance agents, subsidiaries of Wheelabrator-Frye Inc., will sell their casualty insurance business to **Bitco Corp.** for approximately \$44.5 million.

Booke & Co. has acquired through merger the **Jacob Co.**, an actuarial and retirement benefits consulting firm in Columbus, Ohio.

Associated Madison Companies Inc. will acquire **Voyager Group Inc.**, a holding company whose principal subsidiary is the **Voyager Life Insurance Co.**

Alexander & Alexander Services Inc. has merged with **Beltran Insurance Consultants Inc.** of Miami, Fla.

New offices

Towers, Perrin, Forster & Crosby has opened a new consult-

markets

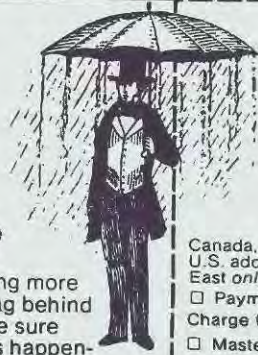
ing office in Detroit, Mich.

A.S. Hansen Inc. has moved its San Francisco office to 900 Larkspur Landing Circle, Larkspur, Calif. 94939; 415-461-6170.

Insurance Co. of North America has established a Charleston, W.Va., service office to serve agents, brokers and policyholders in all but the northernmost sections of West Virginia. The office is at Westmoreland Place, 400 Allen Drive in Charleston.

Horan, Goldman Cos. has relocated its New York City office to 111 John St., New York, N.Y. ■

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U.S. Supreme Court to rule on transfer of Iranian funds

WASHINGTON—The Supreme Court will hear oral arguments this week on the president's authority to suspend claims against Iranian assets held in U.S. banks and to allow the transfer of those assets out of the country.

The court set the date for arguments for June 24 so they could rule on President Reagan's authority in the matter before July 19, the date that \$2 billion in Iranian assets are scheduled to be transferred to Iran and to an international tribunal that will hear claims against the Iranian government.

The suit was filed by Dames & Moore, a Los Angeles engineering consulting firm that wants to collect \$3.5 million in unpaid bills from Iran's Atomic Energy Organization (BI, June 15).

The U.S. and Iranian governments urged a swift review of the appeal by the court because they want a definitive ruling to be binding on courts across the country, hoping that will remove any last-minute problems with the transfer of funds out of the United States.

About 200 U.S. companies have claims pending against Iran for contract violations and unpaid bills since the Islamic revolution of 1979. In many of those suits, federal judges have attached Iranian assets in U.S. banks to keep those funds from being moved out of the country.

The court will rule if President

worldwide

Reagan has the authority to defy these court orders in carrying the accord made by former President Carter with the Iranians in January to release the 52 American hostages.

The need for a Supreme Court ruling on the matter grew on June 12 when a U.S. District Court judge in New York ruled that President Carter did not have the constitutional authority to make the agreement with Iran.

Judge Kevin Duffy's ruling, which upholds a \$50,000 claim by Marsschalk Co., an advertising agency, was a test for 96 similar cases in New York representing almost \$2 billion in claims.

The June 24 Supreme Court session will mark the first time the full court has heard oral arguments during its summer recess since the Watergate affair seven years ago.

World insurance

ZURICH, Switzerland—More than 44% of the \$392 billion in world private insurance premium volume in 1979 was earned by U.S. companies, according to a new study by the economics department of the Swiss Reinsurance Co.

Five nations—the United States, Japan, West Germany, Great Britain and France—received some

79% of the world's insurance premiums, the study said.

The study covers 48 countries with a premium volume of at least \$100 million in 1979.

Life insurance constituted the majority of premiums earned in only seven of the 48 countries surveyed: India, Japan, South Africa, Finland, South Korea, Taiwan and Great Britain.

The U.S. insurance industry makes up 7.25% of the gross national product, the highest such figure, according to the survey. Other nations whose insurance industries comprise more than 5% of their gross national product are Switzerland, Ireland, Great Britain, Netherlands, West Germany, Australia and Canada.

The nation whose insurance industry had the smallest share of the gross national product was Turkey, where insurance premiums made up only 0.39% of the nation's economy.

Portions of the report were published in the May edition of Sigma, a publication of the North American Reinsurance Co.

Shipping risks

OSLO, Norway—Insurers must help cut bad risks in the shipping industry, Dr. Helmut Sohmen, chairman of the International Maritime Industries Forum told an international shipping conference.

"There will have to be a continuous stream of really catastrophic casualties before marine underwriters will change their attitude," he said.

Fierce competition is making it impossible for insurers to give discounts to shipowners that employ safety measures.

Dr. Lohmen, who is chairman of Marine Navigation Co. of London, declared: "They seem unable to recognize efforts toward better safety standards until they are reflected in records over the years.

"So, in other words, no incentives are being offered by marine insurers for owners to adopt higher standards in advance of their policy terms. Compensation for good performance is only offered after it has been proven."

info

• Two brochures, **Tips for Meeting Planners** and **Tips for Travelers**, are part of a fire safety program launched by the Insurance Information Institute. They feature fire safety tips for those planning business meetings or gatherings in public places and for those staying in a hotel or motel overnight. Free individual copies or a set of the "Be Fire Smart" leaflets are available from the Insurance Information Institute, 110 William St., New York, N.Y. 10038. Additional copies are available at 5 cents each to member companies, subscribers and agents and 10 cents each to others. Call the institute's toll-free hotline at 800-221-4954. New York residents can call the institute collect at 212-669-9200.

• "Pre-planning to minimize the effect of losses," a presentation given at the 19th annual Risk & Insurance Management Society conference, has been condensed into a printed report available free. The presentation was made by John H. Snyder, president of M.F. Bank & Co. Inc., salvors and appraisers. Subjects covered include product considerations (warranties, label problems, government controls), priorities (chain of command, accountability, "who does what"), recovery period needs (use of people, cash flow, orderly statistics control) and post-loss dollar needs (upfront money, insurance, continuing expenses). Write M.F.

Bank & Co., 615 First Ave. N.E., Minneapolis, Minn. 55413, or call toll-free 800-328-4004.

• A new bulletin from Greer Hydraulics, a VSI company, describes how the **Greer SurgeKushon guards fire-protection systems against destructive pressure surges and line vibration**. The product, which is UL-listed and FM-approved for use in fire-suppression systems, protects against the damaging effects of sudden fluid-pressure surges. Contact Gordon Crawght, Greer Hydraulics, 20660 Bahama St., Chatsworth, Calif. 91311; 213-998-2777.

• **Insurance Decisions: Attracting Capital to Energy Development** is a new booklet from the INA Corp. The 12-page booklet examines how insurance is bringing greater financial security to the search for energy resources around the world. For a free copy write INA, Department R, 1600 Arch St., Philadelphia, Pa. 19101.

• *Have a new report, booklet or promotional brochure you'd like to send to buyers of insurance? Business Insurance will describe your material as an editorial service in the weekly Info for Buyers column. Simply send us a short description of the material to be offered, along with a cost (less than \$15) and mailing address. Address all contributions to Info for Buyers, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611.*

Electronic bookkeeping offered to self-insureds

Employee Benefits Insurance Cos. is offering a computerized policy bookkeeping service to self-insured clients.

Offices in Portland, Ore., Chicago, Sacramento, Los Angeles, San Diego and San Jose, Calif., have access to the system. It can be used to retrieve claim details, accident and injury data and other information needed to process claims.

A loss report prepared with the data analyzes accident characteristics and frequency, time of day of the accident, age of employee involved and typical claim value. The information then is used by EBI loss-control experts to help clients minimize workplace accidents.

The computer also tracks the progress of employees in vocational rehabilitation programs so information is available on when they might rejoin the work force.

For more information contact Dana Brown, EBI, 66 E. Rosemary, San Jose, Calif. 95112; 408-288-6011, Ext. 267.

Health education

Metropolitan Life Insurance Co. is offering a package of educational health materials and an individualized health risk report for employees of small companies.

This new health-awareness program is available to new group-insured companies with two to 49 employees as part of Metropolitan's Employee Benefit Plans program, which can include life or health insurance.

For details contact Doris Bressler, Metropolitan Life Insurance Co., Department of Health & Safety, New York, N.Y. 10010; 212-578-5009.

Veterinarian cover

Insurance Co. of North America is expanding its business owners policy to provide special coverage

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to the veterinarian market.

The all-risk professional liability coverage is designed for animal hospitals, clinics and veterinary offices, involving up to three veterinarians. Limits are \$10,000 per occurrence and \$50,000 annual aggregate.

An animal endorsement covers the actual cash value of animals against loss, with some exclusions. Coverage provides up to \$1,000 per animal with a limit of \$10,000 per occurrence.

For details contact Robert Donnelly, INA Corp., 1600 Arch St., Philadelphia, Pa. 19101; 215-241-3862.

More coverage

American National General Agencies Inc. has extended the discovery period for its motion picture, radio and television producers liability policy to 36 months from 12 months on the claims-made form. This extension and full prior acts coverage is available without additional premium.

It also has introduced a special endorsement that can be added to any motion picture or TV cast insurance policy to cover cast medical and disability claims before and during the anticipated strike of members of the Directors of America. (The directors' contract expires June 30.) This endorsement is written through the Chubb Group of Cos. and Lloyd's of London.

All those covered must indicate that they will be available after the strike for coverage to be effective. For further information contact Albert Rieder, ANGA, 3200 Wilshire Blvd., Los Angeles, Calif. 90010; 213-386-8490.

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HMO membership hits high, but growth rate slackens

By JERRY GEISEL

WASHINGTON—The number of people enrolled in health maintenance organizations hit an all-time high last year, but the rate of growth slackened.

A record 9.1 million people were enrolled in 236 HMOs in 1980, up 10.9% from the 1979 enrollment of 8.2 million in 215 HMOs, according to a study by the federal Office of Health Maintenance Organizations.

But last year's increase fell shy of the 12.3% rise in enrollment in 1979 and the 15.8% jump in 1978.

The OHMO survey reveals the dramatic growth in the prepaid health-care plans after the enact-

ment of the HMO Act of 1973 that pumped more than \$300 million in federal loans and grants into developing HMOs.

In June 1974, just after act went into effect, 142 HMOs with 5.3 million members were scattered around the nation.

In June 1980 the number of prepaid plans jumped to 236, a 66.1% increase, while enrollment climbed 71.6% to 9.1 million.

There are HMOs in 37 states, the District of Columbia and Guam. More HMOs—32—are located in California than in any other state.

Wisconsin has 16 HMOs, followed by Illinois's 13, while New York and Ohio each have 12.

The West Coast, where the prepaid health-care movement began with the pioneering Kaiser Foundation health plans, remains the stronghold of HMO support.

About 58.8% of HMO membership and 27.1% of all plans are located in the West. California alone has 43.8% of the nation's HMO members.

Another 18.2% of membership and 30.5% of the plans are in North Central states, while 16.9% of enrollees and 23.8% of the nation's HMOs are in the Northeast.

The South lags behind in HMO development. Just 6.9% of HMO members and 19.1% of the plans are based in the South.

Some 61% of the nation's HMOs have fewer than 15,000 members, while 27.1% of the plans have between 15,000 and 49,999 enrollees. About 6.4% of the plans have between 50,000 and 99,999 members. Some 5.5% of the plans have more than 100,000 members.

The average monthly family premium charged by an HMO climbed to \$120.30, up from the average premium of \$112.32 in 1979, a 7% increase.

New Mexico HMOs charged the highest monthly family premium—\$146.50—while the lowest monthly premiums were in Maine where the three HMOs charged an average premium of \$82.63.

The 35-year-old Kaiser Foundation Health Plan in Oakland, which serves the Northern California area, was the biggest HMO in the nation with 1.67 million members, while the fledgling 15-member Lafayette Health Maintenance Plan of Lafayette, La., which began operations in June 1980, was the smallest.

Copies of "The National HMO Census" are available through the Group Health Assn. of America, 1717 Massachusetts Ave. N.W., Washington, D.C., 20036. The cost is \$5 per copy.

Congressman says HMO growth needed

WASHINGTON—Although Congress is snipping the federal purse strings that have nurtured the development of health maintenance organizations, it still wants to see HMOs expand, one congressman says.

Congressional interest in HMOs remains high because of the success of HMOs in curbing hospitalization utilization rates as well as injecting more competition in the health-care delivery system, said Rep. Henry Waxman, D-Calif.

Speaking before the Group Health Assn. of America's Washington conference, Rep. Waxman defended legislation, H.R. 3398, requiring businesses to offer employees a choice of HMOs if one of them is controlled by an insurer or a Blue Cross/Blue Shield plan that also controls a substantial part of the health insurance market in the employer's area.

The multiple-choice provision is needed to ensure that employees have access to independent HMOs

and to bar potential "anti-competitive" situations from developing, said Rep. Waxman, who chairs the House Health and Environment subcommittee.

However, other HMO experts predict that if the multiple-choice provision is approved, the chances getting stuck in an insolvent HMO could increase (BI, June 1).

Mr. Waxman also said that the HMO legislation recently cleared by the full House Energy and Commerce Committee would enable prepaid plans to compete more effectively with conventional indemnity insurers.

Health and Human Services Secretary Richard Schweiker told the group it is time to return HMO development to private industry.

Defending the Reagan administration's decision to support a gradual end to federal grants and loans to new health maintenance organizations, Mr. Schweiker said private industry can help fill the vacuum left by loss of federal funds.

Tax ruling may go to high court

Continued from page 2
is unclear (BI, March 16).

The IRS maintains that premiums paid to wholly owned captive insurers underwriting only parent company risks do not constitute an insurance transaction and therefore are not tax deductible as a business expense.

In denying Carnation's petition for a rehearing, the appeals judges also corrected the opinion in the case from a finding of fact to a conclusion of law. Mr. Whaley said he didn't know why the court corrected the opinion from a finding of fact, which can't be upset by a superior court unless it is clearly erroneous, to a conclusion of law, which always can be reversed by a higher court.

A conclusion of law, however, is applied in other cases with the same facts, he noted.

Another company using a captive insurer to underwrite its insurance may or may not find the Carnation case ruling applied to its arrangement if it comes under IRS challenge in court, Mr. Whaley suggested. He couldn't predict if the kind of subscription agreement between Carnation and its fronting insurer, American Home, would have to exist for the decision to apply to another case.

"We really don't know what would have happened if the subscription agreement hadn't been there," Mr. Whaley noted.

Carnation had promised Ameri-

can Home, which was reinsuring 90% of Carnation's property risks with the captive, to capitalize the Bermuda captive to \$3 million if needed. The captive had been capitalized at \$120,000 and was accepting reinsurance of 90% of the risk of property damage to its plants up to \$500,000 per occurrence with a \$100,000 deductible.

The decision, however, also cites IRS Ruling 77-316, which holds that premiums paid to wholly owned captive insurers underwriting insurance only for related

companies are not insurance premiums for tax purposes. The importance of the citation is unclear to legal experts, but clearly states that the court rejects Carnation's argument that the ruling conflicts with the separate status of corporations.

Based on the Carnation ruling, Mr. Whaley said that he wouldn't advise a client without a subscription agreement that transactions with a wholly owned captive insurer would stand up as insurance to an IRS challenge.

Players' benefits safe for now

Continued from page 3
in October. But should the strike continue past either event, the teams probably aren't obligated to contribute, she said.

Ms. Rowland would not say how long the coverage will last during an extended strike if no more team contributions are made. The benefits are insured, under a modified plan, she said.

Meanwhile, the club owners will be dipping into their Lloyd's of London insurance by the middle of this week.

The 150 game deductible or \$100,000 payment per missed game to club owners will deplete the underlying \$15 million self-funded strike fund by then. The Lloyd's policy will then pay owners \$100,000 per missed game. At that rate, the insurance will run out by

Aug. 5, according to a report from the club owners' bargaining committee.

The club owners also will owe Lloyd's more premium once they tap their strike insurance.

Only half the policy premium of less than \$3 million was due if there was no strike but the full premium is due if the coverage is used, *Business Insurance* learned.

Some club owners, however, could benefit from the strike insurance proceeds. The Minnesota Twins average only about \$87,500 in proceeds from a home game and the insurance will pay \$100,000.

However, the Los Angeles Dodgers, with the highest attendance records, will lose at that rate, with its home game receipts averaging \$345,000.

Italian insurer sued for portion of award

Continued from page 3
dollar has increased.

As a result, the 400 million lira is no longer worth \$400,000. "It has gotten very involved," Mr. Poswall said. Representatives of the the Italian Embassy, the Department of Commerce, the House of Representatives and an Italian law firm have been solicited for help, he added.

Meanwhile, material has been sent to the House Judiciary Committee, and legislation dealing with problems of collecting judgments from foreign corporations with no assets in the United States is a possibility, Mr. Poswall said.

Ransom was one of several companies sued when Mr. Lehman, 34, lost part of his skull on Aug. 20, 1979, when the gun with which he was target shooting exploded in his face.

According to the suit, he was using a replica of an 1850 .50-caliber rifle when the breech plugs separated from the barrel and exploded in his face, tearing off part of his forehead.

He reportedly spent a month in the hospital and underwent reconstructive surgery. Mr. Lehman also lost the sight in his left eye.

Also sued were the gun's importer, Armsport Inc.; the wholesaler, Western Auto Co.; and the retailer, William O. Poarch, owner of Woodland Western Auto Co.

Armsport was insured by Pine Top Insurance Co., which paid \$85,000 toward the settlement.

Western Auto was insured by the Travelers Insurance Co., which paid \$115,000.

Mr. Poarch had a \$500,000 policy with Truck Insurance Exchange, which is part of the Farmers Insurance Group. Truck paid \$500,000 into a trust fund established for the structured settlement.

Under the terms of the settlement, Lehman is to receive \$600,000 immediately and \$60,000 a year for 30 years. Another lump sum of \$520,000 will be paid when he reaches age 65.

Armsport, Western Auto and Mr. Poarch have since filed cross-claims against Ransom Italia seeking about \$700,000. They contend that Ransom, as the manufacturer, was primarily responsible.

Health benefits increase

Americans received more than \$23 billion in health insurance benefit payments in the first nine months of last year, according to the Health Insurance Institute.

That's a 21% increase over the \$19 billion received in the first nine months of 1979.

Both figures do not include Blue Cross/Blue Shield payments.

Of the \$23 billion, nearly \$18 billion was paid for the services of hospitals, nurses and pharmacies, while more than \$3 billion was paid to policyholders to help replace wages lost because of accidents or illnesses.

Another \$1.5 billion was paid out for dental expenses, according to the institute.

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THE SPECIALISTS

Wage-loss program cuts work comp cost

Continued from page 1

wage-loss program as Florida, which "has a unique situation." Before the wage-loss system began, the majority of benefits being paid to injured workers in Florida were in the "permanent partial disability" category, he said. And attorney involvement in cases involving such injuries was heavy.

In 1977, says an NCCI report, permanent partial disability cases made up 30% of the lost-time compensation cases in Florida but accounted for more than 67% of the benefits paid.

Attorneys were involved in 70% of the permanent partial disability cases.

"It got to the point where people were making money off the system, which the system never intended them to make," Mr. Hilton said. "This was snowballing. If you see a neighbor get something, it makes you feel you are entitled to it, too. The workers compensation system encouraged people to take advantage of it by putting dollars out there in front of them."

Examples of permanent partial disability injuries are amputations, loss of vision and loss of use of parts of the body. By the old law, those suffering such injuries were entitled to medical benefits, wage benefits and lump sums based on the extent of injury. Since judgments on the extent of an injury are subjective, attorneys became involved.

"Permanent partial cases, by nature, are open to subjectivity," Mr. Hilton said. "It must be decided how permanent an injury is versus how partial."

"The biggest loser in workers compensation here was in permanent partial disability claims," said a spokesman for the Florida Assn. of Insurance Agents. "Before the wage-loss law, loss of an arm might have resulted in a \$650,000 claim."

New categories

Such potentially high claims made permanent partial disability cases attractive to attorneys and expensive to insurers, driving up workers compensation insurance costs, he said. The wage-loss law replaces the partial disability category with three new categories: wage-loss, no impairment; wage-loss and impairment; and no wage-loss.

Under all three categories, an injured worker would receive temporary total disability benefits (wages while not working) and full medical benefits.

To qualify for further benefits, however, a worker must have permanent impairment that results in the loss of at least 15% of his pre-injury wages.

In permanent impairment cases, such as the loss of 80% or more of vision, serious facial or head disfigurement and amputation, the workers receive actual wages lost and a lump sum based on the percentage of permanent impairment. The amount of this lump sum, while still subjective, has been reduced drastically to discourage attorney involvement and possible fraudulent claims.

"The dollars aren't there anymore," the FAIA spokesman said. Amounts are based on the degree of disability with \$50 per percentage point awarded for injuries under 51% disability and \$100 per point for those over 51%. If the loss of an arm caused a 12% disability, the injured worker would receive a \$600 lump sum as well as disability and medical benefits.

"If the case were worth \$20,000, it might be interesting to an attorney," he said. "If it is worth only \$600, chances are it would not be."

Also, under wage-loss, the lump

sum would be awarded only if the worker's impairment had a direct effect on earning capability.

"What effect does an injury, say the loss of an arm, have on a person's earning power?" asked Mr. Hilton. "With some, it would have a great effect. With others, very little. Take an attorney, for example. With the loss of his left arm, after rehabilitation, he can be back earning the same salary as before. Why should he be entitled to collect big bucks from workers compensation?"

A carpenter, however, might lose a great deal of earning power. Just how much would be figured retrospectively on the actual earnings after the accident.

Reducing lump-sum payments and attorneys' fees freed money to increase weekly compensation benefits to injured workers, Mr. Hilton said.

Figures in a March report from the Florida Department of Commerce seem to verify this. Based on data collected by the NCCI, the Florida Division of Workers Compensation and the Florida House Insurance Committee comparing calendar years 1979 and 1980, the report shows:

- Formal workers compensation claims dropped to 12,472 in 1980 from 24,082 in 1979, a 48.2% decrease.

- Attorneys' fees awarded in workers compensation cases dropped to \$16.9 million in 1980 from \$18.9 million in 1979, a 10.6% decrease.

- Lump-sum settlements dropped to 9,806 in 1980 from 15,422 in 1979, a 36.4% decrease.

- Benefits awarded in lump-sum settlements dropped to \$76 million in 1980 from \$91.7 million in 1979, a 17.1% decrease.

These findings were reinforced by the NCCI study released June 10, although the data was from different time periods. The NCCI report was based on claims filed from Aug. 1, 1978 to Aug. 1, 1980.

The study found that claims classified as permanent partial before the wage-loss law was enacted made up 39% of the total claims, but made up only 6% after wage-loss went into effect.

Attorney involvement decreased to 20% from 34% in permanent partial loss cases and to 6% from 13% in all cases.

At the same time, the average cost of a permanent partial claim increased by about 30%, the report says. "Obviously, it is generally only those workers who are significantly injured who are receiving these increased benefits. Many fewer workers suffer wage-loss or a permanent impairment injury under the new law. Thus, while the benefit paid to the individual has increased, there also has been an overall reduction in cost associated with permanent partial injuries."

For the insurance buyer in Florida, this means cheaper coverage. Before the wage-loss law, workers compensation insurance rates were increasing an average 11.5% every 10.5 months from January 1970 to July 1979, according to the Division of Economic Development report. Under wage-loss, rates have dropped 28%.

Without the wage-loss law, the workers compensation insurance premiums would have totaled \$1.2 billion in 1980. Instead, the total was \$877 million.

Wage-loss also has made workers compensation coverage more available from private insurers. In early 1979, about 40% of the state employers were insured for workers compensation under the state's assigned risk pool because they could not get insurance in the private market, sources said. Now insur-

ance companies are competing for their business.

According to the Florida Council on Compensation, 30.7% of the state's workers compensation policies were handled by the assigned risk pool from Jan. 31, 1980, to Jan. 31, 1981. In 1980, 15.7% of workers compensation premium dollars went into the pool.

"We're looking for business down here," said Brad Wallace, vp of U.S. Fidelity & Guaranty Co. in Baltimore. His company writes about \$500 million annually in workers compensation insurance nationwide, but Florida is one of its larger markets.

Mr. Wallace was on a task force for the "Last Manifesto," an organization of insurers and agencies which worked to pass the wage-loss law and is now monitoring it.

"Wage-loss has made it possible to make a profit," he said. "Workers compensation in Florida was a major loss producer. If a line isn't profitable, companies tighten their underwriting and start withdrawing from the general market." Now, the market is competitive.

Another key to turning around workers compensation in Florida was the strengthening of the state's Division of Workers Compensation in 1978, Mr. Wallace said.

"The original compensation system was not supposed to be legalistic, but grew into it," he said. "In Florida, we have tried to go back to the original concept (of workers compensation) and let the workers

compensation division take the place of attorneys as the protector of the injured—the watchdog and arbiter of the system."

The division looks out for the interests of the claimants to see that they get what they deserve, but to make sure they do not get a free ride, he said. "It also watches us to make sure we're doing what we're supposed to do."

Attracting business

Arnold Gibbs of the Florida Division of Economic Development said the wage-loss law has made his job easier. He is part of the governor's task force to attract new industry to the state.

Wage-loss has been very helpful in luring businesses away from other parts of the nation to the Sunshine State, he explained. It works especially well in attracting business from places like Chicago, where workers compensation premiums are high, and employers are getting frustrated, he added.

"We had a situation there with a sheet metal manufacturer who had 350 employees," he explained. "Over the past five years, his workers compensation premiums have increased from \$25,000 to \$250,000 a year. He's seeking a way out. Workers compensation rates are on everyone's mind."

Among companies that have moved to Florida since the wage-loss law was passed are Western Electric Corp., Westinghouse Elec-

tric Corp. and Motorola Inc., he said.

"I can't say wage-loss directly drew them in, but it is one more indication of Florida's positive business climate and makes life here easier for them."

Ed Lustigman, risk manager for Crown Industries in Tampa, Fla., said he feels positive toward wage-loss. "Our experience is considerably better. I really haven't got a good handle on total dollars yet since we have operations in other states, but I think we've had reduced losses."

Loss frequency has not changed, but he says losses among the company's 500 Florida employees seem to be smaller. Crown is a manufacturer and distributor of building materials.

The company's workers compensation insurance policy is written by Lumberman's Underwriting Alliance of Boca Raton, Fla.

"Whether our premiums have gone down is hard to say because while they have gone down per exposure our company has grown. But I'd say the base levels are down 15% to 20% in Florida, he explained."

Rita Martell gave a similar assessment. She is risk manager for the city of Miami Beach, which has 1,250 to 1,400 employees.

"We are self-insured so savings will not show up for the next three years," she said. "Based on payoffs, though, I would say we can expect costs to go down."

Liability loophole threatens to siphon off PBGC funds

Continued from page 1

the termination. "The purpose of the PBGC insurance program is to protect benefits to retirees and not to provide a means of bailing out companies that are in some degree of financial difficulty," said Robert Nagle, PBGC executive director.

He said the Employee Retirement Income Security Act gives the agency the power to bar a company from terminating its plan.

But other experts disagree. They see the AlloyTek suit as a classic illustration of a potentially fatal flaw in the PBGC insurance program—a flaw that could lead to the collapse of the nation's defined-benefit pension plan system.

Under ERISA, the PBGC has the right to collect 30% of a firm's net worth to guarantee the vested benefits of retirees if the company terminates its pension plan with insufficient assets to pay promised benefits.

At the time ERISA was passed in 1974, experts thought the 30% withdrawal liability charge would be a sufficient "sting" to deter companies from terminating their badly underfunded plans and sticking the PBGC with the pension liabilities.

But now some companies are beginning to realize the 30% "sting" won't hurt very much. AlloyTek, for example, had a negative net worth when it told the PBGC it wanted to terminate its plan, according to Mr. Miller.

For firms with little or no net worth, there would be no "sting" at all.

PBGC, which now pays out about \$2 million a month to 25,000 retirees whose plans were terminated with insufficient assets, could afford to take over the AlloyTek plan.

But such a takeover could start a run on the PBGC. Other companies whose pension liabilities exceed 30% of net worth might dump

their plans on PBGC since they would find it cheaper to pay a withdrawal penalty than continue to fund the plans.

"The 30% test is a flaw," said Harrison Givens, senior vp of Equitable Life Assurance Society in New York. Thirty percent withdrawal liability wouldn't work very well in "people-intensive" firms that have little net worth, Mr. Givens said.

"It is a tremendous loophole. It scares the hell out of me."

Bigger Threat

According to a PBGC analysis of Standard & Poor's Compustat service, more than 20 large firms have unfunded pension liabilities that substantially exceed 30% of net worth.

If these firms were to terminate their plans and dump the liabilities on PBGC, it would be stuck with a potential exposure of \$4.1 billion.

This enormous liability would swamp PBGC, which collects just \$71 million annually in pension termination insurance premiums from 78,000 pension plans to guarantee benefits of retirees.

To pay all the liabilities, PBGC would be forced to jack up its termination premium to as much as \$100 per participant, according to Mr. Givens. The annual premium now is \$2.60.

Others agree that there would be a tremendous rise in premiums, but not as much as Mr. Givens believes.

Work comp insurer pays quickly

UniCARE Insurance Co. has been ranked ahead of all insurance companies and self-insured and legally uninsured entities in making prompt payments of workers compensation benefits, according to a report by the California Department of Industrial Relations.

The department's primary em-

"No one would pay that kind of premium and companies would terminate their plans, Mr. Givens warned. "Ultimately, there would be the destruction of the defined-benefit pension system."

Business groups, though, say they have the answer to close the loophole. The ERISA Industry Committee, a benefits lobbying group representing the nation's 100 largest companies, has drafted legislation that would limit PBGC's guarantee of vested benefits strictly to cases where a company went broke.

But that legislation has not yet been introduced. The business group is seeking bipartisan support.

Experts say PBGC guarantees have to be changed or more firms will attempt to dump liabilities on the PBGC. "It could happen time and time again until the law is restructured," explained Peter Turza, a former counsel on the Senate Labor and Human Resources Committee.

"If we lose (the AlloyTek case) ... it could result in the destruction of the PBGC program," Mr. Nagle said. "That's what this case represents."

But AlloyTek's Mr. Miller disagreed. He said he doubted that there would be a "flood" of companies seeking to terminate their plans.

"Not a lot of companies are willing to give up 30% of net worth for any reason," Mr. Miller said. ■

phasis was based on first payments made within 14 days of the first day of loss time. UniCARE issued all payments within 14 days, averaging 6.1 days, according to the study.

The other providers averaged 18.3 days, to make payments, according to the report. ■

Teale plotting strategy for exchange

Continued from page 3
 bited from doing so by their laws," Mr. Teale said. "In our original report, we looked at South America as a potential source of business. All indications are there may be quite a number of South American investors forming syndicates and there may be quite an amount of business from there, but this will not be our predominant thing."

Inquiries about the exchange have been coming in from all over the world, he said. "The degree of interest shown in Europe, England and around the world indicates that if the terms are right and the administration is right, there will be an influx of business from overseas."

The exchange is free to write as much business as capacity allows, but capacity will depend on the size and number of investors. More than 40 potential syndicates have expressed interest, Mr. Teale said.

"There are in excess of 30 syndicates identified and I have added another 12 to the list since May 26, when I arrived here. They have contacted me. I have not, as yet, gone out to seek them."

Around 75 brokers have said they want to join the exchange, and others say they are simply waiting for it to get going before joining the exchange.

Syndicates put up the money to back the underwriters who actually underwrite the risks. Brokers will help bring business to the underwriters.

The minimum amount of investment—decided by the Florida Legislature—is \$3 million for each syndicate that backs underwriters handling all classes of risk and \$1.5 million for a syndicate backing underwriters handling limited classes. If 40 syndicates, each investing \$3 million, were writing business at a 5-1 underwriting-surplus ratio, this would give the exchange a \$600 million underwriting capacity.

"How much to invest above this limit is up to the syndicates," Mr. Teale said. "We will try to induce them to invest more than the minimum so they can write more business."

Each syndicate, underwriter and broker must meet requirements set by the Legislature and more stringent requirements to be set by the exchange's board of governors.

"We will be taking a close look at these people to see that they are what they say they are," Mr. Teale said. "They will be subjected to tough regulations. Security is the key."

For example, although Florida law allows insurance to be written based on an 8-1 underwriting-surplus ratio, Mr. Teale will recommend that a lower ratio be adopted by members, he said. "A good underwriter will write at 4-to-1 or 5-to-1."

Also under the legislation, a guarantee fund has been set up under a separate corporation into which the exchange's reserves will be paid. The nucleus of the fund—\$500,000—must be deposited before the exchange starts doing business.

The underwriters themselves will determine what types of risks

Work injuries rise

Some 6 million work-related injuries occurred in 1979, a 5% increase over 1978, according to a report by the U.S. Bureau of Labor Statistics. The increase, however, was almost in proportion to the rise in the number of workers employed and their hours on the job. Nearly 43 million workdays were lost because of work-related injuries in 1979, up from 38.2 million in 1978.

are covered, he said. "I'm the administrator who is creating room for the underwriters and the people who hire them to operate. The underwriters pay to work there."

He indicated, however, that the exchange would be looking for a mixed bag of risks.

"A new international insurer has to look at what is available, but must be wary of two things," Mr. Teale said. "It can't allow itself to become a junkyard for business others don't want—this will never be allowed to happen—and it must have a balanced book of business. You can't put all your eggs into one basket."

Asked if he foresees the exchange turning around the international insurance market so that those making foreign purchases would use the American market, he

said, "You have to look at the international marketplace. International brokers, insurance and reinsurance companies are of all different sizes. They are not all giants. They always have to be alive to fresh opportunities, good security and efficient administration, which is why they will look to Florida and what is happening here."

Some portions of the international insurance industry are being criticized for making slow and inefficient claims payments, Mr. Teale said. "These will be left behind when someone comes along and can do better."

The slowness of many forms of communication, in comparison with what is needed, may be an advantage to the Florida exchange since there is an increasing ten-

dency for people to want to do business close to home.

One of the secrets of Lloyd's success is its partnership of understanding the nature of risks and its vast communications system, which keeps it in touch with what is going on in the world, Mr. Teale said. "If this hadn't happened naturally, something would have had to be invented to replace it."

After more than 25 years with Lloyd's, Mr. Teale has built up a worldwide network of contacts in the insurance industry. He has brought this network with him to Florida.

"Backup information for seekers in the international market is a very important part of the work," he said. "The New York and Illinois exchanges are working very hard to set networks up. We al-

ready have one."

Mr. Teale's approach to the other domestic insurance exchanges is constructive, he said. "New York will be of enormous value to the international insurance marketplace."

It was inevitable that the New York Insurance Exchange's mainstay would be reinsurance because that is the way it was directed by the New York Legislature and by the people who set it up, he said. "It is already headed there."

"We are free to write what we want to, based on the mandates of the Florida Insurance Commission. It may be that the Florida exchange will end up primarily in reinsurance. This will depend on what the underwriters want to do."

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FM System alters its premium deposit

Continued from page 1

If, for example, a firm's premium deposit was calculated at \$300,000 for a three-year policy and paid according to the present system, FM would absorb 18.7% a year as premium payment.

At the end of three years, the insurer would retain about 56% of the deposit as a \$168,000 premium, refunding \$132,000 as a dividend or applying it to the next policy period. Assuming a 15% annual interest rate, the loss of use of \$300,000 over three years raises the cost of the deposit to \$456,262.50. After the dividend, the policy costs the buyer \$314,262.50.

The buyer who pays the full premium up front also can purchase a five-year policy.

Under the optional deferred payment plan, the policyholder could choose to pay \$100,000 a year for three years during a three-year policy. At the end of the policy period, however, FM would retain 68% of the \$300,000 for a \$204,000 premium, a higher charge. Only \$96,000 would be returned as a dividend or applied to the next policy period.

Again assuming a 15% interest rate, the loss of use of \$100,000 paid over three years raises the cost of the deposit to \$399,337.50. After the dividend, the policy costs \$303,337.50, which is 6.5% less than the cost under the present premium deposit system.

A five-year policy would not be available to buyers who defer the deposit payments.

"The advantage to the buyer really depends on a lot of factors, including its discounted cash flow and its general cost of money," said Mr. Jergensen.

The deferred plan, however, is expected to be extremely popular with present policyholders, he added. "I expect the conversion to be very high—at least 75%."

Allendale, the largest of the four insurers comprising the FM Sys-

tem, has about 3,000 policyholders. The other FM insurers are Arkwright-Boston Insurance, Philadelphia Manufacturers Insurance and Protection Mutual Insurance.

Although the deferred premium deposit may be popular with policyholders, the higher charge or absorption rate at the end of the policy period may take the edge off the cheering.

The FM System itself isn't completely satisfied with the new plan, say industry sources. Acceptance of the plan by all four insurers was delayed about two weeks and some executives were concerned about the potential loss of capital.

Cheap reinsurance, however, should continue to buoy FM capacity despite a reduction in its cash flow, sources said.

Commercial brokers who place HPR policies with the FM System and its competitors predict that the new premium deposit plan will improve FM's position in the marketplace.

Larry McCortland, senior vp and director of property for Schiff Terhune International Inc. in New York, said that FM is "very happy that this system is coming out now because it gives them a better sales tool than they had before."

The new plan should make FM more competitive with the other major HPR markets, he said, namely Industrial Risk Insurers, The Kemper Group and Commerce & Industry.

"There have been some defections (from the FM System)," Mr. McCortland said. "They have lost some business that was on the books, and have not gotten (new) business because of the deposits," he explained.

An even better offering, however, is allegedly available from Arkwright-Boston, the second-largest FM company, he said.

Arkwright-Boston, he claims, offers a five-year HPR policy with

an "annualized deposit premium," Mr. McCortland said, and will defer a portion of the annual deposit back to the policyholder. By investing this capital itself, he said, the policyholder can use the return to pay the balloon payment in the fifth year.

Arkwright-Boston's president Frederick Bumpus, however, denies that such a plan exists and says the new deferred plan is the first of its kind.

"Some of our policyholders use premium financing to avoid paying all the deposit out of cash flow, perhaps more than other FM companies, but we have never offered anything like a deferred plan."

While the new three-year plan is a plus for the FM System, it does not solve the bottom-line problem of a premium deposit during high interest periods, said Dave Osborn, account executive and HPR specialist for Corroon & Black Corp.

Mr. Osborn, who was employed by Allendale for five years before joining Corroon & Black, said the deposit requirement became a real problem for Allendale when interest rates rose to 14%.

Companies that "hadn't looked for years started shopping around," he said.

"This (deferred premium) is probably, at this stage, the best thing FM could do," he said.

Fred Gelderman, vp and head of the property department at Alexander & Alexander in New York, considers the new payment option a "production move," which he predicts will cut the competitive edge enjoyed so far by the stock companies.

The liabilities of a premium deposit requirement were seized by Commerce & Industry, one of the FM System's newest competitors. William Munson, president of the AIG subsidiary, said the new flexibility may be offset by a hike in the annual absorption rate from 18.7% to 22.7%.

"What you end up with is a lower deposit but higher absorption," he said, and there is a "break-even point" after which high interest rates will place the FM policyholder at a disadvantage under the deferred payment plan.

And the new FM premium option still puts pressure on the corporate risk manager to guess what future interest rates will be, he said.

"He is making a one-year guess rather than a three-year guess," Mr. Munson said.

The Kemper Group, another major FM competitor, does not expect the new premium payment option to seriously affect the HPR market.

"I don't look for it to be any more competitive because of it," said Allan Johnson, senior vp of American Protection Insurance Co., Kemper's HPR subsidiary.

Until available interest rates drop below 12%, he said, buyers will be better off avoiding a large premium deposit and investing the saved capital themselves, he says.

Industrial Risk Insurers, the FM System's biggest competitor for HPR insurance, also feels that the new development will have little impact on the market since all stock companies writing HPR insurance already have this kind of payment plan, said Wayne Crawford of IRI.

One company that likes the new FM offering is the Hanna Mining Co. of Cleveland, which has HPR insurance through the FM System.

Karen McCloskey, administrative assistant for Hanna's risk management department, said FM's new plan "is certainly a lot more attractive option."

The new plan provides for "much better cash flow" according to Hanna studies, she said, and is more attractive if "you stay with it."

Ed Lloyd, risk manager for Dan

River Inc. of Greenville, S.C., agreed that the new plan will improve FM's position although he still dislikes the concept of premium deposits.

Dan River, which has purchased its HPR insurance from IRI since 1910, has "tested" its accounts with the FM System.

Since the company has more than \$1 billion in HPR policies, Mr. Lloyd said, he does not like to "jump around" between insurance companies unless it is really to Dan River's advantage.

"We've tested it once every several years and have never had a reason to move," he said. Due to the size of its property holdings, the FM System and IRI are the only two insurance companies large enough to handle Dan River's HPR accounts, he added.

Spencer Traver, risk manager for B.F. Goodrich in Akron, Ohio, suggests that the new annualized three-year premium payment may strengthen the FM's position with medium-sized property accounts, but that new competition will grab the top of the property market.

He agrees the new premium deposit plan will clearly help the FM companies in the short run, but speculated that within 18 months to two years there could be several new stock company entries to the HPR market. Some of them could form risk pools to outstrip FM's underwriting capacity and capture the market with capacity as high as \$100 million, he said.

Mr. Traver also predicted some stock companies will form HPR underwriting subsidiaries.

Mr. Lloyd at Dan River noted that he considers the FM System a group of "all fine companies," but has always been deterred by the system's premium deposit requirement.

"I've never liked to see big front-end deposits and have it sit in an insurance company's coffers somewhere," he said.

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Government, Associations, Unions, Educational Institutions	927
Commercial Consumers Sub-total	22,078
Insurance Agents & Brokers	9,500
Insurance Carriers	4,213
Banks & Financial Institutions	343
Actuaries, Attorneys, Adjusters, Appraisers & Consultants	1,985
Others allied to the field	712
TOTAL	38,831

*Source: Business/Occupational breakdown of qualified circulation, Nov. 3, 1980 issue, Dec. 1980 BPA Publisher's Statement.

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Lloyd's opposes divestment measure

By STACY SHAPIRO

LONDON—Lloyd's of London members are beginning to vote on the controversial divestment issues, but separation of member and managing agencies appears to have little support.

Lloyd's Chairman Peter Green said in a letter to members attached to the postal ballot that Lloyd's opposes divestment of member and managing agencies, which a parliamentary committee added to the Lloyd's self-regulation bill.

"On the divorce issue, we informed the parliamentary committee that we felt unable to ask for an additional provision because it would be very much against the interest of Lloyd's as a whole," Mr. Green said in the letter.

But Mr. Green did not suggest how members should vote on the issue, merely saying that Lloyd's opposes it.

Mr. Green advised the members to support separation of broking and underwriting interests, the other issue on the ballot.

If the Lloyd's names turn down either of the proposals, it will be up to the House of Commons committee that put the two additions into the Lloyd's bill to determine its fate. The committee could back down and send the bill to the floor of the House of Commons without either of the divestment clauses.

But if the Lloyd's members reject divestment and the committee sticks to its guns, Lloyd's will have to withdraw the bill and start writing a new one.

Not many Lloyd's members have indicated support for separation of member and managing agencies. Even Ian Posgate, the underwriter who campaigned for separation of brokers and underwriters, reportedly said last week that he would do everything in his power to block divestment of member and managing agencies.

Mr. Posgate was unavailable for comment.

"Is it (divestment) a fair price to pay for the bill?" asked Robin Warrender, chairman of Bain Dawes Ltd. "The answer seems to be no."

"We're emphatically opposed to divorce," said Mr. Warrender, who is also chairman of the Lloyd's Insurance Brokers Committee.

In a letter to LIBC members, Mr. Warrender recommended that the brokers reluctantly accept some sort of separation between brokers and underwriters for the good of the Lloyd's market.

But he recommended that no one vote for separation of member and managing agents because it would have "far-reaching and adverse effects on the Lloyd's community."

Although Mr. Green recommended that the names support divestment of brokers and underwriters, some brokers are

against all forms of divestment.

"The company's view is that divestment of broking and underwriting interests is unnecessary and bad for the market," said Michael Glover, deputy chairman of Alexander Howden Group Ltd., which derives 21% of its profits from underwriting.

"If divestment is a necessity, who would buy the large syndicates?" asked Mr. Glover.

"Divestment is not in the best interest of the market as a whole," said John Hogg, deputy chairman of Hogg Robinson Group Ltd. "We would want to select underwriting management. We would not want to control it. That is a crucial point."

Mr. Glover said that clients needn't worry about a conflict of interest between broking and underwriting interest at large Lloyd's houses.

Brokers manage but do not control underwriters, he said.

"We think divestment is unnecessary," he said. "It is recommended by people who don't understand the market."

Mr. Glover's remarks show how split the Lloyd's community is over divestment of brokers and underwriters. Mr. Posgate, Howden's underwriting group chairman, is a staunch supporter of divestment of broking and underwriting interests. Sources say divestment will allow Mr. Posgate to remove his

Reinsurer to pay Sasse \$7 million

Continued from page 2

properly police the action of the Sasse underwriters, especially regarding the approval of binding authority to brokers.

That settlement called for the Sasse members to cover \$15 million in losses, or about \$150,000 per member.

The settlement with IRB was only mentioned during the Lloyd's annual meeting held here last week.

At that meeting, Chairman Peter Green told the members that Lloyd's is planning to reduce staff 5% this year through attrition.

"In approving the corporation budget for 1981, your committee was fully aware of the decline in profitability in the market and was determined to cut cost," Mr. Green said.

Lloyd's staff has been reduced from 2,208 in 1970 to 2,085 in 1980, even though Lloyd's names increased by more than 13,000 in the same period. Lloyd's expects 1,200 new members this year.

Lloyd's also plans to limit the amount of reinsurance allowances for each member. Reinsurance limits in 1982 will be reduced by 30%, 20% in the marine market.

The Corporation of Lloyd's had 73.4 million pounds in its accumulated fund as of Dec. 31, an increase of about 4 million pounds over the previous year. Expenditures rose 22.8% in 1980.

One expense remained relatively stable: the cost of the Captain's Room at Lloyd's. The cost of food, liquor and tobacco consumed there last year was 412,000 pounds, a 7,000-pound increase.

"With regard to the catering services in our present building, there has been an increasing demand for the extended services introduced last spring," Mr. Green said. "The wine bar is usually filled to capacity at lunch."

profitable underwriting syndicates from Howden.

If divestment does occur, Mr. Glover said, Howden may try to completely separate its underwriting operations into a separate group, issuing new shares for its

stockholders. Investors would then receive two separate dividends.

Other brokers will reluctantly sell off their Lloyd's managing agencies, but hold on to their member agencies and outside underwriting agencies.

Firms may receive work comp refunds

Continued from page 3

If the matter is returned to the insurance director, there's a chance Mr. O'Connor, who could not be reached for comment, would order a rate reduction.

He is currently the major backer of legislation that would allow workers compensation insurers to compete for business and charge rates that deviate from approved rates—an action that likely would force some rates down.

Minnesota is the only state so far to adopt open competition for

workers compensation rates. Under a law passed just weeks ago, insurers will be forced to compete on price beginning in mid-1983.

The 288 insurers writing workers compensation insurance in Illinois saw a 17% increase in written premiums in 1980 over 1979. Mr. O'Connor said that some insurers are reaping profits of 30% to 35%, including investment income.

If Judge Murray overrules the department's approval of the rate hike, rates could drop by 24% retroactive to the approval date or

rates could be reduced by almost one-fourth in the future, said the legal counsel for the Insurance Department.

CNA Insurance Co., one of the largest workers compensation insurers in the state, declined to comment on the outcome, saying it would be premature until the judge makes his ruling public.

If commercially insured employers in the state are granted a retroactive refund for workers compensation premiums, insurers would be forced to either credit the policyholder for future premiums or pay into a trust fund the amount the judge rules was overpaid, said AFL-CIO legislative and political director Richard Walsh.

Under the latter case, an employer would have to file a claim with the trustee to get its refund, he said.

The state's AFL-CIO estimates the refund to Illinois employers could be as much as \$750 million, based on \$1.1 billion in premium plus 6% interest, collected over a two-year period, Mr. Walsh said.

The group remains hopeful for "some relief," he said. A premium

rollback of 8% was approved in 1977, resulting in some \$50 million being returned to employers.

The Associated Employers of Illinois, represented by attorney Robert F. Coleman, also estimates that workers compensation insurers will pay back closer to \$700 million in premiums if the judge overturns the rate approval.

But the Insurance Department is sticking with its estimate that \$350 million to \$500 million in premium could be returned, Mr. Gossrow said. The varying rates charged for different types of work mean some employers have been paying a 20% increase in premiums since 1979 while others have been charged as much as 25% more.

A medium-sized employer with an annual workers compensation premium of about \$10,000 could expect a refund of about \$5,000, if the judge rules in favor of the suit, he said.

Since many large employers self-insure their workers compensation risks and small firms have fewer employees, medium-sized companies would likely be the largest group of beneficiaries from any rollback, he added.

Bush defends fewer rules

Continued from page 2

The Reagan administration is seeking a new set of regulators, Mr. Bush added. "People who will understand the need for regulation but who also understand that we will kill off productivity and choke off American production with overregulation."

The vice president's remarks drew cheers and applause from about 200 workers and NAIB staff members. He said this is a sign of the optimism the business community has shown toward the Reagan administration.

"When we were campaigning, people kept telling me that there was a malaise in this country, that people had lost confidence in government," he said.

"But now I sense a new optimism in the Reagan administration and a feeling that things can be accomplished."

"We have found enormous resistance in some quarters for our programs, like the tax-reduction bill, but the president is determined and has demonstrated a willingness to compromise. I predict success."

ASSE president elected

PARK RIDGE, Ill.—Donald J. Eckenfelder of Greenwich, Conn., has been elected president of the American Society of Safety Engineers for 1981-82. Mr. Eckenfelder is manager of corporate loss prevention for Chesbrough-Pond's Inc.

James D. Hoag, corporate manager of safety and health at Union Electric Co. in St. Louis, was elected president-elect. Harry A. Partlow, director of safety for Standard Oil Co. in Chicago, was elected first vp.

Regional vps elected are: William O. Borden of SRI International, San Jose, Calif.; Delmar Tally, Austin chapter of Associated General Contractors, Austin, Texas; Richard Haas, Bituminous Insurance Cos., Rock Island, Ill.; James Capps, U.S. Department of Energy, Morgantown, W.Va.; V.R. Lundy Jr., General Telephone Co. of the Southeast, Durham, N.C.; William Nebraska, Hartford Insurance Group, Hartford, Conn.; and William English, Marriott Restaurant Corp., Washington, D.C.

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Municipal pool standard debated

Continued from page 3

ior counsel for the American Insurance Association, which is a member of the NAIC advisory committee.

"Some of the purchasers of municipal liability insurance contend that they (pools) are 'alternate-funding mechanisms' when they are, in fact, acting as insurers," Mr. Connolly told the members of the NAIC Task Force on Governmental Liability at the NAIC's annual meeting in Detroit.

"Because of the dramatic growth of the use of insurance schemes outside of the commercial insurance market and outside of regulation by insurance commissioners, we believe that the topic remains one of very substantial

concern to the NAIC," he told the committee.

But the last thing municipalities need is more regulation, insisted Natalie Wasserman, PRIMA executive director.

"Our stand has been that there certainly should be standards, but that they should be voluntary," she said.

"Pools really are under self-imposed regulations to practice sound fiscal management," Ms. Wasserman added.

"Many pools in existence already have to report to the state insurance department or some other authority in their state."

"Governments themselves already are so regulated, and that's precisely why municipalities don't need more (regulation)."

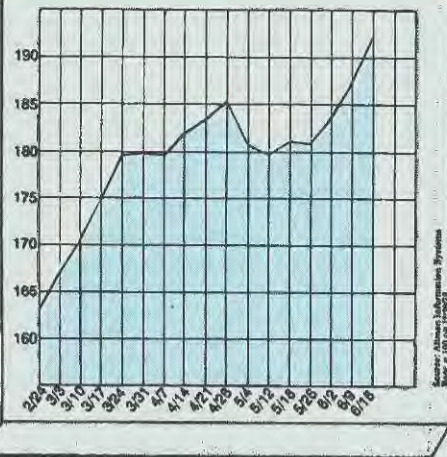
The subcommittee probably will discuss the topic again before the next meeting of the NAIC in December, said Reginald Beane, director of governmental affairs for RIMS.

Mr. Beane said that RIMS, which has 3,400 members, has taken the position that regulatory oversight for municipal pooling arrangements will only serve to see that the pools are fiscally responsible.

"RIMS believes there should be some minimum standards for pooling arrangements," Mr. Beane explained.

He said that his organization favors each state insurance department enforcing the standards to ensure the actuarial soundness of a pool.

BI Insurance Index



Insurance industry stocks rose sharply again last week with the Business Insurance Index rising 5.1 points to a record 192.5 from 187.4. Forty-eight stocks posted gains, 13 declined and nine issues stayed the same. Leading gains were posted by: Statesman Group Inc., 24%; PennCorp Financial Inc., 18.4%; SRI Corp., 11.6%; Crump Cos. Inc., 11.1%; and Rollins Burdick Hunter Co., 9.3%. Largest declines were: Aneco Reinsurance Ltd., 9.4%; Washington National Corp., 7.3%; Preferred Risk Life Insurance Co., 3.8%; Crum & Forster, 3.4%; and First Colony Life Insurance Co., 2.4%. The 2.7% index gain outpaced the Dow Jones Industrials, Standard & Poor's and the New York Stock Exchange.

British Issues

6/16	Price	P/E	Div.	Yield	1 Week
Companies	pence		pence	%	High—Low
Commi Union	165	11.2	15.45	9.4	172—165
Eagle Star	286	9.5	21.43	7.5	286—282
Genl Accident	328	7.9	19.29	5.9	328—312
Gdn Royal Exch	320	8.2	22.14	6.9	320—296
Phoenix	288	8.5	21.29	7.4	288—274
Royal	392	10.9	34.29	8.8	392—375
Sun Alliance	892	8.9	47.14	5.3	892—866

Brokers	Price	P/E	Div.	Yield	1 Week
	pence		pence	%	High—Low
CE Heath	266	10.4	15.00	5.6	266—255
Hogg Robinson	121	9.2	8.14	6.7	122—118
Alex Howden	120	7.8	10.00	8.3	121—118
JH Minet	131	13.1	6.50	5.0	132—125
Sedg Grp	138	12.0	7.14	5.2	140—136
Stenhouse Hldg	95	8.7	6.64	7.0	96—94
Stew Wrightson	228	12.0	17.14	7.5	233—227
Willis Faber	350	12.0	17.14	4.9	352—340

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

Many insurers do not grasp cash-flow underwriting perils

By MYRON M. PICOULT
Special to Business Insurance

Cash-flow underwriting. Everybody is talking about it. It is perceived to be the cancer of the underwriting cycle by some industry observers who believe it could cause the cycle to last longer than is reasonable. But we think the seeds of destruction were sown some time ago.

We have no quarrel with the concept of cash-flow underwriting as long as it is done within prudent parameters. It can be fairly well documented that a dollar of written premiums produces about an equal dollar of investable funds. This can be demonstrated by measuring the length of time each premium dollar stays with a company on a cash basis and by analyzing the balance sheet of a given company.

The current competitive environment was created in part because most insurance companies, to date, have been able to offset most of their un-



Picoult

Myron M. Picoult is a *vp* and senior insurance analyst with Oppenheimer & Co. in New York. He is the past president of the Assn. of Insurance & Financial Analysts and a member of the New York Society of Security Analysts. His column for Business Insurance appears the fourth Monday of every month.

BI ticker

derwriting losses with higher investment income growth. This was clearly evident in this year's first-quarter results.

Our concern is that there may be numerous small to medium-sized stock and mutual property/liability companies, heavily oriented toward the liability lines, that do not recognize the perils of an irrational cash-flow underwriting posture because of recent success in achieving above-average investment income growth.

The concept of maintaining cash flow and concentrating on an overall total return on equity, rather than looking at the business from both an underwriting and an investment income standpoint, could escalate to a point where claims would be so high that "normal" cash flow might not be sufficient to meet the resulting claims. Hence, it will be critical to separate those companies that have positioned their portfolios for such an occurrence from those that have not.

Once a company exhausts the conventional sources of cash flow (premium income, investment income and rollover funds), it will have to draw on liquid short-term instruments and possibly invade the investment corpus.

One scenario we envision is the following: While underwriters seek out liability writing because of the inherent cash flow, the claims people are

attempting to settle their cases faster to reduce the impact of inflation. Hence, paid losses grow at a much quicker pace than premiums.

The situation could be further aggravated if litigants also strive for faster settlements if they anticipate a sharp decline in interest rates and they want to put their "new wealth" to work at the highest interest rates possible.

The sluggish premium growth some companies have reported over the past two quarters, including some absolute declines in commercial premiums, is a departure from past trends and can reflect a number of factors: loss of renewals, failure to add new business or simply a declining amount business.

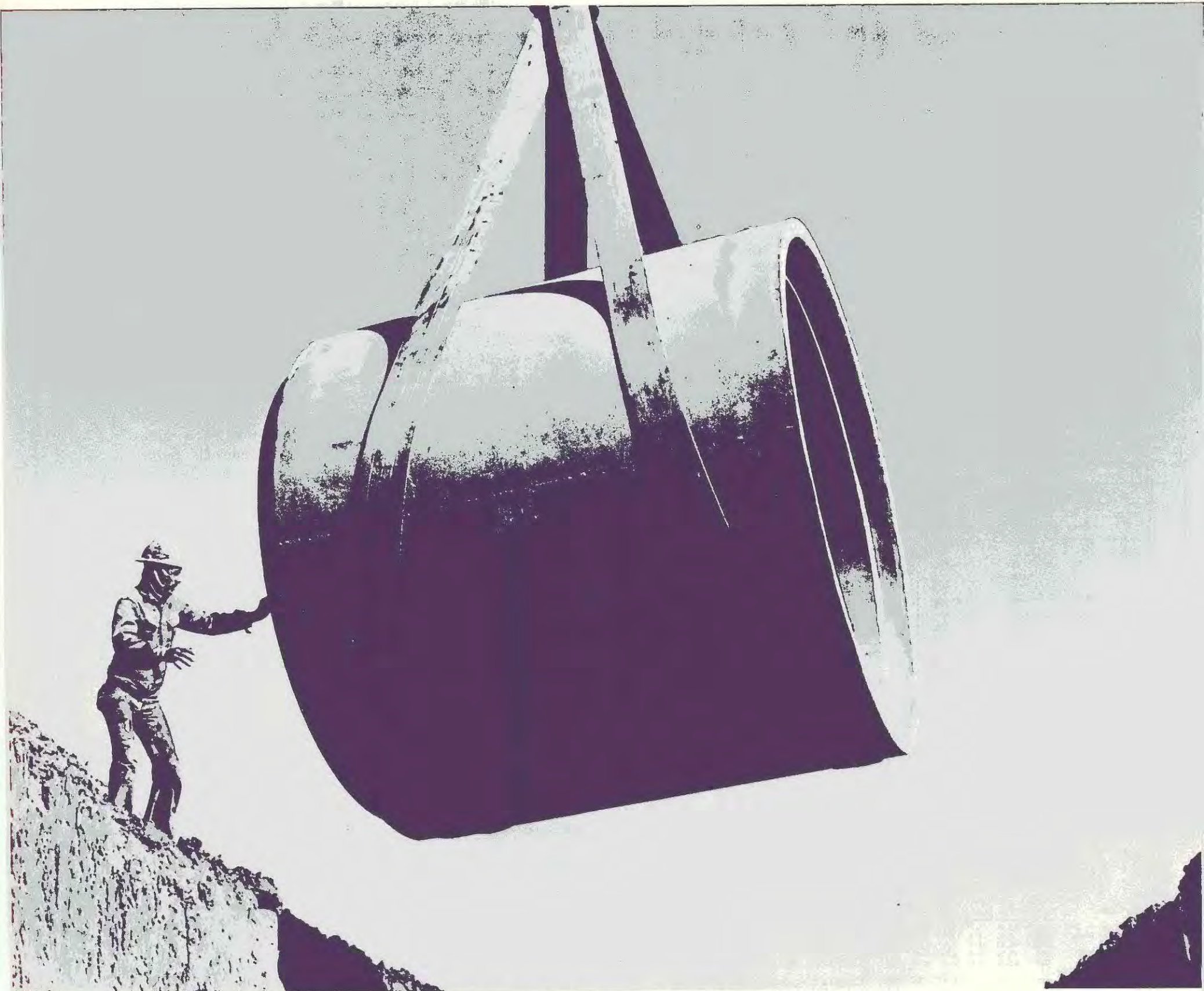
The inability of some liability insurers to recognize some of the perils involved in such a posture may revolve around hopes for a sustained lower rate of inflation in the belief that loss patterns will follow inflation down and real asset values and surplus would rise as interest rates decline. This is why some companies are apparently unwilling to give up business even in the face of declining premium rates.

We think it is critical for internal auditors, directors and industry observers to bring pressure to bear on those companies which cannot document premium trends in subsequent quarters. Nonetheless, we still expect some "shock waves" within the next year or so. This need will not harm the industry as a whole. Instead, it should begin a trend back to basic underwriting fundamentals.

BI Industry Stock Report

Insurance Cos.	JUNE 16, 1981				6/10/81 THRU 6/16/81				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	43.00	7.2	7.2	2.32	5.4	43.88*	41.13	1,352.8							
American Bankers Ins Group	OTC	8.25	3.1	13.1	0.44	5.3	8.38*	7.88	207.1							
American Gen Ins Co	NYSE	45.63	3.1	7.1	2.00	4.4	46.38*	45.25	255.3							
American Indty Finl Corp	OTC	17.50	4.5	6.7	1.12	6.4	17.50	16.75	16.2							
American Intl Group Inc	OTC	63.00	1.6	12.0	0.40	0.6	63.00*	62.25	203.8							
American Natl Ins Co	OTC	14.38	5.5	6.4	0.58	4.7	14.38	13.63	105.3							
American Svs Life Ins Co	OTC	17.50	0.0	5.8	0.72	6.1	17.50	17.50	1.7							
Aneco Reins Ltd	OTC	3.63	-9.4	0.0	0.00	0.0	3.75	3.38*	24.8							
Appalachian Natl Corp	OTC	2.50	0.0	7.1	0.00	0.0	2.63*	2.50	0.6							
Avesco Corp	AMEX	11.13	7.2	9.4	0.50	4.5	11.50*	10.75	25.9							
Banks Iowa Inc	OTC	35.50	0.0	5.8	1.44	4.1	36.00	35.00	1.4							
Bitco Corp	OTC	41.00	2.5	5.8	2.16	5.3	41.00	40.00	2.4							
Carolina Cas Ins Co	OTC	7.50	0.0	5.4	0.32	4.3	7.50	7.50	1.8							
Central Natl Finl Corp	OTC	10.00	0.0	3.7	0.65	6.5	10.00	9.88*	1.0							
Chubb Corp	OTC	51.00	2.5	6.2	2.68	5.3	51.13*	50.50	168.0							
Combined Intl Corp	NYSE	22.63	5.2	6.4	1.60	7.1	22.63*	21.25	186.2							
Connecticut Gen Ins Corp	NYSE	56.00	2.2	7.2	1.76	3.1	56.63*	54.00	212.3							
Continental Corp	NYSE	30.38	8.5	8.2	2.40	7.9	30.75*	29.00	510.2							
Crawford & Co	OTC	17.75	0.0	13.9	0.52	2.9	17.75	17.75	14.1							
Crown Life Ins Co	OTC	111.50	-1.3	9.3	2.80	2.5	113.00	111.50	1.0							
Crum & Forster	NYSE	35.50	-3.4	6.1	1.44	4.1	37.75*	35.50	383.9							
Employers Cas Co	OTC	39.25	0.6	6.0	1.20	3.1	39.25*	39.00	3.4							
Equifax Inc	NYSE	25.50	0.5	7.8	2.40	9.4	26.25*	25.50	23.0							
Excelsior Ins Co	OTC	15.25	0.0	31.1	0.70	4.6	15.25	15.25	0.8							
Farmers Group Inc	OTC	35.88	8.7	11.3	1.12	3.1	36.25*	34.13	237.1							
First Colony Life Ins Co	OTC	40.50	-2.4	13.3	0.80	2.0	41.50	40.50	3.5							
Foremost Corp Amer	OTC	29.00	3.6	9.0	0.80	2.8	29.00	28.25	78.4							
Great West Life Assurn Co	OTC	255.00	2.0	10.3	10.00	3.9	255.00*	250.00	0.0							
Hanover Ins Co	OTC	34.25	6.2	4.6	0.72	2.1	35.00*	33.00	32.5							
Hartford Steam Boiler Insptn	OTC	52.50	1.0	10.6	2.60	5.0	52.50*	52.50	3.8							
Jefferson Natl Life Ins Co	OTC	39.00	1.0	55.1	0.64	1.6	39.00	38.50	2.7							
Kemper Corp	OTC	37.50	2.7	5.8	1.60	4.3	37.50*	37.38	62.2							
Lincoln Natl Corp Ind	NYSE	44.88	1.7	6.4	3.00	6.7	44.88*	43.63	61.2							
Magic Invst Corp	NYSE	39.88	-0.9	0.7	1.28	3.2	42.38*	39.88	990.6							
Mission Ins Group Inc	NYSE	47.50	0.8	8.9	1.00	2.1	48.75*	46.50	59.2							
Nationwide Corp Ohio	OTC	24.75	0.5	7.1	0.70	2.8	24.75*	24.63	5.6							
Northwestern Natl Life Ins	OTC	28.00	1.8	6.9	1.25	4.5	28.00	27.50	71.3							
Ohio Cas Corp	OTC	58.63	1.7	7.7	2.04	4.6	44.63*	43.75	76.1							
Old Rep Intl Corp	OTC	17.88	-1.4	4.9	0.92	5.1	18.00	17.88	85.3							
Pinehurst Corp	OTC	6.38	2.0	0.0	0.00	0.0	6.38	6.25	11.3							
Preferred Risk Life Ins Co	OTC	19.00	-3.8	6.4	0.80	4.2	19.25	19.00	7.7							
Provident Life & Acc Ins Co	OTC	48.00	3.2	7.1	2.20	4.6	48.50	46.50	17.8							
Ryan Ins Group Inc	OTC	20.75	-2.4	8.3	0.12	0.6	21.25	20.75	3.0							
St Paul Cos Inc	OTC	51.00	4.9	9.6	2.32	4.5	51.00*	49.13	129.0							
Safeco Corp	OTC	40.50	-1.2	7.6	2.00	4.9	41.25	40.50	136.1							
Sri Corp	OTC	26.50	11.6	6.0	0.80	3.0	26.75*	23.75	214.9							
Selbels Bruce Group Inc	OTC	21.75	1.2	11.7	0.80	3.7	21.75	21.50	38.1							
Statesman Group Inc	OTC	7.75	24.0	6.5	0.15	1.9	7.75*	6.38	42.3							
Tokio Marine & Fire Ins Co	OTC	166.13	6.7	18.4	1.03	0.6	166.25	155.75	5.3							
Travelers Corp	NYSE	53.13	-0.2	6.2	2.88	5.4	54.00*	52.75	246.4							
United Fire & Cas Co	OTC	40.00	3.9	10.4	1.00	2.5	40.00	38.50	2.0							
United States Fid & Gty Co	NYSE	49.50	3.9	6.5	3.20	6.5	50.75*	47.88	284.9							
United Svcs Life Ins Co	OTC	15.88	1.6	6.6	1.00	6.3	15.88	15.63	34.2							
Uslife Corp	NYSE	28.25	2.7	6.9	0.76	2.7	28.63	28.00	96.0							
Washington Natl Corp	NYSE	30.00	-7.3	8.9	1.08	3.6	31.88	29.75	100.4							
Zenith Natl Ins Corp	OTC	16.50	-1.5	9.7	0.60	3.6	16.75	16.50	14.1							
INSURANCE COMPANIES	AVERAGE				8.4				3.7							
Agents/Brokers																
Alexander & Alexander Svcs	OTC	36.75	3.5	12.2	1.84	5.0	36.75	36.50	178.9							
Baldwin & Lyons Inc	OTC	34.25	0.0	5.9	0.80	2.3	34.25	34.25	0.1							
Corroon & Black Corp	NYSE	23.25	-1.1	10.8	1.76	7.6	23.63	23.25	19.5							
Crump E H Cos Inc	OTC	13.75	11.1	12.6	0.40	2.9	13.75	12.75	34.0							
Hall Frank B & Co Inc	NYSE	26.36	5.5	9.7	1.60	6.1	26.38	24.75	166.0							
Integrated Res Inc	AMEX															

How A & A looks at construction



Laying 20-ton pipe at the Foothills Treatment Plant in Denver, Colorado.

For the gutsy construction industry, Alexander & Alexander specialists roll up their sleeves and study the action through the eyes of the entrepreneur. We get to know the grit and the grind. Learn our way around projects from the quirks of earth movers to the state of cash flow.

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We think a big reason A&A has become one of the largest and most trusted insurance brokers worldwide is that we work the same way with every client. From the client's point of view.

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From the client's point of view.